

AFRICA RISK CONSULTING

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Concern grows that President Edgar Lungu (2015-present) is using Covid-19 as a pretext for political repression amid raids on media and political opposition. United Kingdom (UK) prime minister Boris Johnson (2019-present) calls for a reduction in UK aid to Zambia in a speech to parliament. Zambia hires financial consultancy firm Lazard to advise on restructuring the country's burdensome external debt. The mining and minerals ministry strengthens legislation on mineral sampling, suggesting that mining firms are depriving Zambia of royalties. Copperbelt Energy Corporation (CEC) accuses state energy firm ZESCO of expropriating its Copperbelt transmission and distribution lines after the energy ministry declares them 'common carrier'.

Is the PF using Covid-19 as a cover for political repression?

A spate of attacks by ruling **Patriotic Front (PF)** cadres and police on independent media stations and the opposition **United National Development Party (UNDP)** have inflamed concerns that PF leader President **Edgar Lungu** (2015-present) is using **Covid-19** as a cover for political repression to ensure his re-election in August 2021. Under its **Statutory Instrument No. 22 of 2020**, announced on 13 March to curb the spread of Covid 19, the government implemented quarantine measures, which included the closing of most businesses and increased inspections to ensure compliance with sanitary protocol.¹ Other measures, including the prohibition of gatherings over 50 and the mandatory wearing of facemasks, are not codified into law, raising concerns of abuse of power.²

PF cadres disrupted an appearance by UNDP leader **Hakainde Hichilema** on **Isoka Community Radio Station (ICRS)** in **Muchinga Province** on 18 May.³ This follows identical incidents in **Mpika** on 14 May and Muchinga Province on 15 May.⁴ Opposition parties called the incidents "*barbaric and anti-democratic*",⁵ prompting PF chief spokesperson **Dora Siliya** to rebuke those responsible. However, police in Isoka again raided the ICRS on 3 June, allegedly to punish journalists for hosting Hichilema.⁶

UNDP officials claimed that restrictions on their activities were politically motivated.⁷ On 24 May, authorities in **Ndola** revoked approval for the UNDP's intraparty district elections after police claimed that the event would violate the health ministry's Covid-19 guidelines, which limit indoor meetings to 100, while police in **Kapira Mposhi (Central Province)** cautioned four UNDP officials on 10 June for "*conducting an illegal meeting*" at party headquarters by not informing police in advance.⁸ UNDP Kapira Mposhi chairman **Davy Ngwelela** stated:

*"You cannot have democracy in a country where the ruling party... is continuously using the State Police to infringe and violate citizens' rights, which include peaceful assembly by political players."*⁹

¹ The Mast, 16 April 2020

² Effective States and Inclusive Development, 28 Apr 2020

³ Lusaka Times, 18 May 2020

⁴ Zambian Watchdog, 21 May 2020

⁵ Zambian Observer, 19 May 2020

⁶ All Africa, 3 Jun 2020

⁷ Zambia Reports, 24 May 2020

⁸ Zambia Reports, 24 May 2020

⁹ Zambian Observer, 14 Jun 2020

Zambia's general election is due to be held on 12 August 2021 and is likely to mirror the close contest between the PF's Lungu and the UNDP's Hichilema in 2016.¹⁰ The raids on radio stations signal a worrying turn for Zambian freedom of expression, especially as such violations will become more frequent as the election nears. The government is keen to keep mainstream media narratives solely focused on government measures combatting the spread of **coronavirus** and seems unable, or unwilling, to prevent extrajudicial measures by PF cadres to keep the UNDP off-air and prevent the party's proper functioning.

President Lungu is yet to make a statement on the matter and has been absent from the public view for more than a month.¹¹ If PR and police repressions on opposition parties and media outlets are left unaddressed, Lungu's silence on the issue of PF harassment of independent media and police brutality towards opposition figures could be perceived as tacit acceptance of the attacks. This would further dampen international institutions' confidence in Zambia's democracy and governance at a time when the country is trying desperately to prove itself worthy of aid relief.

President Lungu eased restrictions on 9 May, allowing some businesses to reopen. The **World Health Organization (WHO)** reports total Covid-19 cases for Zambia at 25 June as 1,489, with 18 Covid-19 deaths reported.¹²

British PM Boris Johnson suggests cutting aid to Zambia

British prime minister **Boris Johnson** (2019-present) has suggested that **United Kingdom (UK)** aid to Zambia should be cut amid a merging of the **Department for International Development (DfID)** and the **Foreign and Commonwealth Office (FCO)** into the **Foreign Commonwealth and Development Office (FCDO)**.¹³ Johnson stated:

*"No single decision-maker [in FCO and DfID] is able to unite our efforts and take a comprehensive review [of aid provision]... We give as much aid to Zambia as we do to **Ukraine**, though the latter is vital for **European** security."¹⁴*

Johnson's statement has been met with dismay in Zambia.¹⁵ A 2018-19 DfID country profile of Zambia showed a planned budget of £42m (\$52,405m) for 2018-19 and a further £42m (\$52,405m) for 2019-20, with the funds spent on health and social care and increasing accountability.¹⁶ DfID has earned a strong reputation among Zambians, meaning that a reduction in aid will bring reputational damage locally:¹⁷

*"They [Zambians] are insulted. DfID and the **British High Commission** have done a lot in Zambia with few resources. They have helped primarily women in education and good governance... The British government has done well. This is the wrong way to go about it. Don't change what is working."¹⁸*

Johnson's comparison of Zambia and Ukraine belies the significant disparities between them. Not only is Zambia a former British colony (formerly **Northern Rhodesia**), but 60% of Zambians live under the poverty line (\$1.90 a day) compared to Ukraine's 3.8%.¹⁹ Meanwhile, Zambia's burgeoning debt has diverted funds away from protecting the population against Covid-19. Johnson's remarks signal

¹⁰ Africa Center for Strategic Studies, 17 Sept 2019

¹¹ Source, energy sector, Lusaka

¹² World Health Organization website, accessed on 25 Jun 2020

¹³ Lusaka Times, 17 Jun 2020

¹⁴ Prime Minister's Statement to the House of Commons, 16 Jun 2020

¹⁵ Source, energy sector, Lusaka

¹⁶ DfID Zambia Country Profile, 6 Jul 2018

¹⁷ Source, energy sector, Lusaka

¹⁸ Source, energy sector, Lusaka

¹⁹ Lusaka Times, 17 Jun 2020

an end to the long-established separation of aid and foreign policy interests.²⁰ British aid to Zambia may fall victim to a closer linkage between the two in the newly-formed FCDO.

Transparency International (TI) Zambia branch head **Reuben Lifuka** called on President Lungu to respond to the comments by taking more action on corruption, which makes Zambia an easy target for those calling for a reduction in British aid.²¹ Lungu's corruption record is poor. In TI's 2019 **Corruption Perceptions Index**, Zambia dropped eight places to 113th out of 198 compared to 2018 (198 = most corrupt).²² Further, a high-profile \$4.3m corruption scandal in September 2018 in his administration led to the temporary suspension of British aid and gave aid sceptics more ammunition to support their claims.²³

Nonetheless, it seems that President Lungu is "*trying to fudge the issue*".²⁴ His month-long absence is telling in this regard. Lungu is arguably hoping that the passing of time will push Johnson's remarks under the carpet and let him avoid accountability.

Zambia hires Lazard to advise on debt restructuring...

The Zambian government hired **Bermuda**-based financial consultancy firm **Lazard** on 27 May to advise on Zambia's growing debt distress and the restructuring of \$11.23 billion of external foreign debt after a tender process.²⁵ The engagement of Lazard was a precondition to receiving emergency assistance from the **World Bank** under its **Debt Service Suspension Initiative (DSSI)**, a fund helping nations respond to the economic and health challenges posed by Covid-19. **International Monetary Fund (IMF)** communications director **Gerry Rice** highlighted that Zambia must engage its creditors to demonstrate an ability to manage current debts before receiving further assistance.²⁶

Investors are watching closely to see whether distressed emerging markets with unsustainable debt, like Zambia, will be able to renegotiate their foreign debts in the "*pandemic's market turmoil*".²⁷ Zambia is seeking voluntary relief from private creditors to avoid defaulting on its debt and hopes to defer around \$3.1 billion of debt repayment due 2022-2025 to a later date. On 14 June, the finance ministry asked the **Paris Club (PC)** of creditor nations to let it suspend principal and interest payments on debts to all creditors from May-December.²⁸ The effectiveness of this move remains to be seen as Zambia is indebted \$3 billion in dollar bond debt to the **United States (US)** and a further \$3 billion to **China**.²⁹ Chinese companies in particular are rumoured to lack confidence in further debt restructuring and are now seeking collateral in case of potential loan defaults.³⁰

Concerns over a possible default on Zambia's external debt have arisen after a collapse in copper prices, comprising 70% of Zambian exports. A depreciating Zambian **kwacha**, which has plunged 24% against the US dollar since 1 January, and high inflation for the 13th month in a row have made it difficult to cut interest rates to protect the economy and have eroded vital foreign reserves.³¹ President Lungu has sought to assure creditors that the government will not "*unilaterally restructure debt without consulting creditors*".³²

The picture is not rosy when assessing Zambia's burgeoning external debt distress. Years of large fiscal deficits financed by non-concessional debt and domestic arrears have left the economy in a poor

²⁰ The Guardian, 17 Jun 2020

²¹ Diggers!, 22 Jun 2020

²² Transparency International, Corruption Perceptions Index, 2019

²³ BBC News, 18 Sept 2018

²⁴ Source, energy sector, Lusaka

²⁵ Milken Institute, 28 May 2020

²⁶ IMF Press Briefing, 21 May 2020

²⁷ The Financial Times, 27 May 2020

²⁸ Reuters, 14 Jun 2020

²⁹ The Business Telegraph, 27 May 2020

³¹ Multiple sources: Source, energy sector, Lusaka; CNBC, 14 Jan 2020

³¹ The Financial Times, 27 May 2020

³² President Edgar Lungu quoted in The Financial Times, 27 May 2020

state to protect itself against the aftershocks of Covid-19. The IMF predicts that Zambia's economy will contract by 3.5% in 2020 after a modest 1.5% increase in 2019. Foreign debt is expected to amount to 110% of GDP by the end of the year.³³ The bleak outlook is compounded by **Moody's Investment Service's** downgrading of Zambia's credit rating from Caa2 to Ca on 3 April,³⁴ and **Fitch Ratings'** assessment on 16 April that default is now "*probable*".³⁵ All this means that Zambia faces an uphill task in securing further loans from creditors amid "*anaemic growth prospects, widening fiscal deficit and high debt to GDP ration*".³⁶

... as Lusaka strengthens legislation on mineral sampling

The mining ministry announced on 10 June that mining ministry officials would begin to collect samples from mineral mining sites in person effective 1 July. Mining authorities suspect mining and mineral corporations of commodity undervaluation by submitting low-grade product samples to state laboratories for inspection, thereby depriving Zambia of royalties.³⁷ The changed regulation has renewed the threat of litigation, which may dampen mining investor sentiment.

An energy sector actor in Lusaka described the assertion that major mining companies have deliberately loaded their product with higher-grade material as "*unrealistic*" and a "*far-fetched way of abusing the system*".³⁸ ARC's source noted that the UK-based **London Metals Exchange (LME)** would reject any copper material lower than 99.9% quality, nullifying any gain in diminishing the quality of copper ore.³⁹ Further, the government's emboldened resource nationalism such as the liquidation of **Vedanta Resources Ltd**-owned **Konkola Copper Mines (KCM)** in July 2019⁴⁰ makes it doubtful that major mining firms are undervaluing samples. Most of the cheating "*goes on in the middle ground*" among junior mining companies who have much less to lose.⁴¹

It is debatable, however, how much change the law will effect:

*"They say the government will come [to collect samples] within a week of being asked, but they cannot be in any corner of Zambia in the space of a week. The legislation is going to be impossible to implement. It does not seem to affect product as we know that...it must be LME-grade."*⁴²

The **Canada**-based **Fraser Institute** placed Zambia 68th out of 73 jurisdictions surveyed in its 2019 **Annual Survey of Mining Companies**, published on 25 February, which rates the most and least attractive jurisdiction globally for investment based on policy and mineral potential.⁴³ Even with a V-shaped recovery in copper prices underway – \$5,855 per tonne as of 22 June compared to \$4,300 in March⁴⁴ – any manifestation of resource nationalism is likely to erode value in the medium term amid a 30% drop in mining revenues due to Covid-19.⁴⁵

CEC accuses ZESCO of expropriating infrastructure

Power distribution company **Copperbelt Energy Corporation (CEC)** has accused state energy company **ZESCO Ltd (ZESCO)** of expropriating its transmission and distribution networks in the

³³ IMF Country Report No. 19/263, Aug 2019

³⁴ ARC Briefing Zambia, Apr 2020

³⁵ The Financial Times, 27 May 2020

³⁶ The Business Telegraph, 27 May 2020

³⁷ Creamer Media's Mining Weekly, 10 Jun 2020

³⁸ Source, energy sector, Lusaka

³⁹ Source, energy sector, Lusaka

⁴⁰ Reuters, 14 Aug 2019

⁴¹ Source, energy sector, Lusaka

⁴² Source, energy sector, Lusaka

⁴³ Fraser Institute, Annual Survey of Mining Companies 2019, 25 Feb 2020

⁴⁴ LME Copper, 22 Jun 2020

⁴⁵ Reuters, 18 Jun 2020

Copperbelt region.⁴⁶ ZESCO and CEC failed to agree terms to renew a **Bulk Supply Agreement (BSA)** that allowed for ZESCO's provision of electricity to the Copperbelt through CEC infrastructure.⁴⁷ The agreement expired on 31 May, with ZESCO citing CEC's failure to pay contractual debts totalling \$144m.⁴⁸ ZESCO and the **Economic Association of Zambia (EAZ)** argued that ZESCO lost approximately \$500m from the BSA, signed in November 1997, as it gave CEC exclusive rights to supplying copper mining markets on behalf of ZESCO.⁴⁹

In the absence of a **Wheeling Agreement** that would allow for ZESCO's continued use of CEC infrastructure, energy minister **Mathew Nkhumba** on May 29 declared CEC's transmission and distribution networks in the Copperbelt a "*common carrier*" through the use of **Statutory Instrument No. 57 of 2020** in a move that CEC deemed "expropriation" that could dampen investment sentiment.⁵⁰ The declaration allows ZESCO and other power suppliers to use CEC's network, comprising 1,000km of high-voltage transmission lines and 43 substations across the Copperbelt, by paying a tariff set by the **Energy Regulation Board** at 30% that of CEC.⁵¹

The jury is out as to why ZESCO did not consider negotiating down the onerous burdens in the BSA before its expiry nor fully appreciated its position as sole electricity supplier to the Copperbelt region.⁵² Further, the "*common carrier*" declaration is intended to avoid monopolies over transmission capacity yet leaves ZESCO's extensive network completely unaffected:

*"The playing field has not been levelled because...CEC cannot use the ZESCO infrastructure to move its power because the infrastructure is not common carrier."*⁵³

CEC claimed that the energy ministry's decision could lead to the loss of 400 jobs and puts the company on the brink of default if ZESCO and CEC cannot negotiate an end to the dispute.⁵⁴ If unaddressed, investors may perceive the ongoing conflict as "*individuals trying to manipulate things for re-nationalisation, but really for their own benefit*".⁵⁵

CEC's inability to pay contractual debts to ZESCO arises partly because one of its major debtors, **Konkola Copper Mines (KCM)**, is currently in liquidation. KCM owes CEC \$144m in outstanding debt.⁵⁶ CEC ceased power supply to KCM on 31 May after talks broke down. CEC has taken KCM to court over the unpaid arrears while ZESCO and KCM have applied for a court injunction to restrain CEC from restricting the power supply to KCM by ZESCO, calling any interruption "*an act of sabotage*".⁵⁷ On 6 June, ZESCO announced a long-term agreement with KCM to supply electricity to the mine directly in a deal hailed as "*historic*".⁵⁸ However, the government seems to be supporting KCM so that ZESCO can "*squeeze [CEC] out and take over their fixed-line assets*".⁵⁹ There seems little sense in ZESCO taking CEC to court over unpaid debt while simultaneously taking on the unreliable customer whose debt to CEC is the reason CEC cannot reimburse ZESCO.⁶⁰

⁴⁶ Energy Voice, 4 Jun 2020

⁴⁷ Lusaka Times, 6 Jun 2020

⁴⁸ Source, energy sector, Lusaka

⁴⁹ Multiple sources: *Zambian Observer*, 6 June 2020; *Lusaka Times*, 6 June 2020; ZNBC, 18 Jun 2020

⁵⁰ Energy Voice, 4 Jun 2020

⁵¹ Energy Voice, 4 Jun 2020

⁵² Lusaka Times, 21 Jun 2020

⁵³ Lusaka Times, 21 Jun 2020

⁵⁴ *Diggers!*, 18 Jun 2020

⁵⁵ Source, energy sector, Lusaka

⁵⁶ Source, energy sector, Lusaka

⁵⁷ *Diggers!*, 16 Jun 2020

⁵⁸ Lusaka Times, 6 Jun 2020

⁵⁹ Source, energy sector, Lusaka

⁶⁰ Lusaka Times, 21 Jun 2020

Planner

25-26 June 2020 **Lusaka (Zambia)** International Financial Reporting Standard;

1-7 July 2020 **Ndola (Zambia)** Zambia International Trade Fair (ZITF)

Chronology

23 Jun 2020 **Lusaka (Zambia)** *The East African*. Cabinet approves an 8 billion kwacha (\$439m) economic stimulus package financed through a **COVID-19** bond in an effort to alleviate the pandemic's impact;

18 Jun 2020 **Lusaka (Zambia)** *Business Day*. **Chamber of Mines** says mining revenue dropped nearly 30% between February and April due to the **coronavirus** pandemic;

12 Jun 2020 **Lusaka (Zambia)** *AA*. **Zambia's Electoral Commission** denies reports it is considering delaying the upcoming general election in August 2021.

12 Jun 2020 **Ndola (Zambia)** *Zambian Eye*. Leaked Internal memoranda indicate that **Zambian** lime producer, **Ndola Lime Company Ltd**, will retrench all its employees on 31 July 2020;

10 Jun 2020 **Chambishi (Zambia)** *Zambia Reports*. Nine miners are injured in an explosion at **Yellow Stripe's** steel and mill ball manufacturing factory in **Chambishi** in the **Copperbelt** province;

8 Jun 2020 **Lusaka (Zambia)** *Zambian Observer*. Six **Patriotic Front (PF)** supporters report **Lusaka Province** minister **Bowman Lusambo** to the **Anti-Corruption Commission (ACC)** for abuse of office, alleging that he tortured citizens found in bars illegally operating after a government ban on their activities to combat **Covid-19**;

7 Jun 2020 **Lusaka (Zambia)** *Lusaka Times*. Police arrest three **United National Development Party (UNDP)** youth activists for applying to hold an anti-government protest on 22 June;

3 Jun 2020 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** calls on the **Organisation of African, Caribbean and Pacific States (OACPS)** to solicit debt relief or cancellation for OACPS member states and lobby for enhanced support from the **European Union**;

27 May 2020 **Lusaka (Zambia)** *Bloomberg*. Agriculture minister **Michael Katambo** announces that corn production expanded by approximately 70% in 2020 after strong rains ended a historic drought; **Zambia's** agriculture industry may be the only sector to grow in 2020;

27 May 2020 **Lusaka (Zambia)** *BBC News*. **Zambian** police arrest three people suspected of murdering three **Chinese** nationals at a textile factory in **Lusaka** on 24 May;

26 May 2020 **Lusaka (Zambia)** *AFP*. President **Edgar Lungu** pardons **Japhet Chataba** and **Steven Samba** as part of an **Africa Freedom Day** amnesty; the couple were jailed for 15 years for homosexuality in November, sparking a diplomatic row with the **United States**;

24 May 2020 **Lusaka (Zambia)** *Lusaka Times*. Disgruntled **Zambian** employees at a textile factory owned by **China National Bluestar (Group) Co, Ltd** in the **Makeni** suburb of **Lusaka** murder three **Chinese** factory managers and set warehouse ablaze amid heightened tensions between Chinese nationals and **Zambian** locals;

21 May 2020 **Lusaka (Zambia)** *Lusaka Times*. The government lifts a ban imposed on 2 October on the capture and translocation of wildlife from public protected areas and creates a **Wildlife Management Licence Committee** to begin operations in late June 2020;

20 May 2020 **Nakonde (Zambia)** *Zambian Observer*. Police arrest eight civilians after law enforcement officials are called in to quell riots in the Nakonde district villages of **Katozi** and **Ntindi**, in **Muchinga Province**, a hotspot for Covid-19 in **Zambia**;

20 May 2020 **Lusaka (Zambia)** *Zambian Observer*. State energy company **ZESCO Ltd (ZESCO)**

concludes three contracts totalling \$548m with **Power China** to develop a 600-MW grid connecting **Solar Photovoltaic Power Plants** in **Chibombo, Chirundu** and **Siavonga** districts;

18 May 2020 **Isoka (Zambia)** *Lusaka Times*. Ruling **Patriotic Front (PF)** party cadres raid **Isoka Community Radio Station** while it hosts **United National Development Party** leader **Hakainde Hichilenga** on-air;

18 May 2020 **Lusaka (Zambia)** *Lusaka Times*. A government delegation including mines and mineral development minister **Richard Musukwa** and copper minister **Japhen Mwalakombe** restart negotiations with **Glencore-owned Mopani Copper Mines Plc (MCM)** to avoid the mine being placed under care and maintenance in light of reduced global copper demand because of **Covid-19**;

18 May 2020 **Mumbwa (Zambia)** *Mining MX*. Government-owned investment holding **ZCCM-IH** confirms joint venture with mining services firm **Array Metals** to process a gold deposit in Mumbwa, targeting 40,000 kg in gold production in 2020;

About Africa Risk Consulting:

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