

AFRICA RISK CONSULTING

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Zambia Summary 18 May 2023

United Kingdom-headquartered exploration and development firm Arc Minerals enters a joint venture with UK-headquartered Anglo American on 20 April for its copper interests in Zambia's Northwestern Province. Energy Capital & Power bills the deal as "the first new investment in Zambia in 20 years". Zambia Statistics Agency announces on 4 May that annual inflation rose from 9.9% in March to 10.2% in April, returning to double digits for the first time in 11 months. It is against this backdrop that the Bank of Zambia's monetary policy committee increases the key rate on 17 May by 25 basis points to 9.50%. Providing some short-term relief, the Energy Regulation Board decreases diesel and kerosene prices and leaves petrol prices unchanged. The ruling United Party for National Development (UPND) remains under pressure to secure a deal with the International Monetary Fund, prompting president Hakainde Hichilema (2021-present) to take his plea directly to the country's creditors. The government delivers on a key campaign promise, signing into law a regulation which allows eligible contributors to the pension scheme to partially withdraw their pensions before the mandated retirement age. The Zambia Revenue Authority divulges that over K3.5m out of K34.4m issued in assessments to taxpayers in the first quarter of 2023 has been recovered by the Financial Intelligence Centre.

Mining sector sees renewed investment

United Kingdom-headquartered exploration and development firm **Arc Minerals** entered a joint venture with UK-headquartered **Anglo American** on 20 April for its copper interests in Zambia's **Northwestern Province**, in what **Energy Capital & Power** has billed as "*the first new investment in Zambia in 20 years*".¹ Under the agreement, Anglo American will have the right to retain a 70% stake in the project, in exchange for an investment of up to \$88.5m. This agreement is based on exploration expenditures announced in May 2022. The project is licensed to explore copper and cobalt projects in the Northwestern Province.²

This investment is well-timed as the government has committed to supporting the increase of local copper production from the current 800,000 tonnes per year to 3 million tonnes over the next ten years.³ Meanwhile, cobalt is also well-placed to play an important role in the future of Zambia's minerals sector, particularly as demand for the commodity increases amid a global renewable energy transition.⁴ UK-based analytics company **GlobalData** reports that Zambia is the world's thirteenth-largest producer of cobalt, with output of 0.46kt in 2022, up by 5% compared to 2021.⁵

Following this, **Canada**-listed **Antler Gold** announced on 12 May that itself and its subsidiary **Antler Exploration Zambia** entered into an option agreement with **Australia**-based **Prospect Resources** for the latter to acquire 51% interest in Antler Exploration, which holds the **Kesya Rare Earth Project** located near the town of **Kafue** in the southern province of Zambia. The agreement is worth \$3.05m for the partners to drill for the discovery of what Antler Exploration has called "*a large, rare earth-element enriched carbonatite*". Prospect's managing director and CEO, **Sam Hosack** described Zambia as a "*leading jurisdiction to explore and develop mining operations in sub-Saharan Africa*", continuing:

¹ Energy Capital & Power, 24 Apr 2023

² Energy Capital & Power, 24 Apr 2023

³ News Diggers, 15 May 2023

⁴ Ensia, 14 May 2020

⁵ Mining Technology, 7 Apr 2023

*“This includes excellent infrastructure and strong support from both the government and community, with major companies like **Barrick Gold** and **First Quantum Minerals** already calling it home.”⁶*

Sustainability is also emerging as a focus area for the country’s mining sector, with investors seeming to lead the way. **Masuzyo Ndhlovu**, the corporate communications director for **India’s Vedanta Resource’s** operation in Zambia announced on 12 May that the firm has pledged to invest \$5 billion in its mining operations over ten years to achieve net-zero emissions. The company also committed to spending \$20m annually on its corporate and social responsibility operations at **Konkola Copper Mines (KCM)**.⁷

However, challenges persist, weighing on the development of the sector. The mines ministry divulged on 12 May that it is currently facing a backlog of mining licence applications which were accumulated after the **Mining Cadastre** office reopened in November 2022. It has now set a deadline of 31 July by which it aims to have cleared this backlog.⁸ However, the ministry has a history of missing self-imposed deadlines. Most recently, the mines minister **Paul Kabuswe** conceded that the ministry was not in a position to provide the country with an update on its planned reforms for the embattled **KCM** and **Mopani Copper Mines**, which it had promised to do within the first quarter of 2023 (*see ARC briefing Zambia Apr 2023*).

The government is also still contending with illegal mining across the country which in addition to detracting from the sector’s contribution to the economy, is also causing significant environmental damage and health and safety hazards for miners. **Kawambwa** district commissioner, **Godfrey Chilambwe**, called for “*concerted efforts from stakeholders*” in the district to address illegal manganese mining activities taking place in the **Luena Farm block** and hampering the development of an area designated for agricultural activities.⁹

The government previously sought to curb illegal activity in the mining sector by instituting an audit of the mining cadastre office in November 2021 to address what it termed as “*irregularities in the manner the licenses were issued*”.¹⁰ Kabuswe warned in March that government will once again crack down on illegal mining in the country, and not allow the occurrence “*from anyone, including its officials*.”¹¹ In this vein, law enforcement is increasingly carrying out raids on illegal mines and making arrests.

The issue has been rampant and plagued even previous administrations. In December 2019, former vice president **Inonge Wina** lamented the challenges with accurately quantifying the country’s gold production due to “*the illegal nature in which this industry has been tackled*.”¹² An exact figure capturing the economic toll of illegal mining activity is not available, however, in 2020 the **United Nations Conference on Trade and Development (UNCTAD)** disclosed that within a year of ZRA’s implementation of a mineral tracking tool UNCTAD designed, the government recovered \$1m in unpaid export dues from mining companies.¹³

Inflation reverses Zambia’s economic gains

Zambia Statistics Agency announced on 4 May that annual inflation accelerated to 10.2% in April, up from 9.9% in March, returning to double digits for the first time since May 2022.¹⁴ This falls far from Zambia’s finance ministry’s goal of bringing inflation within the target band of between 6% and 8% by

⁶ Investing News, 12 May 2023

⁷ News Diggers, 12 May 2023

⁸ News Diggers, 12 May 2023

⁹ Lusaka Times, 15 May 2023

¹⁰ Business & Human Rights Resource Centre, 24 Nov 2021

¹¹ News Diggers, 28 Feb 2023

¹² ZCCM-IH, 19 Dec 2019

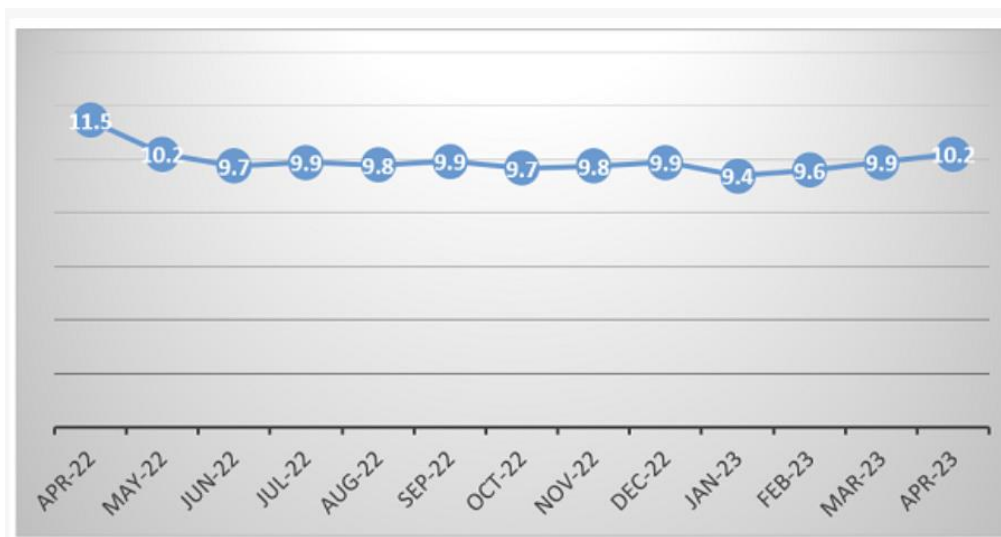
¹³ United Nations Conference on Trade and Development, 1 Oct 2020

¹⁴ Zambia Statistics Agency, 4 May 2023

mid-2023.¹⁵ Prices for non-food items accelerated from 7.3% to 8.3%, while the kwacha remained strained, as uncertainty continues regarding the government's ability to secure a debt restructuring deal with the **International Monetary Fund (IMF)** placing upward pressure on inflation.

Against this backdrop, the **Bank of Zambia's** (central bank) monetary policy committee (MPC) was forced to raise the key interest rate by 25 basis points to 9.50% when it met for the second time in 2023 on 15 and 16 May. The MPC cited mounting inflationary pressures as well as what it termed "*fragile growth, and vulnerabilities and risks in the financial sector*", global factors including the continued conflict between **Russia** and **Ukraine** as well as domestic challenges including a maize shortage in the country and delayed progress on an IMF deal for the country for its decision. The next MPC meeting will take place on 21 August 2023, however, a notable blow to the finance ministry's commitment to rein in inflation came as the apex bank also conceded that it forecasts inflation will remain above the ministry's target band until Q1 2025.¹⁶

Annual inflation rate, April 2022- April 2023



Source: Zamstats, 4 May 2023

To ease strain on consumers, the **Energy Regulation Board (ERB)** decreased diesel prices by K1.64 (\$0.09) per litre to K24.64 (\$1.32), effective from 1 May, and kerosene prices by K1.82 (\$0.097) to K20.47 (\$1.10) leaving the pump prices of petrol unchanged. The ERB board attributed this to the reduction in global oil prices as well as the strengthening of the kwacha against the **United States (US)** dollar.¹⁷ This will provide much-needed relief; however, Zambia's economic challenges are exacerbating social stability risks amid growing discontent with the cost of living in the country and rising income inequality. Local research agency, the **Jesuit Centre for Theological Reflection (JCTR)**, compiled its **Basic Needs and Nutrition Basket** for April which shows that the cost of living for a family of five in the capital **Lusaka** increased by K109.39 (\$5.85) to K9,112 (\$487.45) for April 2023. The religious institute notes that this is far higher than the average minimum monthly income of K4,215 (\$225.48).¹⁸

In Zambia, a largely Christian nation, religious leaders carry significant influence over the populace and their views on social, economic and political issues, thus positively or negatively impacting political leaders. In recent months, key religious sects have increasingly shared their views on the

¹⁵ 2022 Budget Address, 29 October 2021

¹⁶ Bank of Zambia Twitter, 17 May 2023

¹⁷ Energy Regulation Board, 30 Apr 2023

¹⁸ ACI Africa, 2 May 2023

country's economic woes. Notably, officials from the JCTR added further pressure on the government, stating:

*“Government must expedite engagements with all creditors, especially **China**, the largest creditor. This must be accomplished by addressing all issues that are impeding the process.”¹⁹*

Hichilema takes his debt restructuring plea directly to the ‘Paris Club’

As the country's economic woes persist, the ruling **United Party for National Development (UPND)** remains under pressure to secure a deal with the IMF, a key campaign promise that it stated would drive economic recovery and restore investor confidence in Zambia. President **Hakainde Hichilema's** (2021-present) administration has pursued the bailout from the IMF since taking power, however, it is contingent on reaching a deal with Zambia's creditors, which has thus far not been forthcoming. Zambia's external debt stood at \$14.9 billion by end-2022 of which \$6 billion is owed to its largest creditor, China. China has faced strong criticism for delaying Zambia's progress to a debt resolution and thus a new IMF deal (*see ARC Briefing Zambia Feb 2023*).

The government has been in talks with its creditors and the IMF for an **Extended Credit Facility** since November 2021 and agreed to undergo the debt treatment process under the relatively untested **G20 Common Framework** process.²⁰ At the time, finance minister **Situmbeko Musokotwane** outlined an expected timeline for securing an agreement with the country's creditors by the third quarter of 2022.²¹ This has not been achieved and, instead, restructuring talks have dragged on.

Musokotwane gave an update on negotiations on 15 March, stating that the government was “*working very hard*” with its creditors to secure a debt restructuring by end-March.²² However, with this deadline missed again, Hichilema has stepped in by appealing directly to Zambia's creditors for a resolution. **French** president **Emmanuel Macron** (2017-present) hosted Hichilema who visited France on 10 May, where Hichilema asked Macron to use his country's *influence* to speed up Zambia's delayed debt restructuring talks. A statement from the presidency notes that Hakainde described the debt as “*a python around our necks, ribs and legs*” and asked France to:

“Use its role to leverage the Paris Club of Creditors Committee and the G20 to ensure the speedy resolution of the debt restructuring”²³

Hichilema further requested for the negotiations to be concluded before **Summit for a New Global Financial Pact** that France will host on 22 June and 23 June. The summit aims to “*boost crisis financing for vulnerable countries in the Global South.*”²⁴

UPND delivers on key campaign promise

Hichilema signed into law the **National Pension Scheme Authority (NAPSA) (Amendment) Bill of 2023** on 17 April, delivering on a key campaign promise of the UPND. The bill allows eligible contributors to the pension scheme to partially withdraw their pensions before the mandated retirement age of 55.²⁵ The public scheme has over 800,000 contributors.²⁶

Mulenga Mutati, president of the **Actuarial Society of Zambia** told **Africa Risk Consulting Briefing (ARC Briefing)** that through this measure the government aims to “*alleviate the challenges*

¹⁹ ACI Africa, 2 May 2023

²⁰ Reuters, 19 Jan 2023

²¹ CNBC Africa, 8 Nov 2023

²² Kalkine Media, 15 Mar 2023

²³ RFI, 11 May 2023

²⁴ Reuters, 10 May 2023

²⁵ *Zambian Business Times*, 5 May 2023

²⁶ *Zambian Business Times*, 5 May 2023

of accessing capital from financial institutions.” However, as the early withdrawal mechanism gains pace, he urges that NAPSA must:

“Increase the frequency of the actuarial valuations carried out to determine the scheme’s liability position to assess the institution’s surplus or deficit position more accurately.”²⁷

Further risks also arise as the government has not carried out sufficient financial literacy sensitisation to support individuals carrying out an early withdrawal to adequately invest their funds, posing a risk to their financial stability post-retirement.

Zambia Revenue Authority notes successes in anti-corruption drive

The ‘New Dawn’ government’s anti-graft drive continues as the state looks to recover assets lost to corruption which it alleges took place under the rule of the **Patriotic Front** party from 2011 to 2021. Hichilema has encouraged and empowered the country’s investigative authorities to ramp up their efforts in this regard. **Oliver Nzala**, the corporate affairs manager of the **Zambia Revenue Authority (ZRA)**, divulged on 7 May that over K3.5m (\$186,744) out of K34.4m (\$1.8m) issued in assessments to taxpayers from January 2023 to March 2023 has been recovered by the **Financial Intelligence Centre**. This came about through the conclusion of seven tax evasion cases.²⁸

Nzala also announced on 13 May that its enforcement unit had intercepted 100,000 litres of ethanol, worth K2.6m (\$138,724) in taxes, whilst carrying out patrols in **Mpika** in the northern province. The authority has labelled these as illegal imports into Zambia through the **Nakonde** border post which borders Tanzania.²⁹ The ZRA also announced on 12 May that it had collected a gross revenue of K27.3 billion (\$1.4 billion) and refunded taxpayers K4.1 billion (\$218.8m) in the first quarter of 2023. It also stated that the institution will begin integrating artificial intelligence technologies to better detect instances of fraud.³⁰

Planner

13 Jun – 15 Jun 2023 **Livingstone (Zambia)** Copper Cobalt Africa Base Metals Conference
 27 Jun – 28 Jun 2023 **Livingstone (Zambia)** Africa Rail
 28 Jun – 4 Jul 2023 **Ndola (Zambia)** Zambia International Trade Fair, Ndola

Chronology

14 May 2023 **Kitwe (Zambia)** *Lusaka Times*. Permanent secretary in the health ministry **Christopher Simoonga** divulges that the construction of the \$25m **Chimwemwe level one hospital**, which began in April 2022, will be completed “*within the next two months*”. The hospital will have an 80-bed capacity with two theatres, as well as a mobile and fixed X-ray facility;

15 May 2023 **Lusaka (Zambia)** *Mwebantu*. Police arrest and charge opposition party **Patriotic Front**’s vice president **Given Lubinda** for the offence of failure to attend before the **Parliamentary Committee** and the **National Assembly**;

12 May 2023 **Lusaka (Zambia)** *Lusaka Times*. Cabinet secretary **Patrick Kangwa** confirms the government’s decision to withdraw excess security personnel from the residence of former president **Edgar Lungu**;

²⁷ Mulenga Mutati FIA, President of the Actuarial Society of Zambia

²⁸ Mwebantu, 7 May 2023

²⁹ News Diggers, 14 May 2023

³⁰ News Diggers, 12 May 2023

12 May 2023 **Lusaka (Zambia)** *Lusaka Times*. Health minister **Sylvia Masebo** states that the acute medical drug shortage facing the state's hospitals and clinics will be alleviated by an import of bulk medications from **India**, slated for June;

11 May **Washington D.C. (United States)** *Reuters*. **Julie Kozack**, spokesperson for the **International Monetary Fund**, announces that the institution has updated its macroeconomic and debt sustainability views on Zambia which will be published once the board considers the request for the completion of the first review;

8 May 2023 **London (United Kingdom)** *Market Screener*. The **Financial Conduct Authority** temporarily suspends the Zambian government's mining investment vehicle **ZCCM-IH's** share listing from the **London Stock Exchange**, citing the former's non-publication of audited financial results for the years 2021 and 2022 within regulation time (four months from year-end);

5 May 2023 **Lusaka (Zambia)** *Zambia Business Times*. Infrastructure minister, **Charles Milupi**, announces that the cost of the 32km **Chingola-Kasumbalesa** road concession agreement signed between government and **Chinese** consortium **Turbo Investment Consortia** will cost just over \$31m, amounting to just under \$1m per kilometre of road;

2 May 2023 **Lusaka (Zambia)** *Times of Zambia*. President **Hakainde Hichilema** says local production of fertiliser is key in improving farmers' access to the commodity and increasing crop yields as government anticipates enhanced local production capacity of fertiliser will cause local fertiliser prices to fall;

27 Apr 2023 **Kitwe (Zambia)** *Copperbelt Energy Corporation*. The publicly listed power provider **Copperbelt Energy Corporation** reports a 9% year-on-year increase in revenues to \$374m for 2022 and a 0% year-on-year increase in profits after tax of \$51m;

19 Apr 2023 **Lusaka (Zambia)** *News24*. **Committee to Protect Journalists** divulges that two separate attacks were carried out by supporters of the ruling **United Party for National Development** on journalists on 8 April. These took place on the premises of independent broadcaster **Radio Explorer** in **Petauke** and at **Serenje Radio** in Serenje;

17 Apr 2023 **Lusaka (Zambia)** *Times of Zambia*. Agriculture minister **Reuben Phiri** urges security wings to tighten security along Zambia's borders to stop unregulated export of maize and mealie-meal.

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 whistle-blower support on one end to crisis media management and regular monitoring on the other.

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