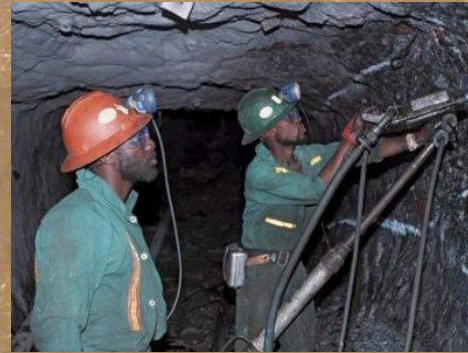


Quick Look

Zambia



SITUATION

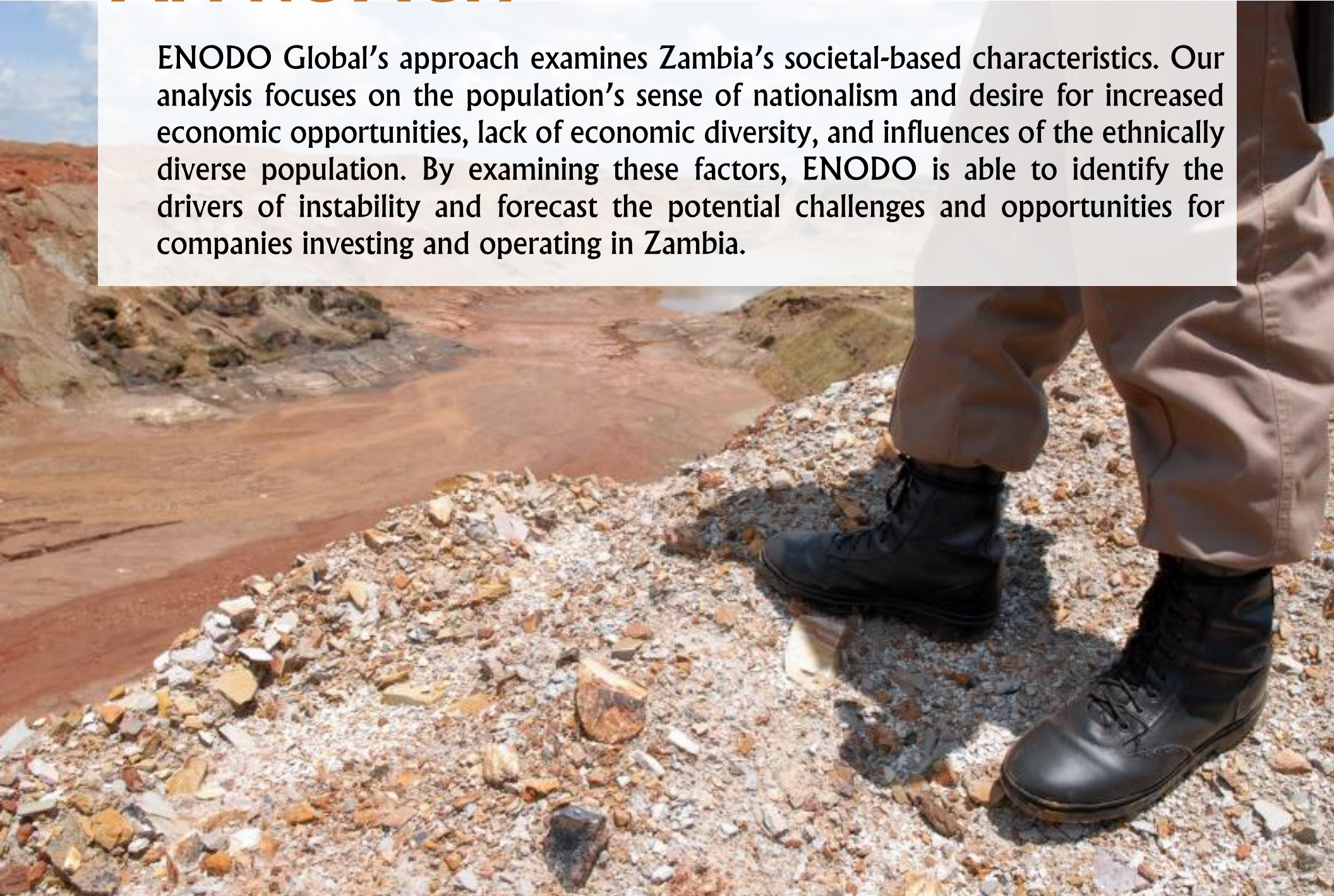
Zambia is a highly urbanized, democratic, landlocked country comprised of over 70 ethnic groups with a strong sense of national pride and identity. Relative to its sub-Saharan Africa neighbors, Zambia is remarkably stable, despite its ethnic diversity. Most citizens are extremely poor, with around 60% living on less than a dollar a day, which strains government revenues and limits policy flexibility. Copper mining is the engine of Zambia's economy, accounting for over 70% of exports and 10% of GDP. Inefficient agriculture production supplements the mining sector as the main component of the economy. Attempts by the Zambian government to diversify its economy over the last thirty years have proven largely unsuccessful.

Recent Events

- Former Zambian President Michael Sata died in October 2014 while in office, and newly elected President Edgar Lungu was sworn in on January 25, 2015.
- President Lungu collapsed and had a medical procedure in South Africa to address a narrowing of the esophagus and was released on March 14, 2015.
- Zambia's royalty tax hike has caused significant consternation for mining companies, with many stating they will close mines or reduce investment. Negotiations between the government and mining companies to resolve the issue are ongoing.

APPROACH

ENODO Global's approach examines Zambia's societal-based characteristics. Our analysis focuses on the population's sense of nationalism and desire for increased economic opportunities, lack of economic diversity, and influences of the ethnically diverse population. By examining these factors, ENODO is able to identify the drivers of instability and forecast the potential challenges and opportunities for companies investing and operating in Zambia.



FINDINGS



Zambia is known for its peaceful people, natural beauty, fertile soil, vast mineral wealth, and strong sense of nationalism.

National Identity: While ethnically diverse, the people of Zambia have developed a strong national identity that began in the colonial era, survived through independence in 1964, and has continued to evolve and strengthen today. While tribal affiliations and identities remain, the population's national identity has allowed Zambians to successfully insulate itself from the wars and conflicts that ravaged its neighbors, such as the Democratic Republic of the Congo (DRC) and Angola. It has also allowed the development of a national government with reasonable control and respect throughout the country. Oftentimes, politicians leverage the sense of nationalism for political gain.

Stable Democracy: Elections have been held regularly in Zambia since the end of one-party rule in 1991. Peaceful elections are ingrained in the society and Zambians expect regular elections to be held and their leaders to leave office peacefully. The special election held in January 2015 to replace President Sata, who died in office, was closely contested and the results were judged to be legitimate by outside observers and most Zambians. The peaceful transition to the newly elected President Edgar Lungu provided another test and further confirmed the stability of Zambia's democracy and political institutions.

Mining Taxes: The amount of tax revenue that Zambia collects from the mining sector has been a point of contention for years. In January 2015, Zambia instituted higher royalties on mining firms in a bid to increase tax revenues from a sector believed to not be paying an equitable amount. Mining firms extract copper and other nonrenewable minerals, and according to some government officials, pay a tiny fraction of their revenue in taxes and do not give back adequately to society. The Zambia Chamber of Mines said the new tax system, which more than tripled royalties for some operators, would lead to mine closures and 12,000 job losses this year. President Lungu has created a technical committee with the goal of finding a mutually agreed upon solution that will prevent the bulk of the mining closures and investment reductions. It appears likely that an agreement will be found, but damage has been done to the long-term attractiveness of Zambia as an investment location.

FINDINGS

Commodity Dependency: Zambia's economy is highly dependent on copper mining and processing. Copper prices are close to a five year low, which means less revenue and investment, resulting in fewer jobs in the mining sector. Several mining companies have announced reductions in their operations and delays in future investment, while other sectors of Zambia's economy, specifically agriculture, are not growing fast enough to make up for the shortfall. Drops in commodity prices, which are notoriously difficult to plan for, result in reductions in federal spending on projects and programs, which Zambians have become accustomed.

Mining Protests: Protests and violent labor riots are infrequent, but peaceful protests have on occasion turned violent. In 2012, over a thousand people gathered to protest at Collum Coal Mine located in southern Zambia. Workers were angered over poor working conditions and an annual wage increase judged to be trivial. The protest resulted in one death to a Chinese mine manager and injuries to several others. The mine was eventually taken over by the government, though nationalization is not expected to be a normal course of action.

Border Unrest: The Copperbelt in north-central Zambia is concentrated around five cities: Kitwe, Ndola, Chingola, Luanshya, and Mufulira. This region borders Katanga province in the DRC, which is the major copper producing region within the DRC. Historically and economically, Katanga has closer ties to nearby Zambia than the more distant regions of the DRC, such as Kinshasa. Katanga province, typically one of the DRC's calmest, is experiencing a violent secessionist movement. Gedeon Kyungu Mutanga escaped from a DRC prison in 2011 and formed the Mai Kata Katanga militia, which has terrorized parts of Katanga, causing the displacement of thousands of people. The refugees occasionally seek safety in neighboring Zambia, which strains Zambian resources and puts at risk future cross border issues.

Secession in Western Zambia: There is an ongoing secessionist movement in Western Zambia, known by locals as Barotseland. Brewing for over 20 years, the issue boiled over in 2011 when activists from the Lozi tribe organized protests and fought running battles with government forces, resulting in several deaths. The Lozi people demanded the restoration of the Barotseland Agreement of 1964, which allowed local authorities significant autonomy from the national government, including matters over land, natural resources and governance. Occasional flare-ups and subsequent arrests by Zambian police are not uncommon. A trial of three prominent Barotseland National Youth League executive leaders is currently working its way through Zambian courts and coverage of it could cause protests and violence in Western Zambia.

OUTLIERS

Disparities in wealth and large portions of the population surviving on less than a dollar a day, combined with an increasingly politically active citizenry, increases the potential of local level protests and unrest. Unresolved social tensions and unfulfilled basic needs can quickly manifest into conflict against companies or the government. Zambians are striving for a better life and will continue to push their government officials to assist them in achieving their goals, with potentially harmful impacts on investors. Several vulnerabilities could trigger unrest in the future, negatively impacting companies and communities.

Anti-Mining Sentiment: Anti-mining sentiments persist within Zambia, driven by accusations of tax evasion by mine operators and the perceived failure of the mines to benefit ordinary Zambians. This combined with wage rate stagnation, labor leaders gaining strength, and improved ability for workers at different operations to communicate and organize creates a fluid environment that requires continuous monitoring. Local communities feeling underserved often target “lucrative” corporations. Due to their close proximity to local communities, mining companies become targets of violence and provide an immediate and easy target for blame.

Commodity Price Impact on Government Revenue: Sustained low commodity prices will put significant strains on the Zambian economy and national government. The mining sector and other foreign investors will be the government’s first place to look to obtain additional revenues to cover budget shortfalls. The recent example being the new royalty regime under debate. Politicians can leverage the sense of nationalism to gain support for proposals to extract larger revenues from companies, even if it risks long-term damage to investment.

Logistics Constraints: Zambians describe their country as land-linked, as opposed to landlocked. The lack of direct access to the seas makes transportation and logistics more expensive, time consuming, and increases risks due to reliance on its neighbors for exports and imports. The majority of Zambia’s exports and imports flow through ports in Tanzania, Mozambique, and South Africa. The transportation routes are currently stable, however, any unrest or arbitrary changes to port fees, border crossings, or logistics processes by Zambia’s neighbors can have significant repercussions for Zambia’s economy and the companies operating there.

CONCLUSION

Zambia's political stability will continue unabated for the foreseeable future. Despite long-term stability at the national level, the frequency and magnitude of sub-national unrest is expected to increase. The increase is anticipated due to high levels of poverty, limited opportunities for upward mobility in the short-term, an evolving negative perception of the private sector, and politicians utilizing national pride to stoke discontent. The local issues and increasing social tensions create an environment suitable for turbulence and disruptions, impacting business operations.

The current socioeconomic conditions necessitates effective "shared value" programs designed around local community needs and interests. Companies investing or operating in Zambia need to take aggressive, proactive actions to align the objectives of the workers and surrounding communities with those of the company. Businesses need to not only implement effective programs, but also obtain recognition from the community for the initiatives to ensure the company is associated positively with the programs. The "shared value" approach, when properly implemented, delivers environments with enduring security, creates more productive employees, mitigates overall risk, and increases profit margins.





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