

AFRICA RISK CONSULTING**Zambia Monthly Briefing September**

Zambia Summary 23 September 2016

Edgar Lungu (2015-present) is sworn in as Zambia's next president on 13 September. Opposition United Party for National Development (UPND) attempts to stop the inauguration fail after the Constitutional Court revokes an offer to extend the time to file a complaint. Lungu focuses on the economy as his top priority in government, and appoints veteran technocrat Felix Mutati as his new finance minister. The government resumes negotiations with the International Monetary Fund (IMF) for a bail-out worth \$1.2 billion, and Mutati warns economic conditions will get worse before they get better. Erratic weather conditions lead to a 26% decrease in Zambia's 2015 harvest, driving the price of a bag of mealie-meal up from \$5 to \$12 per bag. This adds to the inflationary pressures on consumers and threatens to drain government finances further.

Lungu inaugurated president as opposition fails to challenge vote

Chief justice **Irene Mambilima** swore in **Edgar Lungu** (2015-present) as president of **Zambia** on 13 September following the **Patriotic Front's (PF)** electoral victory in August.¹ The opposition **United Party for National Development (UPND)** attempted to prevent the inauguration but was unsuccessful in a number of court challenges. The UPND also failed to file a suit to challenge the electoral results within the constitutionally mandated time window, so Lungu's inauguration stands. The inauguration took place in **National Heroes Stadium** in capital **Lusaka**. Deputy president **Inonge Wina**, Lungu's running mate, was also inaugurated.² PF supporters filled the 60,000 capacity stadium, and police reportedly had to turn away with tear gas crowds trying to attend.³

The UPND went to the **Constitutional Court** on 3 September to present its challenge to the 11 August election results that it claims were rigged.⁴ Under the 2015 Constitution, the challenge had to be heard within seven days of the election result. UPND leader **Hakainde Hichilema** filed a complaint on 19 August, however Constitutional Court president **Hildah Chibombah** gave the UPND an extra week to present its case after Hichilema's legal team quit.⁵ However, the Constitutional Court revised this decision on 5 September and opted to not extend the deadline.⁶

Hichilema then filed a petition at the **High Court** on 6 September to prevent Lungu's inauguration on the basis that he lacked the time to challenge the Constitutional Court's ruling to not extend his time.⁷ However, High Court judge **Mwila Chitabo** ruled on 9 September that he did not have the authority to throw out a decision of a higher court.⁸ The UPND then took the matter to the **Supreme Court** to overturn the ruling of the Constitutional Court. However, Supreme Court judge **Nigel Matuna** ruled on 12 September that the UPND had misfiled the application. The UPND should have petitioned the full bench and Matuna, as a sole judge, could not overturn the decision of a full bench of the Constitutional Court, as the two courts are technically equal in stature. The UPND also reportedly

¹ Lusaka Times, 13 Sept 2016.

² Lusaka Times, 13 Sept 2016.

³ Zambia Weekly, 16 Sept 2016.

⁴ Zambia Daily Mail, 3 Sept 2016.

⁵ Zambia Daily Mail, 3 Sept 2016.

⁶ Zambia Daily Mail, 3 Sept 2016.

⁷ Reuters, 9 Sept 2016.

⁸ Reuters, 9 Sept 2016.

misfiled a further application to the Constitutional Court on 9 September before judge **Mugeni Mulenga**, one of the three judges, who earlier dismissed the petition.⁹ She had to adjourn the matter, because, once again, the right court papers had not been served to Chief Justice Irene Mambilima.¹⁰ Sources with links to the opposition have challenged the series of rulings as evidence of judicial tampering:

*"It is no accident that Hichilema's lawyers resigned at the very latest point, then the judges refused to allow him time to plead his case. None of the other courts would rule against him, only that they could not rule. Lungu and the PF got to the judges."*¹¹

However, sources outside of the UPND offer a different explanation for the events:

*"The UPND is in chaos, people are leaving the party and fighting to replace Hichilema – he is a lost cause. The applications went to the wrong judges, it was badly organised. The original extension of time against the constitution was the irregularity."*¹²

...and turns to the economy as top priority

Lungu has placed reversing Zambia's economic fortunes as the top priority for his new administration. He put economic recovery at the heart of his inauguration speech.¹³ He told the assembled crowds that he would be putting agriculture at the centre of a new diversified economic plan.¹⁴ The aim is to reduce Zambia's dependency on copper mining.¹⁵ His first cabinet appointment on 15 September was **Felix Mutati** as finance minister, replacing veteran **Alexander Chikwanda**.¹⁶ Mutati is a chartered accountant who served as trade and industry minister from 2004 to 2011, and energy minister from 2002 to 2004.¹⁷ He is a politician from the **Movement for Multiparty Democracy (MMD)** party which campaigned alongside the PF in the general election.¹⁸ He has a strong and positive reputation amongst the business community, and was responsible for increasing international investment in Zambia prior to the 2011 election.¹⁹ He also enjoys a measure of cross-party support as he does not come from within the heart of the PF. According to sources within the business community:

*"If there was a man for the job of finance minister it is Mutati, he is measured and follows the facts, he respects the business community as creators of jobs and growth...it will be a big change from Chikwanda who followed the populist line."*²⁰

Zambia is due to re-start negotiations with the **International Monetary Fund (IMF)** for a fiscal stimulus package in September after Lungu appoints a new cabinet.²¹ This will entail cuts to government subsidies and other fiscal consolidation measures. The government broke off negotiations prior to the August election to allow for campaigning. Presidential spokesperson **Amos Chanda** told the media on 20 September that the government would cut subsidies and use the money to invest in growing areas of the economy.²² The IMF and government will discuss an aid package of

⁹ Zambia Weekly, 16 Sept 2016.

¹⁰ Zambia Weekly, 16 Sept 2016.

¹¹ Source, UPND, Lusaka

¹² Source, director of a thinktank, Lusaka

¹³ Lusaka Times, 13 Sept 2016.

¹⁴ Lusaka Times, 13 Sept 2016.

¹⁵ Lusaka Times, 13 Sept 2016.

¹⁶ Zambia Daily Mail, 15 Sept 2016.

¹⁷ Zambia Daily Mail, 15 Sept 2016.

¹⁸ Zambia Daily Mail, 15 Sept 2016.

¹⁹ Zambia Reports, 15 Sept 2016.

²⁰ Source, mining executive, Lusaka

²¹ Zambia Daily Mail, 15 Sept 2016.

²² Zambia Reports, 20 Sept 2016.

around \$1.2 billion in total.²³ Chanda said that the government would not implement measures to hurt the poorest in society:

*"There will be no austerity measures that will be accepted that will increase the cost of health care. There will be nothing that will be accepted that will make life for the poor more miserable than it is now."*²⁴

Mutati gave a stronger warning of the impact of the programme, telling the media on 15 September that the country would endure economic pain under the programme:²⁵

*"We must be able to sacrifice... it will be very painful. We have to endure pain in order to make progress."*²⁶

The current economic situation is poor but stable. The government estimates 2016 gross domestic product (GDP) growth to be 3.1%, marginally lower than 3.4% in 2015.²⁷ Inflation has stabilised but remains high with consumer price index (CPI) inflation slowing to 19.6% in August down from 20.2% in July according to the central **Bank of Zambia (BoZ)**.²⁸ Ratings' agency **Standard and Poor's (S&P)** retained its B/B negative rating of the economy on 26 August.²⁹ S&P cited the likelihood of constrained government spending options in the short term as the main reason for its negative outlook.³⁰

Zambia faces food shortages in drought

Zambia faces poor harvests of key crops in 2016 as the severe weather pattern across **Southern Africa** adds further pressure to the economy.³¹ The new administration will have to fund grain imports and control the rapidly rising prices of grain order to prevent widespread hunger. The agricultural ministry published statistics on 8 September showing low harvests of maize, wheat and sugarcane.³² Maize production has fallen by 21% from 3.3 million tonnes in 2015 to 2.6 million tonnes in 2015.³³ Sugarcane production has declined 10% to 380,000 tonnes in 2016 from 424,000 tonnes in 2015.³⁴ Taken as a whole, agricultural production per hectare of land has fallen 26% from 2.36 tonnes in 2015 to 1.75 tonnes in 2016.³⁵ On average the harvest across the region will be 15% lower than the previous five years.³⁶ A researcher at the **Zambia National Farmers Union (ZNFU)**, **Kingsley Kaswende**, told the media that the reduced production and the increased costs of imports due to the weak kwacha are driving up grain prices:

*"Most of the farm inputs (such as seeds and chemicals) in this country are imported. That, combined with drought conditions, is pushing the cost of staples high."*³⁷

The price of grains is rising rapidly. A bag of maize staple mealie-meal has risen from \$5 per 25 kilogram (kg) bag to \$12/25kg in parts of Zambia.³⁸ This has led to an increase in grain smuggling

²³ Zambia Reports, 20 Sept 2016.

²⁴ Chanda, in Reuters, 20 Sept 2016.

²⁵ Zambia Watchdog, 15 Sept 2016.

²⁶ Mutati, in Zambia Watchdog, 15 Sept 2016.

²⁷ Lusaka Times, 23 Sept 2016.

²⁸ Reuters, 25 Aug 2016.

²⁹ S&P press release, 26 Aug 2016.

³⁰ S&P press release, 26 Aug 2016.

³¹ Reuters, 8 Sept 2016.

³² Reuters, 8 Sept 2016.

³³ Reuters, 8 Sept 2016.

³⁴ Reuters, 8 Sept 2016.

³⁵ Reuters, 8 Sept 2016.

³⁶ Reuters, 8 Sept 2016.

³⁷ Kaswende, in Lusaka Times, 9 Sept 2016.

³⁸ Reuters, 8 Sept 2016.

from nearby countries and a growing black market.³⁹ The government has previously controlled the price of grain by releasing subsidised stocks from central storehouses.⁴⁰ However, according to the **Millers Association of Zambia (MAZ)**, Zambia is roughly 59,000 tonnes short of projected demand for 2016.⁴¹

“The government will need to buy in grain in order to reduce severe inflationary pressure. The problem is that they will do this at the same time they are reducing subsidies to satisfy the IMF (see above) so the people will still go hungry.”⁴²

The geographical factors behind the low harvest are not just drought. Late rains at the start of the harvest season led to many crops failing, especially in the northern parts of the country.⁴³ The erratic patterns follow the shift from the *El Niño* weather system to the *La Niña* weather system, which will move temperatures from abnormally warm to abnormally cool.⁴⁴ The rapidly shifting weather patterns make farmers even less likely to be able to shift their harvests to adapt, according to the ZNFU.⁴⁵

Implications

Lungu has retained the support of a slim majority of Zambians who believe that he can bring Zambia out of its economic malaise. The UPND will have to face another five years in opposition. There are questions over whether Hichilema will stay as leader of the opposition. He has brought the UPND from a minority party with a handful of seats to a major political force commanding the support of almost half the country. However, a challenge in the next few weeks is likely. Much of the UPND’s failed attempt to contest the vote and prevent the inauguration appears to be ineptitude on their part. However, the decision of the Constitutional Court to revoke its offer of a week’s extra time to contest the vote after two days is suspect. If the bench did bow to political pressure then it will be a serious mark against the independence of Zambia’s judiciary, regardless of whether there was any foul play in the actual vote.

Zambia needs the IMF’s structured loan facility (SLF) in order to spend its way out of the current economic situation. However, the government will need to commit to sharp cuts of subsidies, especially to fuel and potentially to power, which will increase inflation. Mutati is a sensible choice of finance minister. Bringing him in from outside of the politically acrimonious election campaign may allow him some respite in parliament to get on with the considerable task in hand. Key factors to watch for Zambia’s economic recovery will be the price of copper, which holds the value of the kwacha down, and the power supply situation, which can deflate economic production. Mutati appears to be a good choice of minister to manage fiscal policy, but infrastructure development may have more impact than subsidy and spending reform.

Lungu’s plan to diversify the economy to focus on agriculture comes at a time when agriculture needs government support to survive. The erratic weather and low harvests will not encourage either smallholding farmers or agricultural investors to put more capital into the sector. The government will need to spend to import grain, especially as the poor harvests are region-wide so it will need to buy from further afield. The country still has enough reserves to last for the next few months, but should act soon to restock to avoid a food price spike later in the year.

³⁹ Reuters, 8 Sept 2016.

⁴⁰ Reuters, 8 Sep 2016.

⁴¹ Lusaka Times, 9 Sept 2016.

⁴² Source, director of a thinktank Lusaka

⁴³ Reuters, 8 Sept 2016.

⁴⁴ US National Oceanic Service, 2016

⁴⁵ Lusaka Times, 9 Sept 2016.

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)