

## AFRICA RISK CONSULTING

### Zambia Monthly Briefing June 2022

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#### Zambia Summary 17 June 2022

*International Monetary Fund deputy managing director Antoinette Sayeh hails the Zambian government's economic reform agenda and calls on Zambia's creditors to deliver financing assurances to the country as Zambia's creditor committee holds its first meeting in Paris, France. Government focuses on supporting local participation in the mining sector as civil society argues that more needs to be done. The government plans to complete the Kafue Gorge Power Project, costing \$2.3 billion, through financing from local sources, which include internal revenues from state-owned power utility Zesco, as it aims to make Zambia a net-exporter of electricity. Regional cooperation for electricity security is in focus as the state looks to revive plans for hydropower plant builds in partnership with the Democratic Republic of the Congo. President Hakainde Hichilema (2021-present) visits Eswatini and Kenya, aiming to deepen regional ties, while the first Israel-Zambia economic conference takes place in Lusaka. The number of active Covid-19 cases has increased, reaching 1,192 as of 16 June, compared to 558 a month earlier, as the country lags behind in its vaccination targets.*

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#### Debt talks follow IMF visit to Zambia

**International Monetary Fund (IMF)** deputy managing director **Antoinette Sayeh** visited **Zambia** from 14-15 June to hold discussions on local and global economic developments as well as the progress made towards restructuring Zambia's debt.<sup>1</sup> Sayeh met with government representatives (including finance minister **Situmbeko Musokotwane** and **Bank of Zambia (BoZ)** (central bank) governor **Denny Kalyalya**), members of civil society, and donor partners, and also paid a courtesy call on President **Hakainde Hichilema** (2021-present).<sup>2</sup>

The government has been attempting to restructure its external debt after Zambia in November 2020 became the first **African** country to default on its loan obligations in the **Covid-19** pandemic era, under the leadership of former president **Edgar Lungu** (2015-2021).<sup>3</sup> The country's debt load stood at around \$17.3 billion in December 2021.<sup>4</sup>

In a statement published by the IMF, Sayeh described Zambia's economic reform programme as "impressive" and able to achieve the authorities' goals of restoring macroeconomic stability, "laying the foundations for more resilient and inclusive growth". She also urged Zambia's creditors to deliver financing assurances "as soon as possible" on the news that the country's creditor committee would be meeting that day in **Paris (France)** to begin considering Zambia's request for debt treatment in line with the **G20 Common Framework**.<sup>5</sup> Musokotwane has acknowledged that his hopes of achieving a deal by end-June will not be feasible; speaking during a media briefing in **Lusaka** on 15 June, he stated that even if an agreement with Zambia's creditors could be reached within a month, an IMF deal would still be delayed as the institution's board will be on holiday until August.<sup>6</sup> He now hopes a deal will be reached by September.<sup>7</sup>

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<sup>1</sup> Zambia Dispatch, 14 Jun 2022

<sup>2</sup> Zambia Dispatch, 14 Jun 2022

<sup>3</sup> CNBC, 23 Nov 2020

<sup>4</sup> Ministry of Finance and National Planning Debt Statistical Bulletin, Dec 2021

<sup>5</sup> International Monetary Fund, 16 Jun 2022

<sup>6</sup> News Diggers, 16 Jun 2022

<sup>7</sup> Zambian Business Times, 15 Jun 2022

## Mining sector focuses on local participation

Zambia's mining sector is aiming to increase the participation of local mining-focused small and medium-sized enterprises (SMEs) in the sector. The board of state-owned mining investment vehicle **Zambia Consolidated Copper Mines Investments Holdings (ZCCM IH)** signed a Memorandum of Understanding (MoU) on 1 June with the **Zambia National Commercial Bank** establishing a framework for cooperation between the two entities to target opportunities for increased local participation in the sector.<sup>8</sup>

In line with these objectives, **Konkola Copper Mines (KCM)** provisional liquidator **Celine Nair** announced on 8 June that financially troubled KCM would prioritise local companies for future transactions, to support the growth of SMEs. KCM conducts around \$300m in business transactions annually with its vendors, with around 82% of this business awarded to Zambian-registered firms.<sup>9</sup> Announcing the resumption of mining operations at a KCM open pit mine, Nair said the move is part of a turnaround strategy focused on improving the mine's operations prior to the government's search for a new investor. KCM has begun the process to appoint an advisor to begin looking for an equity investor and has invited several firms to submit a proposal, including **United States (US)**-headquartered **Citibank Investment Banking Group** and **Bank of America Merrill Lynch**, **South Africa**-headquartered **Standard Bank**, and **United Kingdom (UK)**-headquartered **Rothschild and Co.**

Nair's announcement comes as issues around mining rights and equitable benefit for the population have become highly contentious issues in Zambia, with more quarters from society calling for greater local participation and value share for Zambians. On 2 June, a group of civil society organisations appealed to the government to suspend the ongoing stakeholders' consultations on the draft mineral resources and development policy pending wider discussions.<sup>10</sup> The organisations have criticised the process for a lack of sensitisation, stating that many stakeholders were only learning about the policy while in the meetings, and questioning the criteria under which invited stakeholders were chosen. They also argued that the policy had not been translated into local languages to ensure understanding. Group spokesperson **Nsama Chikwanka** described it as another "government-centred and driven activity",

*"which in its current format is far from serving the interests of Zambians who have for a long time been calling for an equal share in their natural resources".<sup>11</sup>*

ZCCM-IH announced on 15 June that it had appointed Rothschild & Co to conduct a strategic review of **Mopani Copper Mines** to support its sustainability and growth as part of the mine's restructuring process.<sup>12</sup>

## Zambia set to become net electricity exporter

The government's announcement of investment in the **Kafue Gorge Power Project** is raising hope that Zambia is on its way to becoming a net exporter of electricity. Energy minister **Peter Kapala** divulged on 1 June that the remainder of the \$2.3 billion hydroelectric power project will be financed through local sources, including internal revenues from state-owned power utility **Zesco**.<sup>13</sup> The government appointed Zesco to develop the project, which was set to be fully financed by **China's Exim Bank**. However, Zesco chair **Vickson Ncube** revealed in April that the bank had halted funding to the project after the government defaulted on payments.<sup>14</sup>

<sup>8</sup> Zambia Dispatch, 2 Jun 2022

<sup>9</sup> Zambia Dispatch, 2 Jun 2022

<sup>10</sup> Zambia Dispatch, 2 Jun 2022

<sup>11</sup> Zambia Dispatch, 2 Jun 2022

<sup>12</sup> Zawya, 15 Jun 2022

<sup>13</sup> Zambia Dispatch, 2 Jun 2022

<sup>14</sup> Zambia Dispatch, 2 Jun 2022

Initiated in 2015 to meet rising demand for electricity, the 750MW project located in Zambia's **Chinkankata** district (**Southern Province**) is expected to be the country's third-largest hydropower station upon completion<sup>15</sup> and to make Zambia a net exporter of electricity.<sup>16</sup> Kapala stated on 1 June that electricity was the highest non-agriculture export for Zambia in March, with exports of ZMW300m (\$18m):

*"Export earnings from electricity can have a better impact on the economy [than copper mining]... because ZESCO is wholly owned by the people of Zambia and the company's foreign earnings will flow back into the country."<sup>17</sup>*

Exim Bank's freezing of funding for the Kafue Gorge Power Project hints at the gradual cooling of economic relations between China and Zambia's government. The Hakainde administration is increasingly courting Western trade and investment partnerships, in sharp contrast with the previous **Patriotic Front (PF)** government's approach under Lungu's leadership. During Lungu's tenure, Zambia was highly receptive to China's global infrastructure development investment drive under the **Belt and Road Initiative**. China holds one third of Zambia's total debt burden (around \$5.78 billion), much of which was accumulated for infrastructure development.<sup>18</sup>

Meanwhile, regional cooperation for electricity security is also a focus for the government. On 13 June, Kapala signed a Memorandum of Understanding (MoU) with his counterpart from the **Democratic Republic of the Congo**, hydraulic resources and electricity minister **Olivier Mwenze Mukaleng**, to revisit bilateral agreements for the construction of the 798MW **Luapula River** hydropower schemes as well as the 330kV **Kolwezi-Solwezi Interconnection Project**. The agreements had initially been agreed in 2015 but stalled.<sup>19</sup> The new MoU will encompass the mobilisation of funds for the project, the undertaking of a feasibility study for the project, and the establishment of the **Luapula River Authority**.<sup>20</sup> The project is now expected to produce 1,188MW of electricity for the two countries.<sup>21</sup> For Zambia, this development will help to diversify hydropower generation away from a reliance on the southern part of the country, which can be prone to periods of drought causing a reduction in generation and strain on the national grid. Currently, the Southern Province hosts some of the country's largest hydropower plants such as the **Kariba North Bank**, the **Kafue Gorge Upper Power Station** and the **Kafue Gorge Lower** power plant.<sup>22</sup>

ZESCO announced plans on 21 April to spend around €12m (\$12.6m) on new builds as well as the rehabilitation of substations in **Livingstone** and **Mazabuka** in Southern Province (see *ARC Briefing Zambia May 2022*). The government announced on 10 May that it had increased its budgetary allocation for the **Rural Electrification Authority** by 18%, with an allocation of K362.2m (\$21.3m) to be deployed on 87 projects to connect rural areas to the national grid.<sup>23</sup> Also in May, **Northwestern Energy Corporation Limited** said it was in discussions with ZESCO to enter into a concessional agreement for the latter to supply power to the predominantly mining town of **Solwezi** in **North-Western Province**. The \$50m project will involve the build-out of infrastructure to enable the wheeling of electricity into the town.<sup>24</sup> According to the **World Bank**, only 44.5% of the Zambia's population had access to electricity in 2020.

Despite these positive developments, ZESCO applied in May to the **Energy Regulation Board** for an increase in electricity connection fees, which may negatively impact end-users' ability to take up electricity services (see *ARC Briefing Zambia May 2022*). ZESCO has argued that the price increase is

<sup>15</sup> Power Technology, accessed 13 Jun 2022

<sup>16</sup> *Zambian Observer*, 11 Apr 2022

<sup>17</sup> *Lusaka Times*, 1 Jun 2022

<sup>18</sup> *Bloomberg*, 6 May 2022

<sup>19</sup> *Zambia Dispatch*, 14 Jun 2022

<sup>20</sup> Ministry of Energy, accessed on 15 Jun 2022

<sup>21</sup> *Xinhua*, 14 Jun 2022

<sup>22</sup> *Zambia Daily Mail*, 15 Jun 2022

<sup>23</sup> Rural Electrification Authority, 10 May 2022

<sup>24</sup> *Zambia Daily Mail*, 13 May 2022

necessary to reflect the actual cost to the company for connections and to meet the current backlog in new connections, standing at around 67,000 requests.<sup>25</sup>

### **“New Dawn” government pursues diplomacy and stronger regional ties**

Hakainde’s charm offensive continues, as the government aims to improve international investor confidence as well as cooperation and stronger ties with Zambia’s regional peers. On 3 June, Hichilema undertook a three-day state visit to **Eswatini** where he was hosted by **King Mswati III** (1986-present). Hichilema was accompanied by commerce, trade and industry minister **Chipoka Mulenga** and tourism minister **Rodney Sikumba**. Eswatini’s foreign affairs minister **Thulisile Dladla** and Sikumba signed Memoranda of Understanding in the areas of tourism as well as for the establishment of a **Political Consultation Mechanism** to enable the sharing of information on political, economic and cultural issues.<sup>26</sup>

Hichilema also visited **Kenya** on 15 June, his first official visit as president of Zambia.<sup>27</sup> He was hosted by his counterpart, **Uhuru Kenyatta** (2013-present). Bilateral talks between the two leaders included a focus on the removal of tariff and non-tariff barriers to trade between the two countries as well as improving investment opportunities.<sup>28</sup> These were followed by the signing of six Memoranda of Understanding between Zambia and Kenya for cooperation in sectors including international relations, tourism, veterinary and animal health and information, communication and technology.<sup>29</sup> Hichilema told the Zambian public via his **Twitter** account:

*“Your Chief Marketing Officer is here to enhance trade and investment opportunities between our two countries and place Zambia on the world map as an ambitious country whose focus is economic development for the people.”<sup>30</sup>*

The government is also courting investors from further afield. On 1 June, Mulenga opened the first ever **Israel-Zambia** economic conference held under the theme *“Israel in Zambia: spirit of creativity”*.<sup>31</sup> Mulenga lamented the trade imbalance between the two countries, noting that Zambia’s imports from Israel were worth over \$163m against only \$3m worth of exports to Israel:

*“I feel the two countries can increase this to over a billion or more.”<sup>32</sup>*

In 2020, Zambia’s main export products to Israel were precious stones (81.7%) and jewellery (9.8%), while it imported mainly harvesting materials (15.1%), plastic pipes (12.9%), and prefabricated buildings (7.4%) from the country.

### **Covid cases increase as vaccination drive lags behind target**

The number of active Covid-19 cases in Zambia has increased, reaching 1,192 as of 16 June, compared to 558 a month earlier.<sup>33</sup> The health ministry had recorded a total of 323,654 cases of Covid-19 in Zambia’s population of roughly 18.9 million, with 318,472 recoveries and 3,990 Covid-19-related deaths, as at 17 June.<sup>34</sup> Zambia exited the fourth wave of Covid-19 infections driven by the **omicron variant** in February; however, the ministry of health’s permanent secretary for technical services, **Lackson Kasonka**, announced on 6 June that the country is heading towards a fifth wave of infections.<sup>35</sup>

<sup>25</sup> ZESCO, accessed 14 May 2022

<sup>26</sup> Zambia National Broadcasting Corporation, 5 Jun 2022

<sup>27</sup> The East African, 15 Jun 2022

<sup>28</sup> African Business, 16 Jun 2022

<sup>29</sup> Kenya Broadcasting Corporation, 16 Jun 2022

<sup>30</sup> Hichilema Hakainde’s Twitter, 15 Jun 2022

<sup>31</sup> Zambia Dispatch, 2 Jun 2022

<sup>32</sup> Zambia Dispatch, 2 Jun 2022

<sup>33</sup> Worldometers, accessed 17 Jun 2022

<sup>34</sup> Worldometers, accessed 16 May 2022

<sup>35</sup> Zambia Daily Mail, 7 Jun 2022

The health ministry has made slow progress in its Covid-19 vaccination campaign, with only 21.1% (3.9 million people) of the country's eligible population having received a Covid-19 vaccination since the vaccination drive was launched in April 2021.<sup>36</sup> In May, Kasonka expressed doubt that the country would achieve its target of 70% vaccination by July 2022, owing to the low levels of uptake (see *ARC Briefing Zambia May 2022*).

On 1 April, the Zambian government announced a further easing of Covid-19 restrictions supported by the sustained decline in new infections as well as hospitalisations. Under the new rules, fully vaccinated travellers need not produce a negative Covid-19 PCR test. However, unvaccinated travellers must produce evidence of a negative PCR test taken in the 72 hours prior to departure from the country of origin. Children under the age of twelve are exempt from this requirement. Anyone entering Zambia with a body temperature equal to or above 38.0 C will be tested for Covid-19 on arrival at their own cost, as will anyone with Covid-19 symptoms. Other arrivals may be randomly selected for testing. All airports are open to flights.<sup>37</sup>

Economic activity is picking up with more businesses adjusting their internal policies to enable a return to full capacity as well as the re-introduction of in-person meetings and conferences.<sup>38</sup> Bars, restaurants, clubs, casinos and churches are permitted to open without restrictions on hours or capacity. Public transport may also operate without capacity on restrictions.

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<sup>36</sup> Our World in Data, accessed on 16 Jun 2022

<sup>37</sup> Ministry of Health

<sup>38</sup> Source, analyst, Zambia

## Planner

14-17 Jul 2022 **(Zambia)** Zambia to host 4th **African Union** Mid-Year Coordinating meeting

## Chronology

15 Jun 2022 **Nairobi (Kenya)** *The East African*. President **Hakainde Hichilema** visits **Kenya** on his first official visit to the country as president of **Zambia**;

15 Jun 2022 **Lusaka (Zambia)** *Zawya*. **Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH)** appoints **United Kingdom**-headquartered financial services firm **Rothschild & Co** to conduct a strategic review of **Mopani Copper Mines** to support its sustainability and growth as part of the mine's restructuring process;

14 Jun 2022 **Lusaka (Zambia)** *Africa News*. **International Monetary Fund** deputy managing director **Antoinette Sayeh** begins a two-day visit to Zambia to hold discussions with representatives from the **Zambian government**, members of civil society and donor partners as well as pay a courtesy call on President **Hichilema Hakainde**;

13 Jun 2022 **Lusaka (Zambia)** *Zambia Daily Mail*. Finance and economic planning minister **Situmbeko Musokotwane** appeals for funding after revealing that the government is facing a funding shortfall of ZMW309m (\$18.5m) for its total budget of ZMW 967m (\$57.9m) to conduct the 2022 national census exercise;

10 Jun 2022 **Lusaka (Zambia)** *Zambia Dispatch*. The Auditor General's office publishes a report revealing that ZMW209.5m (\$125.4m) was erroneously paid in allowances to public officials of the ministry of education for the financial years 2017 to 2021;

9 Jun 2022 **Geneva (Switzerland)** *United Nations Conference on Trade and Development*. The **United Nations Conference on Trade and Development** publishes its **World Investment Report 2022** showing that investment flows to **Zambia** stood at -\$457m in 2021, down from -\$173m in 2020, largely attributed to **Switzerland**-based **Glencore's** \$1.5 billion copper mine divestment in **Mopani Copper Mines (MCM)** to the **Zambian government**;

8 Jun 2022 **Lusaka (Zambia)** *News Diggers*. Former president **Edgar Lungu's** (2015-2021) daughter **Tasia Lungu** appears for questioning at the offices of the **Drug Enforcement Commission**, for undisclosed reasons;

8 Jun 2022 **Muchinga (Zambia)** *Zambia Dispatch*. **Tanzania-Zambia Railway Authority's** regional manager, **Kambani Ndhlovu**, announces that the \$1.6m repair works on the railway line bridge crossing the **Chambeshi River** in **Muchinga Province** would commence on 9 June and are expected to be completed on 22 July;

1 Jun 2022 **Kitwe (Zambia)** *ZCCM-IH News*. **Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH)** signs a Memorandum of Understanding with the **Zambia National Commercial Bank** to promote the participation of small and medium-sized enterprises in the **Zambian mining sector**;

1 Jun 2022 **Lusaka (Zambia)** *Zambia Daily Mail*. The **Energy Regulation Board** adjusts the petrol price to ZMW24.95 (\$1.49) from ZMW24.15 (\$1.45) per litre, while the price of diesel and kerosene remain unchanged at ZMW25.64 (\$1.53) and ZMW18.76 (\$1.12), respectively per litre;

1 Jun 2022 **Lusaka (Zambia)** *Reuters*. Mines minister **Paul Kabuswe** divulges that the arbitration hearing between the **Zambian government** and **India**-listed **Vedanta**, over their dispute over **Konkola Copper Mines**, will begin in the **United Kingdom** on 9 January;

1 Jun 2022 **Lusaka (Zambia)** *Zambia Dispatch*. Commerce, trade and industry minister **Chipoka Mulenga** officially opens the first ever **Israel-Zambia** economic conference held under the theme "*Israel in Zambia: spirit of creativity*";

25 May 2022 **Lusaka (Zambia) News Diggers**. The ministry of finance and national planning begins public consultations on the **2023 National Budget** and the **2023-2025 Medium Term Expenditure Framework**, until 30 June;

24 May 2022 **Lusaka (Zambia) Reuters**. **Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH)** announces plans to resume the production of between 4,000 and 5,000 tonnes of cobalt annually at **Mopani Copper Mines (MCM)**;

23 May 2022 **Lusaka (Zambia) News Diggers**. The **Zambia Revenue Authority** notes continued low tax compliance levels since the onset of the **Covid-19** pandemic;

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