

AFRICA RISK CONSULTING

Country briefing – Zambia

July 2014

Summary

President Michael Sata (2011 – present) returns to Zambia from Israel where he has been receiving medical treatment. The president makes no public appearances and delays official duties on his return. The kwacha appreciates in July for the first time this year and although interest rates are up, the Bank of Zambia predicts they will fall in the third quarter. Copper miners announce that they will delay or cancel \$1.5 billion of investment in Zambia due to the unstable operating environment and ongoing \$500m VAT rebate dispute. Zambia loses its direct flight link with Europe as KLM cancels its route.

1.1 Questions remain as Sata returns from medical treatment in Israel

President **Michael Sata** (2011-present) returned from **Israel** on 8 July where he had been receiving medical treatment. However, there are concerns that he is unfit to govern and remains seriously ill. Sata's office has released photographs of him celebrating his 77th birthday on 13 July and chairing a cabinet meeting on 14 July but in both photographs he looks frail. He has not made a public appearance since 19 June.¹ Sata has also delayed the swearing in ceremony of attorney general **Musa Mwenye** and solicitor general **Abraham Mwansa** three times.² Local media are reporting sources from inside the presidency saying that he is too frail to walk.³ He has yet to carry out the ceremony despite calls from the **Law Association of Zambia** that the posts must be filled as soon as possible.⁴

Rumours abound about Sata's health. Journalist sources in **Lusaka** say that many people believe that he has late stage cancer and may have only a few months to live.⁵ Civil rights activist **Brebner Changala** filed a writ at the high court in Lusaka on 9 July asking that the cabinet convene a medical

¹ Reuters, 14 Jul 2014

² Zambia Reports, 18 Jul 2014

³ Zambia Reports, 18 Jul 2014

⁴ Zambia Reports, 18 Jul 2014

⁵ Source, journalist, Lusaka



board to test Sata's fitness to govern.⁶ Opposition figures including political activist **Dante Saunders** have publicly questioned the silence from the ruling **Patriotic Front (PF)** on Sata's health.⁷ While Sata's family and the government remain tight-lipped about the true extent of his illness, it may be that his time ruling the country is drawing to a close.

*"The country is holding its breath until Sata either dies or resigns. The longer he doesn't appear in public the less tenable it is that he is president."*⁸

If Sata either dies or steps down then according to the constitution the vice president assumes his position or, if the vice president is unable to take over, the speaker does so. A presidential election is then held within 90 days. Sata can also be removed from office on grounds of incapacity if two thirds of the cabinet vote to convene a medical board to assess his physical and mental wellbeing. The medical board would decide whether or not the president is incapacitated and would report their findings to the national assembly. In the event that the medical board finds the president unfit for office, the national assembly would vote in a simple majority to decide whether or not he should be removed.⁹

Sata's potential successors have started positioning for the PF backing. Three current contenders stand out: justice minister **Wynter Kabimba**, vice president **Guy Scott**, and **Mulega Sata**, Michael Sata's son and the mayor of Lusaka. While he was away in Israel, Sata appointed Kabimba as acting president. Kabimba has been publicly aligning himself with Sata in statements and trying to position himself as a potential successor.¹⁰ Kabimba reportedly has the backing of director of public prosecutions **Mutembo Nchito**, Post editor **Fred M'membe**, and Finance Bank chairman **Rajan Mahtani** who local media refer to as "*the cartel*".¹¹

Sata reportedly claimed vice president Guy Scott's foreign parentage prevented him from taking over when he was ill as he was not a citizen by birth or descent.¹² This would also disqualify Scott from running for president. Scott has recently hit back claiming that he had sought judicial opinion on the matter and he believes he is qualified. He has also suggested that as Mulega Sata's mother was born in **Zimbabwe**, he may not be eligible to run.¹³ Mulega Sata has hit back at Scott releasing a statement declaring his mother was born on Zambia's copper belt and he is eligible to run. Local media are

⁶ Bloomberg, 10 Jul 2014

⁷ Zambia Watchdog, 27 Jul 2014

⁸ Source, journalist, Lusaka

⁹ Constitution of Zambia

¹⁰ Lusaka Times, 24 Jul 2014

¹¹ Zambia Report, 7 Jul 2014

¹² Scott was born to British immigrants in Livingstone, in what was then Northern Rhodesia.

¹³ Zambian Watchdog, 18 Jul 2014

reporting that Mulega Sata has the financial and political backing of finance minister **Alexander Chikwanda**.¹⁴

Until there is some sort of change in Sata's condition it is likely that internal maneuvers around these three candidates will consume the PF. While the National Assembly continues to sit and legislation continues to be debated, revised and implemented, Sata's presidency has been characterised by his strong hand in all government affairs and willingness to personally dictate policy. Without Sata's voice and the moves of potential successors, the government is in danger of losing legislative direction.

1.2 Kwacha depreciation slows, copper prices rise as inflation predicted to fall

There was better news for the Zambian economy in July. The kwacha appreciated against the dollar over June and July. It was up from 6.3 to 6.1 on 29 July,¹⁵ an increase of 3.4%. The current rate represents a 10.9% total depreciation against the dollar since December 2013. At the kwacha's lowest point at the end of May it was at 7 to the dollar which was a 26.9% depreciation from December 2013.¹⁶ The **Bank of Zambia (BoZ)** has been selling dollars on the foreign exchange market in order to combat the currency's volatility, selling \$532m since January. Foreign currency reserves have also increased due to inflows from Zambia's second **Eurobond** marketed in April this year.¹⁷

The rate of inflation has been slowly rising through 2014, up from 7.1% in January to 7.8% in June driven by a lean pre-harvest period from October to May, the removal of maize subsidies, the effects of currency depreciation, higher fuel prices and an increase in duty on cigarettes and alcohol.¹⁸ The BoZ has set a year-end target of 6.5% and is predicting that inflation will fall in the third quarter of 2014 driven by the strengthening kwacha and a seasonal decrease in the price of food.¹⁹

*"The Bank of Zambia has done a good job in stabilising their currency, but inflation is the new potential problem. The government doesn't have the reserves to bring the cost of living down through subsidies so will have to bargain on the kwacha continuing to stabilise and an increase in export value."*²⁰

¹⁴ AllAfrica, 7 Jul 2014

¹⁵ Bank of Zambia figures, 29 Jul 2014

¹⁶ Bank of Zambia governors report, 17 Jul 2014

¹⁷ Reuters, 17 Jul 2014

¹⁸ Bank of Zambia governors statement, 17 Jul 2014

¹⁹ Bank of Zambia governors statement, 17 Jul 2014

²⁰ Source, economist for major bank, Johannesburg

Zambia's economy will be further helped by a rallying copper market, its main export commodity. Copper earnings increased by 7.4% to \$3,209.1m from \$2,978.5m in December 2013, following production increases to 473,249 metric tonnes (mt) in January to May 2014, up from 399,515 mt in the same period in 2013.²¹ Export earnings increased despite a 9.1% drop in copper price to \$6,691/tonne in June 2013 from \$7,736/tonne in December 2013. Earnings should increase further in the second half of 2014 as the price of copper has increased 6.5% to \$7,130/tonne.²²

1.3 Copper miners withhold investment over ongoing tax dispute

Copper miners are withholding investment in Zambia as a result of the ongoing tax dispute between the **Zambian Revenue Authority (ZRA)** and major copper miners including **India-based Vedanta Resources** and **Canada-based First Quantum Minerals**. The government is still withholding \$500m in value-added tax (VAT) repayments from last year owed to mines. The ZRA is holding the VAT receipts in lieu of a fine for the companies allegedly not complying with rules regarding import certificates for destination countries.²³

Major copper miner First Quantum has slowed or delayed around \$1 billion in spending and projects. Operations director **Matt Pascal** said that the climate of uncertainty in Zambia had led to the decision. First Quantum has also been hit by a 10% export duty on raw copper which has led to stockpiling at mining facilities. Pascal hit out at Zambian resource nationalism saying Zambia is in danger of *"killing the golden goose"*.²⁴

The **Zambian Chamber of Mines** has said that its shareholders, excluding First Quantum, have withheld a further \$500m of investment in Zambia as a result of the dispute. Chamber of Mines president **Emmanuel Mutati** said that the ongoing tax dispute threatened production output, profitability and jobs. He said copper miners felt unable to invest safely in the country due to the actions of government in withholding the VAT rebates.²⁵

*"It's now a case of who blinks first. Zambia is a very profitable country to do business so companies like First Quantum don't want to pull out but if the government doesn't offer them something then they have no incentive to invest further."*²⁶

²¹ Bank of Zambia governors statement, 17 Jul 2014

²² Quotenet, 28 Jul 2014

²³ Bloomberg, 17 Jul 2014

²⁴ BNN, 25 Jun 2014

²⁵ Bloomberg, 17 Jul 2014

²⁶ Source, commodities analyst Johannesburg

The government has hit back at miners, accusing them of being greedy and unwilling to give back to the country. Vice president Guy Scott responded to First Quantum's announcement, saying that it was an ill-judged move and an attempt to pressure the government.²⁷ Opposition **Alliance for Democracy and Development** party leader **Charles Milupi** attacked the chamber of mines for serving the needs of miners over the Zambian people.²⁸

*"The government rhetoric is more for the benefit of the public than it is for the mining companies, they aren't going to budge on this over negative press as they know they are a vital part of Zambia's economy."*²⁹

1.4 Zambia loses direct flight link with Europe

Zambia has lost its direct flight link with **Europe**. **Royal Dutch Airlines (KLM)** announced on 29 July that it will stop offering direct flights to and from Zambia from 28 October. KLM flies direct to and from **Nairobi** and has partnered with **Kenya Airways** to offer the trip on to Lusaka. The company gave no official reason for stopping the route just 22 months after it opened. Local media report that the line was unprofitable.³⁰

KLM is the second airline in a year to halt flights to Zambia. In December 2013 **British Airways** also cancelled its direct route, citing non-profitability and instead directed more flights to **Ghana**. The departure of KLM means that it is no longer possible to fly directly from Zambia to Europe, a development that is a blow to the country's accessibility for both business and tourism.³¹

2 Implications

President Sata's illness drags on, although it looks as if it might be in the closing stages. If his return from extensive treatment in Israel does not result in visible evidence of a healthier president then it seems safe to assume that it is only a matter of time until he has to step down. Sata's inability to function is now affecting the operations of government, such as delaying the appointment of an attorney and solicitor general, which may lead to further pressure from both government and opposition figures for him to step aside. It looks increasingly likely that the election will be a fight between Wynter Kabimba and Mulega Sata. Sata has the backing of the finance minister who is a

²⁷ QFM Zambia, 27 Jun 2014

²⁸ The Post, 28 Jul 2014

²⁹ Source, journalist, Lusaka

³⁰ Zambian Watchdog, 29 Jul 2014

³¹ Lusaka Times, 18 Dec 2013



respected party figure and Kabimba has his "cartel". Scott, on the other hand, will probably be discounted because of his heritage.

The appreciation of the kwacha is good news. If the trend holds then it may set the economy back on track and help to bring down inflation as imported goods become relatively less expensive. The increase in profitability of the key export copper will further help this process and it seems plausible that by the end of 2014 Zambia's economy will have rallied further. However, decreased investment by copper miners and other companies worried about disputes similar to one between copper miners and the ZRA could upset this. If copper production and revenues drop then Zambia could lose its key export, damaging the economy once again.

Growing copper prices will mean that companies will be eager to produce and sell. However, prices have not increased enough that companies will risk another major bill due to tax hikes or withheld payments. Trust has been lost between the two sides in the copper dispute and either the government will agree to repay the VAT receipts or mining companies could emulate **Anglo-American in South Africa** and sell their assets in the country to others more willing to take on the risk.