

## AFRICA RISK CONSULTING

### Zambia Monthly Briefing October 2016

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#### Zambia Summary 28 October 2016

*Prosecutors in Zambia charge opposition United Party for National Development (UPND) leader Hakainde Hichilema and deputy leader Geoffrey Mwamba with sedition and unlawful assembly. The charges relate to an impromptu rally where they continued to claim the results of August's election were false. UPND supporters allege president Edgar Lungu (2015-present) is using the courts to attack his political opponents. Finance minister Felix Mutati announces \$1 billion in subsidy cuts as part of a five-pillar strategy to persuade the International Monetary Fund (IMF) to provide Zambia with a structured loan facility (SLF). The Energy Regulation Board (ERB) increases petrol costs by 39% following the announcement. Canada-based First Quantum Minerals expects government approval for a new economic zone in North-West Province to boost the local economy.*

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#### Prosecutors charge UPND leaders with sedition

Prosecutors in **Zambia** have charged the two most senior figures in the opposition **United Party for National Development (UPND)** with sedition.<sup>1</sup> The police arrested UPND leader and former presidential candidate **Hakainde Hichilema** and UPND deputy leader **Geoffrey Mwamba** on 9 October.<sup>2</sup> They appeared in **Kitwe Magistrates' Court** on 19 October, where prosecutors announced they would be charged with "*sedition practices and unlawful assembly*".<sup>3</sup> The charge of sedition, defined as inciting people to rebel against the authority of the state, carries a maximum sentence of seven years in prison.<sup>4</sup> The UPND leaders pleaded not guilty to both charges and are currently free on bail pending the start of a trial in early 2017.<sup>5</sup> The charges relate to a rally that Hichilema and Mwamba held in the rural town of **Mpongwe** on 26 September where they continued to publicly challenge the result of the August general election.<sup>6</sup> The **Constitutional Court** and **High Court** rejected Hichilema's case that the ruling **Patriotic Front (PF)** and president **Edgar Lungu** (2015-present) manipulated votes to illegally win the election (see *ARC Briefing Zambia September 2016*). Speaking to the media following his release on bail, Hichilema accused the government of using the courts to silence opposition:

*"We are telling Lungu and his disputed regime that we shall not stop moving around the country to meet our structures and greet our people...Lungu is using the police to limit our freedoms as the **British** did when Zambia was still a colony."*<sup>7</sup>

Police in **Copperbelt Province** also arrested 61 opposition supporters who held a rally that turned violent following the arrest of Hichilema and Mwamba.<sup>8</sup> UPND spokesperson **Charles Kakoma** told the media following the arrests that:

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<sup>1</sup> Lusaka Times, 9 Oct 2016.

<sup>2</sup> Lusaka Times, 9 Oct 2016.

<sup>3</sup> Lusaka Times, 19 Oct 2016.

<sup>4</sup> Lusaka Times, 9 Oct 2016.

<sup>5</sup> Lusaka Times, 19 Oct 2016.

<sup>6</sup> Lusaka Times, 9 Oct 2016.

<sup>7</sup> Hichilema, in Lusaka Times, 19 Oct 2016.

<sup>8</sup> Lusaka Times, 9 Oct 2016.

*"This is a scheme by the party in power to harass the opposition and instill fear in them...they know that they [the PF] did not genuinely win the last elections and want to instill fear in those who want to speak out against what happened."<sup>9</sup>*

However, supporters of the PF argue that Hichilema and Mwamba have refused to acknowledge the sovereignty of the courts and are stoking public sentiment against the government.<sup>10</sup>

*"These are not people doing the normal work of an opposition leader... they are calling the president and the government illegitimate, they are not going through the right channels to get permits to assemble...they are threatening our democracy."<sup>11</sup>*

Sources within civil society organisations are critical of the case. They argue that the government is using the courts and the police to prevent the UPND from creating mass movements against them.<sup>12</sup>

*"This is another example of Lungu using the courts to get rid of all those who stand in his way...he attacked the journalists before the election and now attacks elected politicians after the election. Our judiciary is compromised."<sup>13</sup>*

### IMF orders \$1 billion in subsidy cuts

The **International Monetary Fund (IMF)** told the government on 10 October that it will need to reduce subsidies by \$1 billion in order to receive a structure loan facility (SLF) to prop up the economy.<sup>14</sup> The newly appointed finance minister, **Felix Mutati**, has started to try to convince the country that the way to greater economic viability is through fiscal consolidation. The government and IMF have yet to specify what subsidies the government plans to cut. Subsidies for electricity and fuel currently cost the government \$600m per annum.<sup>15</sup> The finance ministry released figures on 20 October showing that it spent \$200m on fuel subsidies between January and September 2016.<sup>16</sup> Energy minister **David Mabumba** described this as *"an unsustainable burden on the treasury"*.<sup>17</sup>

*"The government needs to reduce its spending in order to reduce the deficit, but the Zambian consumer may not be able to bear the pressure...it will certainly be very unpopular and may drive certain parts of the country towards famine."<sup>18</sup>*

Following the statement, the **Energy Regulation Board (ERB)**, which controls the price of fuel, announced a 39% increase on 14 October.<sup>19</sup> Petrol will rise from K9.87 (\$0.001) per litre to K13.7 (\$0.0014).<sup>20</sup> The price of diesel will rise by 33% from \$0.009 to K11.4 (\$0.0012).<sup>21</sup> The ERB did not specify whether this was directly linked to the IMF's demands. However, sources with links to the government confirmed that this is the first part of subsidy reform:

*"Fuel is a major drain on public expenditure and the government will be cutting it first to keep it under control...the price of fuel is already lower than it was a few years ago...better cut the cost of fuel than food."<sup>22</sup>*

<sup>9</sup> Kakoma in Lusaka Times, 9 Oct 2016.

<sup>10</sup> Zambia Watchdog, 19 Oct 2016.

<sup>11</sup> Source, PF party organiser, Lusaka

<sup>12</sup> Kakoma in Lusaka Times, 9 Oct 2016.

<sup>12</sup> Zambia Watchdog, 19 Oct 2016.

<sup>13</sup> Source, director of a civil society organisation, Lusaka

<sup>14</sup> Zambia Reports, 10 Oct 2016.

<sup>15</sup> Zambia Reports, 10 Oct 2016.

<sup>16</sup> Zambia Reports, 10 Oct 2016.

<sup>17</sup> Mabumba in Reuters, 13 Oct 2016.

<sup>18</sup> Source development macroeconomist, Durban

<sup>19</sup> Zambia Daily Mail, 14 Oct 2016.

<sup>20</sup> Zambia Daily Mail, 14 Oct 2016.

<sup>21</sup> Zambia Daily Mail, 14 Oct 2016.

<sup>22</sup> Source, energy ministry, Lusaka

Mutati said that the government's efforts to attract aid from the IMF will rest on five pillars, the first of which is subsidy removal.<sup>23</sup> The second is the increased allocation of "social safety nets to prevent the removal of subsidies impacting the most vulnerable".<sup>24</sup> The third is improving economic governance and making the **Public Finance Act** "more punitive"<sup>25</sup> to prevent the abuse of public finances.<sup>26</sup> The fourth is the "restoration of budget credibility"<sup>27</sup> which Mutati explained means that the 2017 budget will set out realistic parameters for economic recovery and stabilisation.<sup>28</sup> The fifth, and future, pillar is the improvement of energy and logistics infrastructure to boost growth.<sup>29</sup> According to economic analysts, the list reveals little about the substance of the programme.

*"This currently reads as a shopping list – it is nice to think you can remove subsidies and increase welfare spending by reducing wasteful expenditure in the public sector, but these changes take money and time to have an impact. There will be more cuts, and maybe tax increases, in the 2017 budget because this is not enough to impress the IMF."*<sup>30</sup>

The decrease in subsidies may counter the trend of decreasing inflation.<sup>31</sup> The government **Central Statistical Office (CSO)** released data on 6 October showing consumer price index (CPI) inflation fell to 12.5% in October, down from 18.9% year-on-year in September and 19.6% year-on-year in August.<sup>32</sup> Month-on-month inflation rose to 0.5% from 0.1% in September and is marginally higher than 0.4% in August.<sup>33</sup> Sources watching the Zambian economy believe the subsidy reductions will push this back up again:

*"I would expect to see inflation going back up to the 20-22% levels we saw earlier in 2016, if the rest of the economic recovery plan remains in place...if the price of copper falls again then this will push down the kwacha and push up inflation to potentially as high as 25%."*<sup>34</sup>

### First Quantum anticipates economic zone approval

Canada-based mining firm **First Quantum Minerals** announced the imminent approval of a new industrial park near its **Kalumbila** mine in **North-Western Province** on 26 October.<sup>35</sup> The creation of the park is part of a re-invest programme by First Quantum Minerals and reflects a growing confidence in the vital copper mining sector. First Quantum is developing a multi-facility economic zone (MFEZ) as part of a drive to attract international investment and encourage economic diversification.<sup>36</sup> **John Gladston**, the company's director in charge of government affairs, told the media that the government had delayed the project for four years but that the company expected approval for the permits before the end of October.<sup>37</sup> He revealed that several international firms had already made enquiries about investing in the MFEZ in particular, and Zambia in general.<sup>38</sup>

First Quantum links the zone to the government's drive to diversify the economy away from copper production, which still accounts for 60% of government revenues.<sup>39</sup> Zambia's currency, the kwacha,

<sup>23</sup> Zambia Weekly, 14 Oct 2016.

<sup>24</sup> Zambia Weekly, 14 Oct 2016.

<sup>25</sup> Zambia Weekly, 14 Oct 2016.

<sup>26</sup> Zambia Weekly, 14 Oct 2016.

<sup>27</sup> Zambia Weekly, 14 Oct 2016.

<sup>28</sup> Zambia Weekly, 14 Oct 2016.

<sup>29</sup> Zambia Weekly, 14 Oct 2016.

<sup>30</sup> Source development macroeconomist, Durban

<sup>31</sup> Lusaka Times, 6 Oct 2016.

<sup>32</sup> Lusaka Times, 6 Oct 2016.

<sup>33</sup> Lusaka Times, 6 Oct 2016.

<sup>34</sup> Source development macroeconomist, Durban

<sup>35</sup> Reuters, 26 Oct 2016.

<sup>36</sup> Reuters, 26 Oct 2016.

<sup>37</sup> Reuters, 26 Oct 2016.

<sup>38</sup> Reuters, 26 Oct 2016.

<sup>39</sup> Reuters, 26 Oct 2016.

historically has tracked the rise and fall of the copper price, leading to significant economic problems.<sup>40</sup> The creation of the MFEZ is part of First Quantum's support to government plans to diversify the economy.<sup>41</sup> The company has invested \$5.7 billion in copper projects in the country to date, and hopes to attract over \$100m of investment through this scheme.<sup>42</sup> According to sources in the sector, other companies are also considering how to keep positive relations with the government:

*"The Lungu administration showed they could be reasonable during 2015 (when they renegotiated planned royalty increases) and it is important to show that we (mining companies) are part of a solution to local issues."<sup>43</sup>*

The copper sector remains under pressure in Zambia, partly due to ongoing power shortages. The **Zambian Electricity Supply Co (ZESCO)** pre-emptively asked mining firms on 27 October to reduce their power usage.<sup>44</sup> This is due to low water levels at hydro-electric power stations. In 2015 ZESCO asked copper producers to lower power usage by decreasing output by 20%.<sup>45</sup>

## Implications

The court rulings on the election results, where several senior courts threw out the UPND case, raise concerns about the state of Zambia's judicial system. The recent charges against Hichilema and Mwamba cast doubt on the political neutrality of the police and the prosecution service. The UPND leaders were continuing to hold rallies in a similar fashion to those they have held for the past two years. Claims that they had the 'wrong permits' echo other administrations where inconvenient political opponents are tied up in court cases, discrediting them in the public eye. This is not to say that the president personally orchestrated this. It is entirely possible that the charges are the result of overly zealous PF supporting local officials. However, the fact that Zambia both has, and regularly enforces, a sedition law threatens the freedom of both political opposition and the press. If the courts do convict the leader of the opposition and sentence him to jail time, then the large proportion of the country that voted for him may start low-level political unrest. This in turn may damage Zambia's international reputation and discourage some of the investment the country badly needs.

Mutati has the unenviable task of selling Zambia a deeply unpopular fiscal consolidation programme. The PF held off on any mention of this until after it won the election. However, the PF now has just a few months to get a plan in place that will satisfy the demands of the IMF but not damage local businesses and consumer spending. Zambia heavily subsidises both food and fuel and there is room to free up money for more targeted expenditure. However, the country currently faces food shortages and a weak currency – if the cuts are too deep too quick then it could sharply increase inflation again. This will not just impact consumers – many small businesses face sharp increases of running costs due to fuel price increases. However, the government does need to rein in the budget deficit, and an increase in the price of copper, which could provide significant foreign currency receipts, is unlikely in the short to medium term. The 2017 budget will contain more of the detail – including further public expenditure cuts.

First Quantum's MFEZ shows copper miners are answering calls from the government to play a part in reducing Zambia's economic reliance on a single commodity. The fact that government held up the plan for four years is telling of the previous difficult relationship between the PF – under the more populist leadership of the late president **Michael Sata** (2011-2014) – and mining houses. First Quantum, and other international miners, can play an important role in attracting further investment. If the government grants them the leeway to do so, then local communities and the wider economy will benefit.

<sup>40</sup> Reuters, 26 Oct 2016.

<sup>41</sup> Reuters, 26 Oct 2016.

<sup>42</sup> Reuters, 26 Oct 2016.

<sup>43</sup> Source, mining executive, Kitwe

<sup>44</sup> Lusaka Times, 27 Oct 2016.

<sup>45</sup> Lusaka Times, 27 Oct 2016.

### About Africa Risk Consulting:

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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