

AFRICA RISK CONSULTING

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Zambia Summary 28 January 2020

Mines ministry permanent secretary Barnaby Mulenga says he is optimistic about the performance of Zambia's mining sector in 2020, saying "the picture is not as gloomy as it is sometimes painted", because of the creation of new copper mines across the country as well as recent tax measures. State power firm Zesco announces it will increase the price of electricity by an average 113% for all commercial customers (not the mining sector) from January 2020. Zambia's longstanding security risks – criminality, protests and residual land mines – fell slightly in 2019.

Mining sector investors remain skittish

Mines ministry permanent secretary **Barnaby Mulenga** said on 21 January that he is optimistic about the performance of Zambia's mining sector in 2020, saying "*the picture is not as gloomy as it is sometimes painted*", because of the creation of new copper mines across the country as well as recent tax measures.¹ Mulenga will highlight examples of recent mining operation expansions and government tax reforms in his gambit for much-needed investment at the **Investing in African Mining Indaba in Cape Town (South Africa)** on 3-6 February, and will gloss over unflattering mining production and revenue figures and "*skittish*" investors due to Zambia's fragile economy and rising resource nationalism.²

Mulenga said on 21 January that the government's response to the general fiscal regime was likely to increase copper production. The government withdrew the controversial **Sales Tax** in September and removed the **Customs and Excise (Precious Stones) Export Duty Order**, a 15% export duty on precious stones (but not diamonds), effective from 1 January 2020, after the tax was found to have undermined production rather than raised revenues. These concessions aimed to appease a mostly disgruntled investor community. Mulenga also stated that the creation of new mines has improved the optimism in the sector. However, knowledgeable sources on the mining sector say the rosy picture Mulenga paints is fictitious.

A source said that while credit should be given to the recent tax measures, which are positive, the investment climate is still very much affected by the ongoing dispute between Zambian state-owned mining company **ZCCM-IH** and **United Kingdom**-based miner **Vedanta Resources** over the **Konkola Copper Mines (KCM)** (see *ARC Briefing Zambia July 2019*). The source said only last month a government official "*went on a tirade*" against Vedanta at a corporate event – which will do nothing to improve Zambia's image as a hostile foreign investment destination.

Lucrative foreign-owned copper mining companies are likely to be most targeted by resource nationalism in Zambia. Government uses the narrative of exploitative foreign-owned companies both as a red herring to distract from the country's poor financial position and to impose hefty taxes and penalties to inject the economy with much-needed money. As such, President **Edgar Lungu's** (2015-present) announcement on 23 January that the economy is expected to grow 3% this year, a slight reduction from the 3.2% growth previously forecast, should be a worrying sign for the copper mining

¹ Diggers, 21 Jan 2020

² ARC source, export on Zambia's mining sector

sector – which is waiting on VAT refunds totalling 2.8 billion Zambian kwacha (\$215m) (as of June 2019).³

That said, there are signs of hope. **Canada**-based miner **First Quantum Minerals** said on 4 January it was deliberating investment of around \$1 billion to lift output at its **Kansanshi** copper mine in Zambia.⁴ The board decides on the major investment later this year. The investment would add a decade of life and head off production declines at the Kansanshi copper mine, increasing annual production to 300,000 tonnes over time from an expected 235,000 tonnes last year. However, securing board approval is likely to be complicated by disputes between miners and the Zambian government over taxes and assets, which means government will need to make significant reforms to its tax regime.

One source said that the best hope for a rebound in the mining sector would come from higher commodity prices. Copper prices hit their highest since May on 27 December after profits at industrial companies in **China** grew at their fastest pace in eight months and optimism over a **United States-China** trade deal grew. However, prices since fell to their lowest in six weeks on 23 January due to the impact of the deadly coronavirus outbreak on economic activity in top metals consumer China. Prices are expected to continue declining if the death toll rises and the virus spreads.

Tariff hikes in the energy sector

State power firm **Zesco** announced on 27 December that it would increase the price of electricity by an average 113% for all customers from January 2020.⁵ Zesco is suffering from a severe energy supply shortage partially due to weather conditions but mainly as a result of mismanagement leading to serious financial problems with regard to its profitability, liquidity, solvency and efficiency.⁶ Hiking tariffs is essential to address the problem – but the moves come at a big political cost.

A knowledge source on the energy sector said, while the environment has played a part in Zesco's economic problems, the problem is primarily rooted in financial mismanagement.⁷ The source highlighted the necessity for Zesco to "*get more bankable*" and to restructure its debts if it is to attract significant investment into power generation. Another source said Zesco's business model was doomed to failure, as it has historically priced electricity below the cost of production via subsidies. Only in recent years has it started to gradually raise prices. The worry is that not even the hiking of tariffs will make Zesco efficient and viable.

Zesco said the new measures announced on 27 December will not affect global mining firms including Vedanta, First Quantum, Glencore and Barrick Gold, which pay a flat tariff of \$9.30 per kilowatt-hour. One source said that this is a mistake, saying Zesco should rather make a deal with the mining companies to end their security of tenure and increase their tariffs. On the positive side, this would hugely increase government revenue from the sector and ease Zesco's financial problems. However, it could be a dangerous move to hit mining companies with extra costs at a time when relations between the government and miners are at a low. That said, if further revenue is not found, Zambia risks further energy shortages, which would devastate the economy, particularly its mining and agriculture sectors. Copper exports account for 70% of Zambia's total export earnings and 12.2% of its gross domestic product.

Zambia's electricity supply has reduced due to low water levels at hydropower dams from years of drought. Zesco said on 12 December that Zambia's electricity supply shortage increased to 810 megawatts (MW) in November from around 750 MW in September. Zesco said it would quickly commission new power plants to plug the gap, but our source says progress is too slow. Zambia said it

³ Times of Zambia, 23 Jan 2020. These include Vedanta, First Quantum, Glencore and Barrick Gold

⁴ Reuters, 4 Jan 2020

⁵ The Post, 27 Dec 2019

⁶ ARC source, export on Zambia's mining sector

⁷ ARC source, export on Zambia's mining sector

would import 300 MW of power from South Africa-based utility company **Eskom** in September, but this has been impeded by generation problems at Eskom.

Zambia's **Energy Regulation Board** said it had allowed Zesco to increase electricity tariffs by more than 200% for residential customers consuming the least amount of power. The energy regulator also increased the price of fuel on 26 December, citing the depreciation of the kwacha and higher crude oil prices. The tariff increases will fuel inflation, which is near 11% and has been accelerating for eight months. The kwacha is the world's fourth-worst performing currency this year.

Tariffs used to be cheap because of the strong contribution of hydroelectricity, a relatively cheap energy source, in Zambia's energy mix. However, now the dams are low, other forms of energy are bumping up in the national energy mix, raising the cost of energy.

Security risks in Zambia

Zambia's longstanding security risks fell slightly in 2019. Security and terrorism risks include crimes such as armed robberies, home invasions and security assault, large-scale protests and demonstrations and the legacy of landmines and small arms in remote areas near the borders with **Angola, Mozambique** and the **Democratic Republic of the Congo**.

Zambia has a low criminality and low resilience score in the **Global Initiative's Africa Organised Crime Index 2019**, ranking 28th out of 54 in **Africa** (with first place being the safest), behind **Rwanda** (third), **Tunisia** (second), and **São Tomé and Príncipe** (first).⁸ Zambia falls just below the average on the continent for criminality. The organised crime index says:

*"The major criminal markets in Zambia are in flora, fauna and non-renewable resources, with scores of 8, 6 and 5.5 respectively, suggesting a significant to severe influence. Poaching of wild animals and animal products, illegal logging, and illicit trade in copper ore and fuel are all reported as major issues. Illicit narcotics markets are deemed as moderate."*⁹

Large-scale protests followed the general election in August 2016, as the main opposition **United Party for National Development (UPND)** disputed the presidential result. In April 2017, UPND leader **Hakainde Hichilema** was charged with treason, which heightened political tensions and increased the risk of civil unrest. This charge has since been dropped. However, occasional student demonstrations, which can turn violent, take place at the **University of Zambia** and around **Copperbelt University**.

Zambia ranks 114th out of 138 globally and 31st out of 44 in **sub-Saharan Africa** for possible terrorist threats in the **Institute for Economics and Peace's Global Terrorism Index 2019**, an improvement of 10 in 2018. The index rates the impact of terrorism on a scale of 10-0 (10 being "very high" and 0 being "no impact").¹⁰ There is a general threat of terror aimed at Western travellers and the overall travel advice for Zambia is to remain cautious of this threat and take basic safety precautions during travel. Terrorist attacks in Zambia cannot be ruled out.

⁸ Africa Organised Crime Index 2019, Global Initiative, globalinitiative.net

⁹ Africa Organised Crime Index 2019, Global Initiative, globalinitiative.net

¹⁰ Global Terrorism Index 2019, Institute for Economics and Peace, visionofhumanity.org

Planner

3-6 Feb 2020 **Cape Town (South Africa)** Investing in African Mining Indaba;
 9-10 Mar 2020 **Abidjan (Cote d'Ivoire)** Africa CEO Forum;
 1 Jul 2020 **(Africa)** African Continental Free Trade Area deadline for 90% tariff liberalisation;

Chronology

26 Jan 2020 **Lusaka (Zambia)** *Zambian Watchdog*. Sources in the finance ministry and **Bank of Zambia** say President **Edgar Lungu** and his cabinet have resolved that **Zambia** should voluntarily be put on an **International Monetary Fund** programme;

23 Jan 2020 **Lusaka (Zambia)** *Times of Zambia*. President **Edgar Lungu** says the economy is expected to grow 3% this year, a slight reduction from the 3.2% growth previously forecast, and that the fiscal deficit is expected to shrink from 6.5% in 2019 to 5.5% in 2020;

23 Jan 2020 **Lusaka (Zambia)** *Reuters*. **Mineworkers' Union of Zambia** president **Joseph Chewe** says mining company **Eurasian Resources Group** plans to put its **Chambishi Metals** copper and cobalt refinery under care and maintenance and cut 229 jobs at the end of January;

23 Jan 2020 **Lusaka (Zambia)** *Zambia Daily Mail Limited*. **World Wildlife Fund** country director **Nachilala Nkombo** says **Zambia** lost an estimated \$13.8 billion worth of gross domestic product due to floods and drought in the last three decades;

22 Jan 2020 **Lusaka (Zambia)** *Xinhua*. Information and technology regulator **Zambia Information and Technology Authority** says there was a significant increase in the amount of cybercrime recorded last year, signifying increased adoption of mobile and internet services;

16 Jan 2020 **Lusaka (Zambia)** *LifeGate*. Government announces that construction of the open-pit **Kangaluwi** copper mine in **Lower Zambezi National Park** won't proceed, following strong backlash against the project's prior approval;

4 Jan 2020 **Lusaka (Zambia)** *Reuters*. **Canadian** miner **First Quantum Minerals** is deliberating investment of around \$1 billion to lift output at its **Kansanshi** copper mine in Zambia;

27 Dec 2019 **Lusaka (Zambia)** *The Post*. State power firm **Zesco** says it will increase the price of electricity by an average 113% for all customers from January 2020 as it seeks to attract investment into power generation;

26 Dec 2019 **Lusaka (Zambia)** *Zambian Watchdog*. Mines ministry permanent secretary **Barnaby Mulenga** says government plans to make copper mining companies account for the gold they produce as it seeks to boost revenue from its mineral resources;

24 Dec 2019 **Lusaka (Zambia)** *Times of Zambia*. **United States** recalls its ambassador to **Zambia**, **Daniel Foote**, amid a diplomatic row after he criticised the imprisonment of a gay couple;

19 Dec 2019 **Lusaka (Zambia)** *Reuters*. Finance minister **Bwalya Ng'andu** says Zambia will suspend a 15% export duty on gemstones but not diamonds from 1 January after the move that was intended to raise more revenues instead undermined production;

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