

## AFRICA RISK CONSULTING

### Zambia Monthly Briefing October 2022

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#### Zambia Summary 21 October 2022

*Finance minister Situmbeko Musokotwane presents the government's national budget for 2023 to the National Assembly. The Zambia Statistics Agency announces on 29 September that inflation increased to 9.9% year-on-year in September from 9.8% in August, mainly attributed to price movements in items such as cereals, fish and vegetables. The Energy Regulation Board increases fuel pump prices for petrol and diesel at its monthly fuel price review on 30 September. Energy minister Peter Kapala and his Namibian counterpart, Tom Alweendo, sign a memorandum of understanding for the building of a Natural Gas Pipeline Project, which will run from Walvis Bay (Namibia) to Zambia, promoting energy security for the region. Zambia hosts the inaugural US-Zambia Business Summit bringing together private sector firms and government officials to explore investment opportunities in the country. The government launches a 90-day amnesty period during which small scale and artisanal miners must obtain mining licences from the ministry to formalise and legalise their operations.*

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#### Finance minister unveils 2023 budget...

Finance minister **Situmbeko Musokotwane** unveiled the government's national budget for 2023, presenting it to the **National Assembly** on 30 September.<sup>1</sup> The theme for the 2023 Budget is "Stimulating Economic Growth for improved livelihoods". The budget has been set at K167.3 billion (\$10.5 billion), around 31.45% of the country's gross domestic product (GDP), and is intended to aid the state in achieving the **Eighth National Development Plan**, to run from 2022-2026. K111.6 billion (\$7.3 billion) will be raised as domestic revenue, K1.7 billion (\$106.1m) from grants via Zambia's cooperating partners and K54 billion (\$106.5m) will be raised through financing. The ministry anticipates a fiscal deficit of K40.9 billion (\$2.6 billion).

Notable elements of the budget include:

- K9.1 billion (\$569.5m) for the **Farmer Input Support Programme**, up from K5.3 billion (\$331.7m) in the 2022 budget;
- K32.2 billion (\$2.0 billion) for proposed spending on the education sector covering school infrastructure, secondary school and skills development bursaries, and the **Skills Development Fund**;
- K 8.1 billion(\$506.9m) for social protection including the government's **Social Cash Transfer** programme, the **Local Authorities Supranational Fund** and the **Food Security Pack**;
- K1.1 billion (\$568.8m) for environmental protection;
- K366.3m (\$22.9m) for tourism marketing;
- K66.2 billion (\$4.1 billion) for public services
- K30.5 billion (\$1.9 billion) and K18.2 billion (\$1.1 billion) for the servicing of domestic debt and external debt, respectively;
- K28.3m (\$1.7m) for the **Constituency Development Fund**, up from K25.7m (\$1.6m) in the 2022 budget.
- K5.2 billion (\$325.4m) for construction, maintenance, and rehabilitation of road infrastructure;

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<sup>1</sup> Zambian Parliament, 30 Sep 2022

- K17.4 billion (\$1.1 billion) for spending on the health sector, encompassing drugs and medical supplies, health infrastructure, and medical equipment.<sup>2</sup>

Musokotwane stated that:

*“The policies, strategies and measures contained in this Budget will go a long way towards unlocking local and foreign investment, promoting value addition and enhancing trade.”<sup>3</sup>*

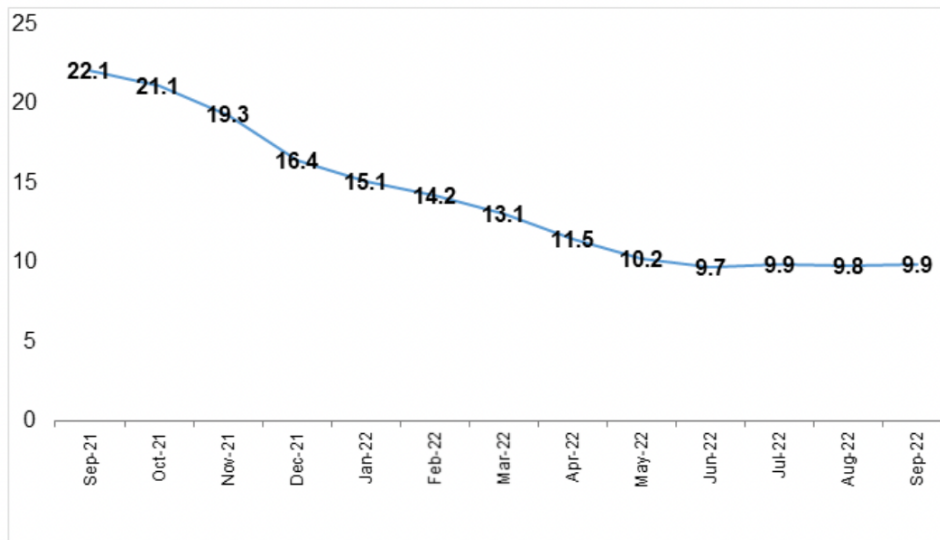
The budget is particularly progressive in its focus on addressing Zambia’s debt burden and critical sectors such as mining, and has generally been welcomed across all sectors. The **Zambia Chamber of Mines (ZCM)** has reacted positively to Musokotwane’s pronouncements that the mineral royalty regime will be restructured with respect to copper and his pledge to ensure competitiveness with neighbouring **Democratic Republic of the Congo (DRC)** regarding copper production by maintaining policy and tax consistency. **United Kingdom** high commissioner to Zambia **Nicholas Woolley** acknowledged the budget’s clear focus on social sectors and the development of education, investment in schools, the health sector, and social protection:

*“[There’s] very clear desire for increased investment. Policies will unlock investment in business, particularly in renewables and clean energy sectors.”<sup>4</sup>*

### ... as inflation increases slightly

The **Zambia Statistics Agency (ZamStats)** announced on 29 September that Zambia’s inflation rate had increased to 9.9% year-on-year in September from 9.8% in August. Higher inflation was driven by food inflation, which increased to 12.1% in September from 11.3% in August as prices of cereals, fish, and vegetables increased. Non-food inflation decelerated to 7.2% in September from 7.8% in August, which ZamStats attributed to decreased costs in items such as fuels and lubricants, the purchase of vehicles and airline tickets.<sup>5</sup>

### Annual Inflation Rate, Sep 2021-Sep 2022 (%)



Source: Zambia Statistics Agency

<sup>2</sup> Zambian Parliament, 30 Sep 2022

<sup>3</sup> Zambian Parliament, 30 Sep 2022

<sup>4</sup> Zambia Dispatch, 4 Oct 2022

<sup>5</sup> Zambia Statistics Agency, accessed 19 Oct 2022

Despite the slight increase in inflation for the month of September, the rate remains in single digits. Musokotwane has expressed confidence that this will still be the case by December.<sup>6</sup> This supports the government's target inflation rate of 6%-8% by mid-2023.<sup>7</sup> The slowdown of inflation bodes well for the government's aim to reverse the erosion of consumer purchasing power, which has been a feature of the Zambian economy for several years.

Zambian consumers continue to bear the brunt of the global fallout from the ongoing conflict between **Russia** and **Ukraine**, which has constrained global oil supplies and increased fuel prices. The strained consumer outlook is reflected in ZamStats data indicating that Zambia recorded a trade surplus of K3.2 billion (\$200.2m) in August compared to a surplus of K3.7 billion (\$231.6 m) in July, for a 13.1% contraction, suggesting lower consumer demand for goods. Exports, consisting mainly of domestically produced goods, declined by 4.2% to K15.3 billion (\$957.9m) in August from K15.9 billion (\$995.1m) in July. This was mainly due to a decrease in export earnings from intermediate goods, consumer goods and capital goods by 6%, 10.6% and 48.1% respectively. Meanwhile, imports fell by 1.5% to K12.0 billion (\$751m) in August from K12.2 billion (\$763.5m) in July. The agency attributed this to the decline in import bills of consumer goods and intermediate goods, which fell by 7.5% and 1.1%, respectively.<sup>8</sup>

In September, the government issued statutory instrument number 59 on value added tax (VAT) and number 44 of 2022 on customs and excise duty, which restore excise duty and VAT on petroleum products. The removal of fuel subsidies forms part of the agreement the government made in its structural economic adjustment programme with the **International Monetary Fund (IMF)** in December 2021.<sup>9</sup> This restores excise duty from K0.64 per litre (\$0.04) to K2.07 (\$0.17) per litre while VAT is restored from 0% to 16% on petrol.

During its monthly fuel price review on 30 September, the **Energy Regulation Board (ERB)** also increased fuel pump prices. Petrol rose to K22.74 (\$1.42) from K21.54 (\$1.35) and diesel to K26.16 (\$1.64) from K23.12 (\$1.45).<sup>10</sup> In response, the **Road Transport and Safety Agency** increased public bus fares, raising inter-mine routes by K2 (\$0.13) while routes in the **Copperbelt** and **Lusaka** increased by K1 (\$0.06), effective from 8 October.<sup>11</sup>

### Zambia pursues regional and international investment

The 10th Session of the **Namibia-Zambia Joint Permanent Commission of Cooperation** took place in **Swakopmund (Namibia)** on 5-6 October, co-chaired by Zambia's foreign affairs minister, **Stanley Kakubo**, and Namibia's deputy prime minister and international affairs and cooperation minister, **Netumbo Nandi-Ndaitwah**.<sup>12</sup> The Zambian government, led by President **Hakainde Hichilema** (2021-present), has focused on promoting regional cooperation to better harness Zambia's economic potential, agreeing to several infrastructure focused projects with its regional peers since taking office in August 2021.

Zambia's energy minister, **Peter Kapala**, and his Namibian counterpart, **Tom Alweendo**, signed a memorandum of understanding (MoU) on 6 October for the building of a natural gas pipeline project that will run from **Walvis Bay** (Namibia) to Zambia. The MoU provides for the formation of a joint technical committee that will engage with private sector players to map out the details of the project.<sup>13</sup> In terms of the MoU, the two governments aim to improve energy security, a necessary

<sup>6</sup> ZAWYA.com, 7 Apr 2022

<sup>7</sup> Bank of Zambia, 18 May 2022

<sup>8</sup> Zambia Statistics Agency, 29 Sep 2022

<sup>9</sup> Anadolu Agency, 8 Dec 2021

<sup>10</sup> Lusaka Times, 30 Sep 2022

<sup>11</sup> News Diggers, 7 Oct 2022

<sup>12</sup> Namibia Economist, 4 Oct 2022

<sup>13</sup> Xinhua, 7 Oct 2022

initiative as only 44.5% of the Zambian population had access to electricity in 2020.<sup>14</sup> Alweendo noted:

*"More than 600 million Africans do not have access to energy. What we have on the continent is energy poverty. One of the contributing factors to the energy poverty we are all experiencing is the lack of energy transport infrastructure."*

Zambia also hosted over 50 **United States (US)** and Zambia-based businesses from 12-13 October for the inaugural **US-Zambia Business Summit**, in line with the "New Dawn" government's more global outlook. The summit aimed to boost trade and investment between the US and Zambia, and brought together private sector firms and government officials to explore investment opportunities across sectors including energy, agriculture and agri-business, healthcare, mining, ICT, infrastructure and financial services. Ministers who attended the event include energy minister Kapala, infrastructure minister **Charles Milupi**, technology and science minister **Felix Mutati** and acting commerce, trade and industry minister **Elias Mubanga**.<sup>15</sup>

The US has the potential to be a key strategic partner for Zambia as the latter looks to diversify its foreign direct investment (FDI) inflows away from **China**. Zambia is currently the US' 150<sup>th</sup> goods trading partner, with \$182m in bilateral goods trade reported for 2019.<sup>16</sup> US ambassador to Zambia **Mike Gonzales** stated:

*"The United States stands ready to partner with Zambia and to partner with each one of you to ensure that this great country seizes the energy of the current Zambian renaissance and achieves its extraordinary potential."*<sup>17</sup>

In February 2016, Zambia's ministry of commerce, trade and industry divulged that China was its largest investor, with FDI amounting to over \$5.3 billion in projects in the country.<sup>18</sup> In the first half of 2022, bilateral trade between Zambia and China amounted to \$3.8 billion.<sup>19</sup> Against this background, Zambia hosted the first China-Zambia investment forum on 28 September, under the theme "*China-Zambia Trade and Investment Forum in the New Era: All-weather, All-Dimensional and High Quality Friendship*". The forum saw the participation of over 300 Chinese and Zambian firms, with another 90 firms participating virtually. During the forum, the two nations entered into an agreement on duty-free treatment for Zambian products on around 98% of tariff lines, a move that bodes well for boosting trade between both countries. Opening the event, President Hichilema acknowledged China as a major trading partner for the country, while China's ambassador to Zambia, **Du Xiaohui**, stated:

*"The two countries will actively increase trade and investment, tighten our practical cooperation and never forget to uphold international fairness and justice."*<sup>20</sup>

### Government begins implementing mining sector reforms

Mines minister **Paul Kabuswe** announced on 17 October that government will give 90 days of amnesty during which small-scale and artisanal miners must obtain mining licences from the ministry to "*formalise and legalise*" their operations, and will prosecute illegal miners when the 90 days is over. The process will apply to small scale miners of a range of minerals including gold, gemstones and copper in different parts of the country.<sup>21</sup> The mining licensing department was reopened on 19

<sup>14</sup> World Bank, accessed 19 Oct 2022

<sup>15</sup> United States Embassy in Zambia, 14 Oct 2022

<sup>16</sup> Office of the United States Trade Representative, accessed 19 Oct 2022

<sup>17</sup> United States Embassy in Zambia, 13 Oct 2022

<sup>18</sup> Zambia Invest, 23 Feb 2022

<sup>19</sup> Xinhua, 22 Sep 2022

<sup>20</sup> Xinhua, 28 Sep 2022

<sup>21</sup> Lusaka Times, 18 Oct 2022

October, following cabinet's approval, to facilitate this process. The ministry had suspended the issuance of mining licences in February to conduct an audit on the process.<sup>22</sup>

This is the latest development in the government's commitment to improve Zambia's mining policy. Government aims to decrease the number of illegal miners in operation, bring more order to the sector and promote greater participation of small businesses to better spread the benefits of the country's mineral resources among the population. Kabuswe noted that government has encouraged small-scale miners to form cooperatives that would allow them to operate more formally and methodically.

Kabuswe also announced that the government will impose a limit of five initial mining licences per company. Any firm seeking more licences will need to justify this to the ministry; firms currently holding more than five licences are encouraged to engage with the ministry. A process to introduce a statutory instrument to codify this policy into regulation will also begin.<sup>23</sup> Through this limitation, the government aims to curb the number of firms acquiring licences for speculative purposes, as these hamper investment in the sector. Kabuswe described the new regulations as a means of restoring "sanity in the mining sector".<sup>24</sup>

### Planner

1-3 Nov 2022 **Kitwe (Zambia)** Zambia International Mining and Energy Conference and Exhibition

16-18 Nov 2022 **Lusaka (Zambia)** Innovation Africa Summit

### Chronology

18 Oct 2022 **Lusaka (Zambia)** *Lusaka Times*. Mines minister **Paul Kabuswe** announces government has introduced a 90-day amnesty period for small-scale and artisanal miners to obtain mining licences, starting on 17 October;

18 Oct 2022 **Lusaka (Zambia)** *Lusaka Times*. Finance minister **Situmbeko Musokotwane** announces government has released K442.2m (\$27.7m) to all government schools, marking the final quarterly grant allocation under the free education programme that was part of the "New Dawn" government's election pledge made in October 2021 to provide free education from early childhood to secondary school level;

17 Oct 2022 **Lusaka (Zambia)** *News Diggers*. Cabinet approves, in principle, a bill in parliament to amend the **National Pension Scheme Act No 40 of 1996** to allow scheme members the option to access part of the contributions before retirement;

17 Oct 2022 **Lusaka (Zambia)** *News Diggers*. **Zambia Revenue Authority** chairperson **Caleb Fundanga** divulges that the authority plans to work towards capturing taxes on mobile money transactions conducted by businesses;

17 Oct 2022 **Lusaka (Zambia)** *News Diggers*. Zambia's **Constitutional Court** rules the **Electoral Commission of Zambia** did not breach the constitution when it ruled not to cancel by-elections in the **Copperbelt's Kabushi** and **Kwacha** constituencies, paving the way for elections to take place on 21 October;

15 Oct 2022 **Lusaka (Zambia)** *Reuters*. Finance minister **Situmbeko Musokotwane** says it is still unclear who will be leading talks for renegotiating its nearly \$6 billion debt with **China**;

<sup>22</sup> Reuters, 17 Oct 2022

<sup>23</sup> Lusaka Times, 18 Oct 2022

<sup>24</sup> Lusaka Times, 18 Oct 2022

12 Oct 2022 **Lusaka (Zambia)** *United States Embassy in Zambia*. Zambia hosts over 50 **United States** and Zambian-based businesses for the inaugural **U.S.-Zambia Business Summit**, bringing together private sector firms and government officials to explore investment opportunities across several sectors;

10 Oct 2022 **Lusaka (Zambia)** *Reuters*. **International Monetary Fund** managing director **Kristalina Georgieva** says she hopes debt restructuring efforts for **Zambia** could be completed by the end of the year;

8 Oct 2022 **Swakopmund (Namibia)** *Lusaka Times*. President **Hakainde Hichilema** arrives in **Namibia** on a four-day working visit and as a special guest of Namibia's President **Hage Geingob** at the **Swakopmund International Trade Expo** under the theme: "*Towards a Shared Economic Vision – Our Shared Destiny*";

7 Oct 2022 **Swakopmund (Namibia)** *Xinhua*. **Zambia's** energy minister, **Peter Kapala**, and his **Namibian** counterpart, **Tom Alweendo**, sign a memorandum of understanding for the building of an oil and gas pipeline from **Walvis Bay** (Namibia) to Zambia;

6 Oct 2022 **Lusaka (Zambia)** *Voice of America*. **The Anti-Corruption Commission** arrests former health minister **Chitalu Chilufya** on allegations of defrauding the government of nearly \$18m through a deal for the purchase of health kits;

3 Oct 2022 **Lusaka (Zambia)** *Reuters*. Finance minister **Situmbeko Musokotwane** says **Zambia** has not yet started negotiations with its creditors but is preparing for the first meeting.

30 Sep 2022 **Lusaka (Zambia)** *Reuters*. Finance minister **Situmbeko Musokotwane** unveils the government's national budget for 2023, presenting it to the National Assembly, under the theme "*Stimulating Economic Growth for improved livelihoods*";

30 Sep 2022 **Lusaka (Zambia)** *Lusaka Times*. Zambia's **Energy Regulation Board** increases fuel pump prices with petrol increasing to K22.74 (\$1.42) from K21.54 (\$1.35) and diesel to K26.16 (\$1.64) from K23.12 (\$1.45);

29 Sep 2022 **Lusaka (Zambia)** *Zambia Statistics Agency*. The **Zambia Statistics Agency** announces that Zambia's inflation rate has risen to 9.9% in September from 9.8% in August;

29 Sep 2022 **Lusaka (Zambia)** *Times of Zambia*. **Zambia Statistics Agency** says **Zambia's** economy grew by 3.5% in the second quarter of 2022 compared to 2.2% in the first quarter;

28 Sep 2022 **Lusaka (Zambia)** *Reuters*. Part-state-owned **Konkola Copper Mines** appoints **South Africa-based Rand Merchant Bank** as financial advisor as the government searches for a new investor to expand the copper mine and smelter;

27 Sep 2022 **Lusaka (Zambia)** *Reuters*. State mining investment firm **ZCCM-IH** says **Zambia** has agreed with **Vedanta Resources Limited** to pause hearings on their dispute over **Konkola Copper Mines** for six months and seek an "*amicable settlement*";

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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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