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The ruling Patriotic Front (PF) is embroiled in an internal struggle over the successor to the late former president, Michael Sata (2011-2014). A general party conference to decide his successor gets underway on 29 November. Political divisions affect administration: the government is not paying contractors and has yet to approve the budget. The broader economic situation is stable as investors await the outcome of the January 2015 presidential election. Zambia's transport system gets an upgrade as the government grants low cost airline Fastjet a licence to operate in Zambia and assigns \$120m to Zambia Railways Ltd to upgrade Zambia's rail infrastructure.

Scott and Lungu fight over PF succession

The ruling **Patriotic Front (PF)** is embroiled in a succession battle following the death of President **Michael Sata** (2011-2014) on 28 October. Following his death, vice-president **Guy Scott** took power from PF secretary-general, defence and justice minister **Edgar Lungu** whom Sata had left as acting president during his final trip to **London**. Scott's assumption of power was in accordance with the Zambian constitution,¹ which gives power to the vice-president to assume the functions of the president for a transitional period of 90 days until a presidential by-election is held. The by-election will take place on 20 January 2015.²

After Sata's burial on 11 November, sharp divisions emerged within the ruling party over the selection of the PF presidential candidate for the next elections, and the method by which this was to be decided. During the first week in his new role, Scott attempted to drop the popular Lungu from his government and PF positions.³ The party secretary-general is the chief executive officer of the party and, according to the PF constitution, assumes the president's role as head of the party in his absence. Scott's attempt to oust Lungu attracted angry protests from some party supporters, which forced Scott to reverse the decision.

Ongoing tensions within the ruling party have exposed two sides in the presidential candidate nomination struggle: those who support Lungu and those who support Scott. Lungu is considered a leading candidate. However, Scott has released details of Lungu's parentage to the press in a move to confuse the 'parentage' clause in the constitution that prevents Scott from standing as a presidential candidate (see *ARC Zambia October 2014 Briefing*).⁴ Lungu's mother, the elder sister of Michael Sata's mother, was **Malawian**.⁵

The Zambian media accuse Scott of belonging to the "*Cartel*", a group of Zambian political and business figures including **Zambia Post** owner **Fred Mmembe**, **Finance Bank** chairman **Rajan Mahtani**, and director of public prosecutions **Mutembo Nchito**. Scott and, arguably, the cartel threw their weight behind the young deputy minister of commerce, **Miles Sampa**.⁶ However, Sampa withdrew from the race on 29 November, leaving Scott and the cartel without a preferred candidate (see below).⁷

¹ Constitution of Zambia

² Electoral Commission of Zambia press statement, 18 Nov 2014

³ Guy Scott press statement, 3 Nov 2014

⁴ Zambia reports, 28 Nov 2014

⁵ Zambia reports, 28 Nov 2014

⁶ Zambia watchdog, 16 Nov 2014

⁷ Zambia Reports, 29 Nov 2014

Lungu has the backing of a number of PF members of parliament.⁸ Around 70 MPs signed a petition on 14 November in which they urged the party's central committee to adopt Lungu as sole candidate for the elections. However, Scott rebuffed this idea and instead pushed for a general conference to elect a presidential candidate.⁹ Scott has the support of only a few party members and other sympathisers of the ruling party. However, his ability to exercise power to make decisions – in some cases unilaterally – strengthens his position. Party sources described how Scott fired some officers within the office of the presidency when they challenged the extent of his power to hire and fire.

“These intelligence officers used to work with the late president. So when Scott started acting as president, they questioned whether he has the power to do certain things that an elected president can do. In the end, they ended up losing their jobs because the acting president felt he was being undermined by the system.”¹⁰

In the last week of November, members of the central committee, the highest decision making organ in the party, agreed to choose a candidate for the presidential by-election at a party general conference on 29 November in **Kabwe, Central Province**.¹¹ So far, nine candidates have applied to contest the PF presidency. The applicants include Lungu and **Christine Kaseba-Sata**, the late president's widow. Although Kaseba was not actively involved in ruling party activities other than playing a supporting role to her husband, she claims to be the right person to protect her late husband's legacy.¹²

Electoral violence marred the run-up to the general conference. Lungu's supporters allegedly tried to beat rival candidate Sampa in the street. Sampa withdrew from the presidential race on the morning of 29 November.¹³

Whoever emerges victorious at the general conference as the party president will automatically be the presidential candidate for the January 2015 presidential election.

“At the moment it looks like Edgar Lungu will become the PF's preferred candidate for 2015, especially as Sampa has dropped out of the race...but the cartel has been shipping in candidates from all over the country to divide Lungu's supporters.”¹⁴

So far, several opposition party presidents have declared their intention to contest the presidency. Opposition **United Party for National Development (UPND)** leader, **Hakainde Hichilema**, has launched nation-wide political campaigns for the January elections.¹⁵ The former ruling party and other main opposition party, the **Movement for Multi-party Democracy (MMD)**, is floating former president **Rupiah Banda** (2008-2011) as a candidate.¹⁶ However, his candidacy is embroiled in controversy as party president **Nevers Mumba** has obtained a court injunction claiming he is the rightful candidate to contest on the MMD ticket.

PF infighting brings government spending to a halt...

During the past month, the Zambian government has focused on getting its house in order after the demise of President Sata. Re-organisation of the ruling party in preparation for the election campaign has taken priority. The power struggles within the PF have had adverse effects on the economic performance and management of national affairs of the country. The **National Assembly** was scheduled to debate the October budget in November and either propose amendments or approve it. However, much of the debate shifted from technical discussion of the budget to broader debate on the next steps for the country following Sata's death. As a result, the budget remains unapproved.

⁸ Lusaka Voice, 16 Nov 2014

⁹ Daily Nation 21 Nov 2014

¹⁰ Source: senior government official, Lusaka

¹¹ Press statement, 25 Nov 2014

¹² Kaseba nomination papers, 19 Nov 2014

¹³ Zambia Reports, 29 Nov 2014

¹⁴ Source: think-tank director, Lusaka

¹⁵ UPND inaugural rally in Lusaka, 23 Nov 2014

¹⁶ MMD press conference, 26 Nov 2014

Economic interests in the country are in a holding pattern, particularly for investors who are waiting to see how the political situation unfolds before rolling out investment projects.

*"We are keeping all of our projects on ice for the moment until the election has taken place and the dust has settled."*¹⁷

There have also been reports of non-payment of government contracts. The owner of a road construction firm said: *"Government has not yet paid me money because of the pending election."*¹⁸ The government has also failed to pay farmers who supplied maize to the **Food Reserve Agency (FRA)** during the previous farming season. This threatens the performance of the agricultural sector next season. Agriculture makes a significant contribution to gross domestic product (GDP) and is, alongside mining, a mainstay of the Zambian economy. Minister of agriculture **Wylbur Simuusa** promised farmers the government would clear the outstanding arrears before the end of November.

"The farmers should not panic. We are mobilising funds, and between now and the month end (November), the farmers will be paid all their money."

Despite Simuusa's reassurance, the payment delays will continue into December.¹⁹

.... and the economy dips, but remains relatively stable

The political instability has had a negative effect on some economic indicators but the broad economic picture remains relatively stable. The **Central Statistics Office (CSO)** says year-on-year consumer price index inflation rates rose in November from 7.9% to 8.1%.²⁰ Month-on-month inflation increased to 0.4% in November, from 0.1% in October. This increase has been attributed to increased prices for items ranging from foodstuffs to vehicles. **Bank of Zambia (BoZ)** governor **Michael Gondwe** has since warned that inflation levels will remain high into 2015.²¹ In a move to prevent further increases in inflation, the BoZ increased the interest rate by 50 basis points from 12% to 12.5% on 19 November.²²

The kwacha has remained relatively stable over November, fluctuating between K6.25 and K6.42 to the **United States (US)** dollar across the month. At time of writing, the kwacha was 6.31 following a steady strengthening trend through the last two weeks of the month.²³ While stable, the currency remains significantly weaker against the dollar compared to its performance earlier in the year. It has fallen in value by 14.5% from January when it was K5.51 against the dollar; however, it has increased by 8% against the dollar from its 2014 low point of K6.87 to the dollar. Financial market commentators project that this depreciation might continue until January, given that Zambia is in an election period.

*"The current political situation will have a direct economic knock-on effect, trading in the kwacha will decline during this period of instability. It is only when a new government is in place, and their policy direction is known that the markets will be able to form a new and stable picture of Zambia's economy."*²⁴

New budget airline to operate in Zambia

The government granted low cost airline **Fastjet** a licence to operate in Zambia on 17 November.²⁵ The air service permit (ASP) allows Fastjet to operate flights from Zambia to **Kampala, Juba, Nairobi,**

¹⁷ Source: mining sector, Lubumbashi

¹⁸ Source: construction contracting firm, Lusaka

¹⁹ Zambia National Broadcasting Corporation, 19 Nov 2014

²⁰ Central Statistical Office media release, 26 Nov 2014

²¹ Bank of Zambia monthly briefing, 26 Nov 2014

²² Reuters, 19 Nov 2014

²³ Finance Bank Money Market, 28 Nov 2014

²⁴ Source: forex trader, Johannesburg

²⁵ Press statement, 17 Nov 2014

Kigali and Johannesburg. Fastjet operates budget flights across Africa and is listed on the **London Stock Exchange (LSE)**.²⁶ Interim chairman and chief executive officer **Ed Winter** said that the ASP approval marks a major step towards launching operations in Zambia and will give the airline the authority to operate air services to both domestic and international destinations within and from Zambia. Fastjet has said it intends to base three A319-100s out of **Lusaka** once it has established operations.

The granting of the ASP is good news for Zambia's air travel, as **Dutch** state-owned airline **KLM** ceased direct flights to Lusaka airport in July this year (see *ARC Zambia July 2014 Briefing*). Fastjet will be the first low-cost airline to operate from Zambia, bringing affordable air travel to much of the Zambian population.²⁷

*"Fastjet has made good money bringing the low-cost airline model across Africa, their services are reliable and affordable and open up air travel to the emerging middle classes...I expect them to do well in Zambia."*²⁸

There has been some criticism of acting-president Guy Scott for reportedly fast-tracking the granting of ASP to Fastjet without cabinet approval. Critics have alleged that Scott decided to grant the licence because he has close ties with Fastjet plc, an accusation he has denied.²⁹ The public criticism of Scott for the decision further underlines the politically charged business environment in Zambia at the moment (see above).

Rehabilitation of Zambia's rail network underway

Zambia Railways Limited (ZRL) announced on 18 November that it had commenced the major rehabilitation of its rail network. The Zambian government has allocated ZRL \$120m for the upgrade with money raised from a **Eurobond** sale in April. ZRL will spend 80% of the recapitalisation funds on track infrastructure and the remainder on locomotive and wagon repairs, and procurement of re-railing equipment.³⁰

The government hopes the improvement of the railway system in Zambia will reduce road maintenance costs as a result of heavy trucks hauling cargo on the roads. The upgrades should lower the cost of doing business by providing an alternative transport system for cargo. Currently, damaged rails limit the speed of cargo trains to as low as 30 kilometres per hour (kph); however, once the upgrades are complete, speed will increase to 130 kph.

Zambia's railways have not had major upgrade work in eleven years. The government revoked the concession of privately owned **Railways System of Zambia** to operate and maintain the country's rail infrastructure in 2012 citing nine years of low investment.³¹ However, publicly managed replacement ZRL has struggled to become a financially viable company and has also spent little on track upgrades and maintenance.

According to the permanent secretary for transport and communications, **Charity Ngoma**, the government has given \$120m to ZRL as a one-off payment to help the company become financially sustainable:

*"Zambia Railways should become self-reliant and I'm glad to note that this company is able to meet its operational costs and does not every month beg for funding from my office."*³²

²⁶ Fastjet website, 2014

²⁷ Reuters, 18 Nov 2014

²⁸ Source: airlines journalist, London

²⁹ Lusaka Voice, 12 Nov 2014

³⁰ Zambia Daily Mail, 18 Nov 2014

³¹ IRJ, 12 Sep 2012

³² African Cargo News, 4 Nov 2014

Implications

PF infighting has reached a crescendo. After it announces a successor candidate to Sata, he or she will need to mobilise the party and state resources to deal with opposition candidates. However, until the party has decided, the situation remains precarious. Edgar Lungu appears to have the upper hand over Guy Scott's preferred candidates. With Sampa dropping out the morning of the general conference, Scott has no other candidate to hand. The wildcard candidate is Sata's widow, Christine Kaseba-Sata. She is the last of the various Sata family members still in the running and has the backing of neither Lungu nor Scott.

Once the PF's candidate becomes clear, the opposition will start their campaigning in earnest. Both Hichilema and Banda are candidates with experience in campaigning at the presidential level. However, UPND candidate Hichilema has received declining percentages of the vote since 2006, and Banda has the baggage of a former president so neither is outstanding. The PF has lost significant popularity since Michael Sata was elected in 2011; however, it is too early to tell whether this has waned enough for the party to lose power altogether.

While the political situation is evolving rapidly, the economic situation is effectively on hold, although any major political upsets could change this. The markets are remaining stable so long as the political situation follows accountable process, however major destabilisation will have an economic effect. After the PF has selected its candidate, the party's first priority must be to approve the budget and get the government's payment schedule back on track. Failure to do so would begin to have more serious economic implications. International investors, as well as international companies with interests in Zambia, are likely to hold off on all major moves until after the January election has taken place.

Travel and transport infrastructure are vital to a modern healthy economy. The arrival of Fastjet, which has enjoyed great success with the low-cost airline model in Africa, and the upgrade of Zambia's railway lines are both positive moves. With better transport infrastructure Zambia will be able to lower the cost of doing business and attract more international investment. However, this, like everything else in Zambia, is on hold until the country finds a new leader.