

AFRICA RISK CONSULTING**Zambia Monthly Briefing March 2016**

Zambia Summary 30 March 2016

The arrests of two opposition leaders cause three major church groups to step in to prevent an escalation of political violence in the run up to the August general election. Police arrest leaders from the United Party for National Development (UPND) and Fourth Revolution for allegedly training militias and for threatening and defaming President Edgar Lungu (2015-present). The International Monetary Fund (IMF) mission leaves Zambia after failing to agree a bail-out programme. The ruling Patriotic Front (PF) is reportedly reluctant to implement austerity measures prior to the general elections. Switzerland-based commodities house Glencore announces \$1.1 billion investment at its Mopani Copper Mine (MCM) in Copperbelt Province.

Opposition arrests and fears of electoral violence lead to church intervention.

A wave of opposition leader arrests in **Zambia** has caused the churches to step in to prevent an escalation of political violence in the run up to the August general election. Police arrested **Geoffrey Mwamba**, opposition **United Party for National Development (UPND)** vice-president, twice in March. Police first arrested Mwamba, a former defence minister, for allegedly training militia members to cause violence ahead of the general election.¹ Following the arrest, state prosecutors charged Mwamba with unlawful training of a militia group. He has pleaded not guilty to the charge and his trial will commence next month. The arrest followed a police raid at a gym located at his premises in **Lusaka**.² Police found weapons including pangas, a spear, eight rounds of ammunition, and a gun.³ The prosecutors have also charged 20 youths who were training in the gym at the time of the raid.⁴ Prior to the arrest President **Edgar Lungu** (2015-present) released a statement that he had intelligence that the UPND were training more than 250 youths as militias to violently disrupt the August general elections.⁵ Speaking to journalists after his release on bail, Mwamba said he would “go for the President’s throat”,⁶ which led to police arresting him a second time on 5 March.⁷ **Zambia Police Service** spokesperson **Charity Chanda** stated that Mwamba’s second arrest was in connection with the statement.⁸ Ruling **Patriotic Front (PF)** deputy spokesperson, Father **Frank Bwalya**, together with other PF officials, went to **Lusaka Central Police Station** to petition the **Zambia Police Service** to arrest Mwamba for reportedly threatening the president’s person.⁹

Police arrested another opposition leader, **Eric Chanda** of the **Fourth Revolution** party, for allegedly defaming President Lungu.¹⁰ The arrest was in connection with an article Chanda wrote on 9 May 2015 in the **Post Newspaper** alleging that Lungu had gone to **Mfuwe** to play pool and go clubbing at the expense of taxpayers.¹¹ The arrest of opposition leaders is seen as the Lungu administration’s

¹ Lusaka Times, 2 Mar 2016

² Lusaka Times, 2 Mar 2016

³ Lusaka Times, 2 Mar 2016

⁴ Lusaka Times, 2 Mar 2016

⁵ Lusaka Times, 2 Mar 2016

⁶ Daily Nation Zambia, 5 Mar 2016

⁷ Zambia Daily Mail, 5 Mar 2016

⁸ Daily Nation Zambia, 5 Mar 2016

⁹ Post Newspapers, 3 Mar 2016

¹⁰ Lusaka Times, 21 Mar 2016

¹¹ Post Newspapers, 3 Mar 2016.

growing intolerance in the build up to the August elections. Some opposition leaders have accused Lungu of persecuting his opponents. **Democratic Front** leader **Miles Sampa** said:

“This is political persecution and attempts to stop us from talking. Why didn’t they arrest him when the story was published in May 2015? Maybe it is a government plan to silence us. All of us will end up in prison if it means we have to keep quiet. For President Lungu, it seems all opponents who have divergent views will be spending their nights in the cells. For Edgar Lungu, Mwamba, has been in the cells, now Eric Chanda.”¹²

Elias Chipimo, leader of the **National Restoration Party**, and a civil liberties lawyer said it was worrying that a person who is exercising freedom of expression should end up facing criminal prosecution:

“No one is beyond criticism or no one is beyond comment. The comment that was issued, we will leave to the courts to decide should it get that far. My personal view of this is that this is really a matter that should not have gotten this far and we are very much hopeful that sense will prevail.”¹³

Alongside the arrests, the media has reported that the PF has orchestrated violence. During the UPND media briefing at **Chainama Hotel** in Lusaka, opposition supporters alleged ruling party supporters attacked them when boarding buses to the media briefing in full view of the police.¹⁴

The spate of arrests and the prospect of electoral violence led to three church bodies, the **Zambia Episcopal Conference (ZEC)**, the **Council of Churches in Zambia (CCZ)** and the **Evangelical Fellowship of Zambia (EFZ)**, to convene a meeting of 18 political party presidents in Lusaka on 29 March. The meeting was to discuss and condemn political violence.¹⁵ The churches are extremely influential in Zambian politics and have played mediating roles in the past. The meeting included Lungu, UPND leader **Hakainde Hichilema**, **Forum for Democracy and Development (FDD)** leader **Edith Nawakwi**, and **Movement for Multiparty Democracy (MMD)** leader **Nevers Mumba**.¹⁶ The leaders issued a communiqué pledging to condemn violence and hate speech against each and expressed concern at the misapplication of the **Public Order Act (PoA)** to arrest political figures.¹⁷

Treasury and IMF fail to agree bail-out for Zambia

The **International Monetary Fund (IMF)** concluded its mission to Zambia on 18 March without reaching a deal with the finance ministry on a bail-out.¹⁸ The deal reportedly fell through due to a disagreement on the timing of an economic recovery programme.¹⁹ At the end of the visit, the head of the IMF mission, **Tsidi Tsikata**, noted that the Zambian economy is performing poorly.²⁰ The IMF is now waiting to hear the policy measures that the government intends to put in place. They will evaluate those measures in mid-April during the next meetings between the government, the IMF and the **World Bank**.²¹ According to Tsikata:

“Government finances are under immense stress. Expenditure is running far above budget, in large part as a result of fuel subsidies and contracted emergency electricity imports that together are estimated to cost the treasury about \$660 million a year at the current pace (equivalent to 3.2% of GDP). At the same time, domestic and external financing options have become more

¹² Interview, 24 Mar 2016

¹³ Interview, 25 Mar 2016.

¹⁴ Testimony from victim at Chainama Hotel, 18 Mar, 2016

¹⁵ Political party president Communiqué, 29 Mar, 2016

¹⁶ Political party president Communiqué, 29 Mar, 2016

¹⁷ Political party president Communiqué, 29 Mar, 2016

¹⁸ IMF Statement, 19 Mar 2016

¹⁹ IMF Statement, 19 Mar 2016

²⁰ IMF Statement, 19 Mar 2016

²¹ IMF Statement, 19 Mar 2016

limited along with rising interest rates. Mounting domestic arrears are adding to concerns about debt sustainability.”²²

The IMF noted the Zambian economy is under intense pressure due to lower copper prices, electricity shortages, and poor rainfall, which have dampened the pace of economic activity. Inflation has increased, expenditure pressures have risen, and financing conditions have tightened substantially.²³ The IMF estimates that economic growth declined to about 3% in 2015.²⁴

According to the **Central Statistics Office (CSO)** consumer price index (CPI) inflation increased to 22.9% in February, a record high, up from 21.8% rise in the previous month, as both food and non-food costs increased.²⁵ On a monthly basis, prices increased 1.2%, slowing from 1.3% in January. CPI inflation averaged 9.66% from 2005-2016.²⁶ Zambia’s staple food, maize meal, is now in short supply across the country despite the government’s assurance that it has enough food stocks at the **Food Reserve Agency (FRA)**. As well as putting downwards pressure on the economy, the shortage is also causing political tensions. According to a local political source the PF will not be able to evade the economic problems they have presided over:

*“President Lungu’s administration has created its own political snares which are highly likely to lead it to the political abattoir, come 11 August. Some of the snares are huge debt burden, shortages of essential commodities, high prices of mealie-meal and rising youth unemployment, abuse of state institutions like the police and U-turn of his government on the restoration of former President **Rupiah Banda** [2008-2011]’s immunity. This puts the PF in a political quagmire that could damage its electoral chances.”²⁷*

The IMF argues that action is needed as quickly as possible to restore macroeconomic stability and pave the way for a return to high sustained growth.²⁸ Other institutional lenders are still lending to Zambia, but none can offer support to the extent of an IMF structured credit facility, which offers billions of dollars. The government has managed to secure a \$125m loan from the **African Development Bank (AfDB)**.²⁹ The bank issued the money on concessional terms: \$50m to improve sanitation, \$45m to boost food security and \$30m to support women in business.³⁰ Finance minister **Alexander Chikwanda** and AfDB resident representative **Damoni Kitabire** signed the agreement in Lusaka on 29 March.³¹

According to local sources, Lungu fears that he will lose the August elections if he implements the IMF’s austerity measures too soon.³² However, he may implement them after the elections.³³ It is likely the IMF programme will aim to reduce public expenditure and mobilise additional revenue.³⁴ To do this, the IMF is likely to introduce measures aimed at lowering the public sector wage bill which is one of the main causes of government expenditure overruns. Public sector wages make up over 52% of the government budget instead of a more sustainable 20%.³⁵ According to the source:

²² IMF Statement, 19 Mar 2016

²³ IMF Statement, 19 Mar 2016

²⁴ IMF Statement, 19 Mar 2016

²⁵ CSO report, 25 Mar 2016.

²⁶ CSO report, 25 Mar 2016.

²⁷ Source, political expert, Lusaka

²⁸ IMF Statement, 19 Mar 2016

²⁹ Lusaka Times, 29 Mar 2016.

³⁰ Lusaka Times, 29 Mar 2016.

³¹ Lusaka Times, 29 Mar 2016.

³² Source, financial expert, Lusaka

³³ Source, financial expert, Lusaka

³⁴ Source, financial expert, Lusaka

³⁵ Source, financial expert, Lusaka

“Implementing the IMF austerity measures comes with political risks on President Lungu’s side, in terms of re-election but on the other hand, if he delays implementing the economic recovery measures, the economy is likely to get worse and still reduce his chances of re-election.”³⁶

Glencore announces \$1.1 billion investment at Mopani

Switzerland-based commodities company **Glencore** announced on 30 March it plans to invest \$1.1 billion in its **Mopani Copper Mine (MCM)** in Zambia.³⁷ Glencore closed down operations at the mine last year due to the low price of copper (see *ARC Briefing Zambia November 2015*). The investment is part of Glencore’s plan to improve efficiency at the mine to make it more profitable. It will cover the cost of sinking three new shafts at the site in **Copperbelt Province**.³⁸ It also includes an overhaul of technology at the site, which will extend the life of the mine by over five years.³⁹ Glencore will make the investments over the period 2016 to 2018. It aims to turn it into a “world class mining operation” by 2023.⁴⁰ The markets responded positively to the announcement and the kwacha increased 1.3% against the dollar overnight to 11.11/\$, its highest level since 19 January.⁴¹

Zambia’s copper industry faces the low global price of copper, which has remained around the \$5,000/tonne mark for the past six months.⁴² At time of writing, the price is \$4,939/tonne.⁴³ It has fallen 23.6% year-on-year from a high of \$6,472/tonne due to low global demand.⁴⁴

The copper industry also faces a power shortage that led to the **Copperbelt Electricity Co (CEC)** cutting supply to mines by 25% in November 2015 (see *ARC Briefing Zambia November 2015*). The **Zambia Development Agency** committed to adding 420 megawatts (MW) in 2016, to make up some of the country’s 1,000MW shortfall. It will add 300MW from the new **Maamba Collieries Coal-fired Power Project** and 120MW for a hydroelectric project.⁴⁵

Implications

Lungu appears increasingly populist, reverting to the tactics of previous PF and MMD regimes in arresting opposition leaders in the run-up to elections. However, the general election in August will be closely contested and both the PF and UNPD are looking to gain the upper hand wherever possible. The intervention of the churches, while it may have some impact in the short term will not prevent the parties from trying to sabotage each other. It is less likely that there will be widespread violence in the run up to the election. While cadres and supporters will clash, there is currently no evidence that widespread electoral violence is likely to occur.

Lungu’s populist concerns have spread to the finance ministry. The government cannot postpone receiving outside aid indefinitely: the budget deficit is high and foreign reserves are falling. Smaller targeted loans from the AfDB will not help the government get back on top of public spending. Lungu and Chikwanda had a good track record of sensible economic policy across 2015. However, the economy cannot afford mismanagement when it is in such a precarious position. Most dangerous of all would be large-scale spending projects in the run-up to the elections.

Glencore’s announcement of its investment in Mopani is good news. It is not unexpected as the company made it clear last year that it intended to refurbish the mine to make it more profitable –

³⁶ Source, financial expert, Lusaka

³⁷ Reuters, 30 Mar 2016.

³⁸ Reuters, 30 Mar 2016.

³⁹ Reuters, 30 Mar 2016.

⁴⁰ Reuters, 30 Mar 2016.

⁴¹ XE.com

⁴² Infomine.com

⁴³ Infomine.com

⁴⁴ Infomine.com

⁴⁵ Lusaka Times, 26 Mar 2016.

something it could not do while running the mine at the same time. The reaction of the markets to the news underlines how dependent the Zambian economy is on the copper mining industry.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

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

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)