

AFRICA RISK CONSULTING**Zambia Monthly Briefing December 2018**

Zambia Summary 12 December 2018

Zambia's constitutional court rules that President Edgar Lungu (2015-present) can stand for a third term in presidential elections scheduled for 2021. President Lungu and opposition United Party for National Development (UPND) leader Hakainde Hichilema meet in private on 12 November, reportedly to begin the dialogue process first started during Commonwealth-led peace processes in December 2017. The Bank of Zambia (BOZ) (central bank) maintains a 9.75% monetary policy rate on 21 November, but warns that an increase in inflation will result in an upward adjustment to keep inflation close to the target range. Zambia commissions, or is looking to commission, several large- and small-scale solar power plants in an effort to diversify its energy supply away from hydroelectric power.

Constitutional court rules Lungu can run for a third term

The **Constitutional Court** of Zambia ruled on 7 December that President **Edgar Lungu** (2015-present) can stand for a third term in the 2021 presidential elections.¹ While opposition parties will maintain that Lungu is becoming increasingly autocratic, the decision to allow him to run again was based on legal practice and not political considerations. The opposition's use of the courts, rather than protests, strikes or conflict, is a positive indication for investors of the democratic consolidation in Zambia, although risks (such as high debt distress) remain. Constitutional court president **Hildah Chibomba** stated that the ruling of the seven judges was unanimous and the decision to grant the third term was because Lungu's "...[first] presidential tenure of office ... cannot be considered as a full term."²

The issue at stake was whether Lungu's first electoral term from 25 January 2015 after the death of President **Michael Sata** (2011-2014) should count as a full term, considering Lungu then won the August 2016 general elections.³ The opposition argues that the decision should be based upon the 1996 constitution, in which Article 35 states that "a person who has twice been elected as president shall not be eligible for re-election to that office."⁴ However, the amended 2016 constitution, which was adopted on 5 January 2016, states in Article 106(6)(b) that if an election is held due to the removal of a president, that period would only be considered a full term if it is three years before the next general election.⁵ The constitutional court ruling means that the judges accepted that Lungu's first term was part of the 2016 constitutional amendment, allowing for another term.

The opposition is displeased with the ruling. **United Party for National Development (UPND)** leader **Hakainde Hichilema**, stated that,

"For now, we would like to clearly state that no one is entitled to a third term of office as president of this country. This is because when courts fail to protect citizens, (they) have the power to map their own destiny through people power."⁶

Opposition parties have no further legal recourse in this matter and will face Lungu as the **Patriotic Front (PF)** candidate in 2021. PF members of parliament from the **Copperbelt Province** have

¹ Africanews, 7 Dec 2018

² Africanews, 7 Dec 2018

³ The Conversation, 7 Aug 2016

⁴ Source, political analyst, Lusaka.

⁵ Africa News, 31 Jan 2018.

⁶ Hakainde Hichilema quoted in Reuters, 7 Dec 2018

already endorsed Lungu as the PF's sole presidential candidate, while the PF chapter in the **North Western Province** stated there will be no speculation about who will run in 2021.⁷ However, the opposition is likely to continue its legal challenges – such as the challenge to Lungu's 2016 presidential election win⁸ – as a way to try to hamper Lungu and the PF's electoral results. The opposition will also argue that Lungu made a veiled threat in 2017 when he warned judges that judicial intervention to prevent him from running could result in political instability,⁹ as further proof of his autocratic tendencies. However, a **Lusaka**-based lawyer stated that,

*“While political arguments can be made, the court's decision was made on legal prudence. It followed the constitution and Lungu should not be seen as having a ‘third term’ but of being given the opportunity to have two full terms. This rule is no different than in **South Africa**, where this current term for [President **Cyril**] **Ramaphosa** [2018-present] does not count as one of his two terms.”*

Looking ahead, 2021 is likely to see another electoral race between Lungu and Hichilema. Although Hichilema has increased his electoral gains in each successive election, he has lost political momentum since being released from treason charges in 2017 and will need to focus on what the UPND can do if it comes to power, rather than trying to focus on what the PF is not doing.

Lungu and Hichilema meet in private dialogue as per Commonwealth peace process

President Lungu and opposition UPND leader Hakainde Hichilema met in private on 12 November, reportedly to begin the dialogue process first started during **Commonwealth**-led peace processes in December 2017 (see *ARC Briefing Zambia December 2017*).¹⁰ While this is a positive step for reconciliation, it is unlikely to lead to any great breakthroughs in the political environment. Although Lungu and Hichilema will continue to do what they can to discredit each other in the run up to the 2021 elections, this political fighting is not expected to greatly impact stability in Zambia. It does not appear that the Commonwealth special envoy for dialogue, **Ibrahim Gambari**, was present at the meeting or that the Commonwealth was made aware of the meeting. The **Zambia Centre for Interparty Dialogue (ZCID)** and three religious bodies – the **Evangelical Fellowship of Zambia (EFZ)**, **Christian Council of Zambia (CCZ)** and **Zambia Conference of Catholic Bishops (ZCCB)** – led the dialogue process, but the location of the meeting and what was discussed were not disclosed.¹¹ The different church bodies appear to be in charge of the dialogue and both leaders reportedly expressed

*“...unconditional support to an inclusive and church-led national dialogue and reconciliation process”.*¹²

The UPND had stated in late October that it would only participate in discussions facilitated by the church bodies and that it wanted nothing to do with the ZCID.¹³ While the ZCID appears to be involved, the statement by the churches illustrates that it is those bodies that have control of the agenda and not the ZCID. It is unclear when, or whether, there will be another meeting or what will be on the agenda. With the constitutional court's new ruling, any discussions are likely to be far in the future as Hichilema and the opposition figure out their next move to try to discredit Lungu.

Bank of Zambia maintains monetary policy rate

The **Bank of Zambia (BOZ)** (central bank) maintained a 9.75% monetary policy rate on 21 November, but warned that an increase in inflation will result in an upward adjustment to keep inflation close to the target range.¹⁴ The rate stability will help keep the economy moving and not

⁷ Lusaka Times, 9 Dec 2018

⁸ Lusaka Times, 23 Nov 2018

⁹ EWN, 7 Dec 2018

¹⁰ Lusaka Times, 20 Nov 2018

¹¹ Lusaka Times, 20 Nov 2018

¹² Lusaka Times, 20 Nov 2018

¹³ Zambia Watchdog, 26 Oct 2018

¹⁴ African Markets, 21 Nov 2018

increase interest rates on Zambian businesses, which the BOZ hopes will help increase economic growth. The monetary policy rate is the benchmark lending rate which the BOZ sets on commercial banks to increase or decrease interest rates on credit facilities. The BOZ has kept this key rate stable since February and does not want to increase it if it does not have to. Inflation rose above the 6-8% target in the third quarter to 8.3% in October,¹⁵ and is expected to remain above until the third quarter of 2020, but the BOZ forecasts that inflation would then lower to within the target range.¹⁶ If the BOZ's forecasts are correct, they are likely to keep the policy rate unchanged and perhaps even consider lowering the rate, if inflation turns out to be lower than expected.¹⁷



Source: Trading Economics, 12 Dec 2018

The stable monetary policy rate will make debt service payments easier for Zambians, particularly those in the agricultural sector who are preparing for an **El Nino** farming season.¹⁸ BOZ governor **Denny Kalyalya** stated that the BOZ will try to keep interest rates low to spur on the economy in light of sluggish economic growth.¹⁹ Economic analyst **Chibamba Kanyama** stated that the stable rate is in the best interest of Zambia and the decision is well calculated to maintain momentum of investment at a time when any upward adjustment would stall investments and economic growth:

*"Remember that the economy has not fully recovered from the 2015/16 economic crisis brought about by low copper prices, electricity outages, low food production and expenditures related to the elections. It takes a long time for an economy that once enjoyed an average growth rate of 6.9% over ten years to pick up from the current low rate of growth without improving the liquidity position of the country."*²⁰

Growth remains slow in Zambia relative to several years ago. The BOZ forecasts gross domestic product growth of 4% in 2018, down from 4.1% in 2017.²¹ The deficit is to remain stable at 7%, though former finance minister, **Felix Mutati**, stated on 20 November that an **International Monetary Fund (IMF)** bailout has become a matter of urgency.²² Without the bailout, the fiscal deficit in 2019 will become significant, hence the need for IMF help.

Zambia looks to solar power to diversify its energy supply

Zambia has commissioned, or is looking to commission, several large- and small-scale solar power plants around Zambia in an effort to diversify its energy supply away from hydroelectric power. The dependence on hydropower puts electricity supply at risk when there is a drought. This causes Zambia to ration power to its mines, which provides the majority of its government revenue. A move

¹⁵ African Markets, 21 Nov 2018

¹⁶ African Markets, 21 Nov 2018

¹⁷ African Markets, 21 Nov 2018

¹⁸ ZNBC, 21 Nov 2018

¹⁹ The Mast Online, 22 Nov 2018

²⁰ NewsDiggers, 27 Nov 2018

²¹ African Markets, 21 Nov 2018

²² Lusaka Times, 20 Nov 2018

to solar power will make Zambia's energy supply more stable, although other issues, such as power storage, must also be addressed.

Energy minister **Matthew Nkhumba** stated on 28 November that the government was seeking proposals from developers for small solar power plant projects with a combined 200 megawatt (MW) capacity.²³ Permanent secretary at the energy ministry **Emelda Chola** stated on 12 November that the procurement process for a 100MW solar photovoltaic (PV) power plant had progressed, but did not disclose how many bids the ministry had received.²⁴

This is the first phase of a 200MW renewable energy project, which will include a 100MW mini-hydro power plant.²⁵ The 50MW **Bangweulu** solar power plant is 80% complete as of 5 December.²⁶ The \$60m solar plant is a joint project between **France**-based **Neon Investment** and the Zambian government.²⁷ Once operational, the plant will provide state-owned energy company **ZESCO** with solar electricity at \$0.06 per kilowatt hour for 25 years.²⁸ The construction of the power plant is split between Neon Investment and South Africa-based **Industrial Development Corporation (IDC)**, which is also in talks with independent power producers to set up other solar power plants around Zambia.²⁹ The IDC plans to roll out 600MW of solar energy in Zambia, with plans for plants in the Copperbelt Province and the **Eastern Province** in the near future.³⁰

Planner

18-19 Feb 2019 **Bank of Zambia Monetary Policy Committee** meeting
2021 (**Zambia**) Scheduled presidential elections;

Chronology

11 Dec 2018 **Lusaka (Zambia)** *Reuters*. The **Chamber of Mines** states that mining companies may lay off more than 21,000 workers due to new higher taxes which will decrease capital expenditure;

7 Dec 2018 **Lusaka (Zambia)** *Reuters*. The constitutional court rules that President **Edgar Lungu** can run for a third term;

6 Dec 2018 **Lilongwe (Malawi)** *Malawi24*. Lands minister **Jean Kalilani** states that some **Malawi** land now belongs to **Zambia** after a border re-demarcation exercise;

28 Nov 2018 **Lusaka (Zambia)** *IOL*. **Zambia** seeks proposals for a combined 200 megawatts of solar power projects to diversify from hydroelectric power;

20 Nov 2018 **Lusaka (Zambia)** *News24*. Police question opposition leader **Hakainde Hichilema** for fuelling attacks on **Chinese** nationals after Hichilema alleged that the government sold a state-run timber company to China;

13 Nov 2018 **Lusaka (Zambia)** *Moneyweb*. President **Edgar Lungu** responds to concerns and commits to improving transparency of **Zambia's** debt management;

8 Nov 2018 **Lusaka (Zambia)** *Nasdaq*. Finance minister **Margaret Mwanakatwe** expects the fiscal deficit to be around 7% in 2018.

²³ IOL, 28 Nov 2018

²⁴ News Diggers, 12 Nov 2018

²⁵ News Diggers, 12 Nov 2018

²⁶ Daily Mail, 5 Dec 2018

²⁷ Daily Mail, 5 Dec 2018

²⁸ Lusaka Times, 5 Dec 2018

²⁹ Lusaka Times, 5 Dec 2018

³⁰ Lusaka Times, 5 Dec 2018