

January 6, 2015

ZAMBIA UPDATE

Election count-down

With a mere 14 days until the presidential by-election, we project a victory by Edgar Lungu, in spite of his obvious infirmities, both personal and political.

1) Contrary to assertions by at least one prominent commentator, **Lungu does not command strong grassroots support:**

- The most memorable line in the six-minute farrago of mumbled platitudes delivered at his first campaign rally on Dec. 7th, was his admission, *“I do not have a vision.”*¹
- The following day, as guest speaker at an event held at Lusaka’s Mansa Catholic church, he stood at the lectern for thirty anguished seconds before confessing to bemused congregants that *“I do not know how to address you.”*²
- Given these antecedents, Lungu’s participation at the Dec. 30th presidential debate organized by the Economic Association of Zambia (EAZ), was always in doubt, his prior confirmation notwithstanding. On the evening in question, he “regretfully” found himself miles from Lusaka, campaigning in the Northern province.

2) While his medical issues do not currently appear to be as serious as those that ultimately ended respective the presidencies of Yar’Adua (2010), Atta Mills (2011) or Sata (2014), **Lungu does not enjoy anything resembling good health.**

- He is known to have suffered from Type II diabetes for several years. More worryingly, there have been repeated reports of a liver condition.
- Lungu was forced by an unspecified medical crisis to cancel several campaign appearances right after Xmas.
- Evoking the fate of the late President Sata, a UPND spokesperson has actually challenged the PF candidate to submit to a medical examination and publish the results.³

3) The candidate has also been prone to ethical lapses.

- As a barrister in private practice, he had his **law licence revoked in 2010 for misappropriating the proceeds of a judicial award** in favor of a client⁴.
- His colorful past has been regular fodder for local bloggers and political rivals alike.

4) In a fair contest, therefore, the PF candidate would probably lose to the UPND’s Hakainde Hichilema (a.k.a. HH).

¹ In fairness, Lungu was attempting to emphasize the seamless continuity between his agenda and that of the late President Sata.

² See *“Lungu fails to speak in Church”* in *The Post*, Dec. 8, 2014.

³ This provoked Lungu into unwisely challenging his tormentor to accompany him and undergo the same tests, a challenge that Sylvia Masebo promptly accepted, announcing her availability as of the next day. Nothing more has been heard on the subject from the PF candidate, providing excellent fodder for the UPND campaign.

⁴ Said licence was quietly restored in Sept. 2014 - shortly after his appointment as justice minister.

- As the only nominee from a major party to have been selected by consensus, **HH was able to launch his campaign right after Sata's funeral**, while both the PF and the MMD were embroiled in vicious internal contests that were ultimately settled by the courts.
- In addition, HH is the only candidate who has put forward anything resembling a platform – admittedly one of decidedly populist orientation⁵.

5) However, since Lungu's wing of the PF controls the machinery of government, **the cards are unquestionably stacked in his favour.**

- The highly irregular circumstances of his emergence as PF nominee survived successive judicial challenges through the most **blatant manipulation of the law**⁶.
- The PF administration which oversees the Zambia National Broadcasting Corporation (ZNBC) has repeatedly intervened to prevent the station from covering any opposition campaign events and even the EAZ debate that Lungu chose to duck.⁷
- Farmers demanding the settlement of payment arrears⁸ due to them from the Food Reserve Agency (FRA), are being told that **payment is contingent upon their attending Lungu's campaign rallies**⁹.

6) In addition to the above advantages, Lungu will be **able to count upon the services of a squad of machete-wielding cadres** to harass and intimidate political opponents.

- The ruthless efficiency of this so-called “Panga family” was on full display during the PF convention, when delegates sporting the colours of rival candidates were brutally assaulted¹⁰.
- The same elements have been **deployed repeatedly to disrupt UPND rallies**, most recently on Jan. 2 in Shiwangandu (Muchinga province), when their vicious attack generated the unforgettable image of former first lady Maureen Mwanawasa and party chairwoman Mutale Nalumango, having to hitch up their skirts and run for dear life.



⁵ Viz. his fiscally imprudent pledges to: lift the public-sector wage freeze; introduce free education (from primary school to university) and reduce income taxes.

⁶ As will be recalled, Lungu was ‘elected’ by a show of hands at the shambolic PF convention, a mere 10 minutes after the chairperson had announced that no voting would take place until the next day (when the credentials of all putative delegates would have been verified), whereupon the eight other candidates and their supporters had left the hall. Several hours later (i.e. at midnight), an order enjoining the PF from holding any further nomination ballots was issued by judge Mungeni Mulenga of the Lusaka high court, who happens to be a relative of candidate Edgar Lungu, the justice minister(!)

⁷ As reported by *The Post* of Dec. 22, 2014 this blatant partisanship drew a sharp rebuke from the Electoral Commission of Zambia.

⁸ I.e. in respect of maize delivered to the FRA 5-6 months earlier (Jul-Aug, 2014).

⁹ As reported by the *Zambia Watchdog* in “Peasant farmers told to attend PF rallies before payment”, Dec. 29, 2014.

¹⁰ This led Miles Sampa to temporarily withdraw from the race and Geoffrey Mwamba to publicly complain that “Criminals, thugs have been brought to Mulungushi. Edgar [Lungu] must address his thugs. Our people have left Kabwe so they will not take part in this process.”

¹¹ As will be recalled it was the very ABC who, declining the proposal to appoint him as acting president immediately prior to Sata's departure for New York last September, urged that the position be delegated to Lungu. This established the precedent that was followed when Sata was evacuated to London *in extremis*.

7) So, what would be the **macro-economic implications of the Lungu victory** we are projecting for Jan. 20th?

First and foremost, Alex Chikwanda (a.k.a. ABC), a close supporter of Lungu's¹¹ would retain the finance portfolio, ensuring a measure of **policy continuity**. Unfortunately, this would lock in place two controversial decisions relating to the cash-cow that is Zambia's mining industry.

- The refusal to recognize **USD 600 million in outstanding VAT refund claims** submitted by the mining companies over the preceding twelve months¹².
- The **dramatic increase in royalty rates** from 6% to 8% for underground operations, and 20% for open-cast mines¹³ – as a replacement for the pre-existing mining tax and projected to generate a total of ZMW 1.7 billion in 2015.

8) **Both measures were flagged as problematical by the IMF** at the conclusion of its Article IV mission¹⁴ in mid-December, viz.:

- *“The mission urged the authorities to seek a speedy resolution to the impasse over VAT refunds to exporters”.*
- *“Lower world copper prices and the announced shift to a royalty-only mining tax regime with high rates are likely to adversely affect the mining sector.”*¹⁵

9) **Equal to 5.76% of GDP in aggregate**, the two fiscal items will clearly be a bone of contention with the IMF mission which is due back in Lusaka next month to commence discussions on a support programme. Other issues that will come under equally rigorous scrutiny include:

- **Unsettled liabilities to road contractors** that reportedly totalled approximately ZMW3 billion (i.e. USD 485 billion)¹⁶ in mid-November, causing several operators to down tools and lay off workers.
- The **ZMW 530 million (i.e. USD 83.5 million) in arrears payable to farmers** in respect of the 1 million tonnes of maize delivered to the state-owned Food Reserve Agency¹⁷ following the June 2014 harvest.
- **A reconciliation of all unbudgeted expenses** incurred in connection with the celebration of Zambia's 50th independence anniversary, as well as the late President's medical treatment offshore; the repatriation of his mortal remains; the state funeral and the organization of the Jan. 20th by-election.

In short, as Zambia prepares to begin negotiations with the Fund, **the path that looms ahead is anything but obstacle-free**.

¹² Based on the 2013 amendment to Rule 18 of the *Value Added Tax (General) Rules, 1997*, that was rescinded in Sept. 2014.

¹³ Introduced in the draft 2015 budget unveiled last September, the measure was approved on Dec. 23rd and signed into law one week later.

¹⁴ See IMF Press Release 14/589, dated Dec. 18, 2014.

¹⁵ On Dec. 18, as reported by the *Financial Times*, Barick Gold announced plans to close its Lumwana mine whose economics, the firm explained, “cannot support a 20 percent gross royalty, particularly in the current copper price environment.” Meanwhile First Quantum, Zambia's largest foreign investor, had already put on hold US\$1 billion in planned investment projects citing “uncertainty over the fiscal regime”.

¹⁶ As reported by *Zambia Watchdog* in ‘Road contractors start laying-off workers due to lack of payments from govt’, Nov. 8, 2014.

¹⁷ The quantity purchased for the strategic grain reserve (at the guaranteed price of ZMW 70,000 per 50 kg.), was actually twice the 500,000 tonnes budgeted - an overrun ‘justified’ by the record harvest in 2014.

This Report has been prepared purely for the purposes of information and neither constitutes, nor is intended to constitute an offer to sell or the solicitation of an offer to purchase securities. Although the statements of fact in this Report have been obtained from, and are based upon sources that Rhombus Advisors LLC believes to be reliable, the Firm does not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and forecasts included in this Report represent the Firm's judgement as of the date of the Report and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express, implied or otherwise, is made regarding future performance. Investment in non-US securities by US investors may entail certain risks, including possible loss of the principal invested.