

AFRICA RISK CONSULTING

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Zambia Summary 16 December 2022

Zambia's mining sector will be a bright spot for the country in 2023 on the back of an improved policy environment, specific-sector reforms and increased investment, which will spur activity in the sector during 2023. Zambia has made progress with negotiations to restructure its foreign debt as it looks to complete the restructuring of nearly \$15 billion of external debt in the first quarter of 2023. The pace of negotiations will increase in 2023 to enable the conclusion of a debt restructuring agreement with the International Monetary Fund (IMF) which will go some way in promoting economic stability for the country during 2023. Higher risks of social discontent and instances of unrest exist as the country's populace is becoming increasingly vocal towards the Hakainde-led government to deliver on their campaign promises. Key issues which will spill over into 2023 include the poor results from the corruption prosecutions, electricity shortages, inflationary pressures, and instances of abuse of power by state officials.

Mining sector set to grow in 2023

Zambia's mining sector will be a bright spot for the country during 2023 off the back of developments including new sector-specific reforms introduced in the 2023 budget and a more robust mining policy. Finance minister, Dr. **Situmbeko Musokotwane**, noted in his budget speech that the mining sector contributed 41.8% of all government revenue between January and August 2022, but hopes to boost this in 2023.¹ A **Zambia Extractive Transparency Initiative** report indicates that extractive revenues collected by the state amounted to K25.2 billion (\$49.9m) in 2020.²

The government's plans seem to already be working and earnings from refined copper grew by 3.5%, from K9.1 billion (\$518,408) in September to K9.5 billion (\$541,195) in October as a result of export volumes increasing from 71,700 tonnes in September to 78,200 in October. This was further positive given a decline in the price of the metal on the **London Metal Exchange** by 1.5% from \$7,734.70 per tonne in September to \$7,621.21 per tonne in October.³

United States (US)-based mining technology firm **KoBold Metals** announced on 14 December that it will invest \$150m to develop a copper mine called **Mingomba**. The project will be a joint venture with **EMR**, an **Australian** private equity firm and **ZCCM-Investment Holdings**, the state's investment vehicle. The mine contains 247 million tonnes of ore with an average grade of 3.64% copper. This development comes as President **Hakainde Hichilema** (2021-present) aims to boost the country's copper production to 3 million tonnes per annum by 2032, from around 850,000 tonnes at present.⁴ Hichilema stated at the signing of the agreement "our message to the world is that Zambia is here and is open for business".⁵ The mining sector looks set to benefit from renewed confidence and investments which will also spur activity in the sector during 2023.

¹ Mining for Zambia, 10 Oct 2022

² October 2021

³ Daily Mail, 29 Nov 2022

⁴ Financial Post, 14 Dec 2022

⁵ Financial Post, 14 Dec 2022

Zambia's prospects bright for concluding debt restructuring

Zambia has made progress with negotiations to restructure its foreign debt after becoming Africa's first sovereign country in the **Covid-19** pandemic era to default on debt payments in November 2020 (see *ARC Briefing Zambia Nov 2020*).⁶ Finance minister **Situmbeko Musokotwane** said on 30 November that Zambia is pushing hard to complete the restructuring of nearly \$15 billion of external debt in the first quarter of 2023 and is "in active engagement" with its largest bilateral creditor China.⁷ These discussions have centred on the restructuring of \$12.8 billion of foreign loans through negotiations with creditors ranging from **Chinese** state-owned banks to international bondholders. This will be no easy feat with the finance ministry projecting in October that its creditors will need to take a 49% cut in present-value terms to enable the country to achieve debt sustainability.⁸ The pace of negotiations is expected to ramp up during 2023 to enable the conclusion of a debt restructuring agreement with the **International Monetary Fund (IMF)** which will go some way in promoting economic stability for the country during 2023. Recent developments indicate the country is inching closer towards a conclusion. The IMF's staff team conducted a visit to **Lusaka** on 7 December to discuss recent economic developments as well as the implementation of the fund-supported program. **Allison Holland**, mission chief for Zambia stated during the visit:

*"Against an increasingly challenging global economic backdrop, the Zambian economy appears to have remained relatively resilient and inflation has remained in single digits for longer than expected."*⁹

The government will now focus on concluding a Memorandum of Understanding (MoU) with its creditors before April 2023, which is when the IMF intends to conduct its first review of Zambia's \$1.3 billion three-year loan to pave the way for the country to restructure its debts.

Social unrest risks elevated

Higher risks of social discontent and instances of unrest amid the increased economic pressure on Zambia's populace, who are becoming progressively more vocal towards the Hichilema-led government to deliver on their campaign promises, have increased and could accelerate in 2023. The ruling **United Party for National Development's (UNDP)** anti-corruption drive, in line with Hichilema's campaign promise to stem graft in the country, gained significant public support during elections in August 2021. Notable members of the former ruling **Patriotic Front** party have since found themselves in the crosshairs of anti-corruption authorities in 2022. However, the government's fight against corruption has come under increasing scrutiny, particularly as authorities have thus far failed to secure a significant conviction, despite a string of high-profile arrests of a number of key players from the former administration.

Nonetheless, prosecution efforts continue - three former high-ranking officials from the agriculture ministry appeared in the Lusaka magistrates court on 14 December facing corruption charges for unsupplied fertilizer.¹⁰ The prosecution alleges that **Songowayo Zyambo**, the ministry's former permanent secretary, as well as **Grey Mwale** and **Emmanuel Kabwe** the ministry's former principal agricultural economist and former principal accountant, respectively, conducted corrupt practices in a case of failure to supply fertilizer worth over \$131m between 1 January 2021 and 31 December 2021.¹¹

⁶ Bloomberg, 18 Nov 2020

⁷ Reuters, 29 Nov 2022

⁸ Bloomberg, 13 Nov 2022

⁹ International Monetary Fund, 8 Dec 2022

¹⁰ News Diggers, 14 Dec 2022

¹¹ News Diggers, 10 Nov 2022

Former president **Edgar Lungu's** (2015-2021) former economic advisor **Hibeene Mwiinga**, his wife **Mercy Musanje**, and their son, **Hakaantu** also took a fresh plea deal on 15 December, denying 72 corruption-related charges in regards to property valued at over K41m (\$231,689) and cash amounting to over \$238,900.¹² The **Anti-Corruption Commission** also arrested the former defence ministry permanent secretary, **Stardy Mwale**, on 15 December for corrupt practices involving more than \$573.9m in relation to the procurement of the **Gulfstream G650** presidential jet which the new administration is attempting to sell.¹³

The government also promised an end to the abuse of power by state authorities, one of Hichilema's main attractions to voters, himself having been a victim of police abuse. However, the **Human Rights Commission** voiced its concern on 13 December on reports relating to police brutality, over-detention, and extra-judicial killings. Commissioner **Mudford Mwandenga** lamented:

"The commission remains concerned that despite the new dawn government's undertaking to observe the rule of law, constitutionalism and human rights, there has been little or no change".¹⁴

The country's security services have also come under the spotlight after 28 individuals, believed to be **Ethiopian** nationals, were found dead after being dumped on a road in Lusaka's **Chongwe Ngwerere** area. One victim was still alive and is receiving treatment in hospital. Preliminary investigations by Zambian authorities show the deceased were between the ages of 20 and 28 and are believed to have died from hunger, dehydration and exhaustion. However, it remains unclear when and under what circumstances they died. The Ethiopian government announced that it will also launch an investigation into the reported death of its citizens and that it will send experts to Zambia in order to confirm the identities of the individuals. The **International Organisation for Migration** said it was "*profoundly shocked and alarmed*" by the development, noting that a mass grave of Ethiopian migrants was discovered in **Malawi** in October. The organisation has raised the alarm around the smuggling of migrants and human trafficking along the southern route running from the **Horn of Africa** to southern Africa.¹⁵

The announcement by energy minister **Peter Kapala** on 2 December that Zambia will begin power cuts lasting up to six hours per day from 15 December will also not bode well in the already pressured economy and citizens. The minister attributed this to a steep decline in water levels on the **Kariba** dam. This has led to significant discontent from the public, particularly in light of Hichilema's claim in September that the government had done away with load shedding for the country. In a positive development for more electricity to come online during 2023, the **Copperbelt Energy Corporation's** managing director **Owen Silavwe** announced plans to invest \$100m in clean energy projects earmarked for commissioning during 2023. This is as the organisation aims for increased adoption of more renewable energy options to achieve 'zero net' emissions by 2050. This will include the building of two solar projects in **Kitwe (Copperbelt)**.¹⁶

Zambia strengthens diplomatic relations

Hichilema and his government's focus on diversifying its investor base away from **Chinese** investment, which largely dominated investment flows into the country during the reign of the former ruling Patriotic Front party has gained momentum and will continue throughout 2023. Developments such as the waiving of visas for countries including China, the **United Kingdom**, **Canada**, and the **European Union (EU)** bloc will bolster plans to court international investment and garner support for the country's economic development.¹⁷

¹² News Diggers, 15 Dec 2022

¹³ Ministry of Information and Media, 15 Dec 2022

¹⁴ News Diggers, 13 Dec 2022

¹⁵ International Organization for Migration, 14 Dec 2022

¹⁶ Daily Mail, 14 Dec 2022

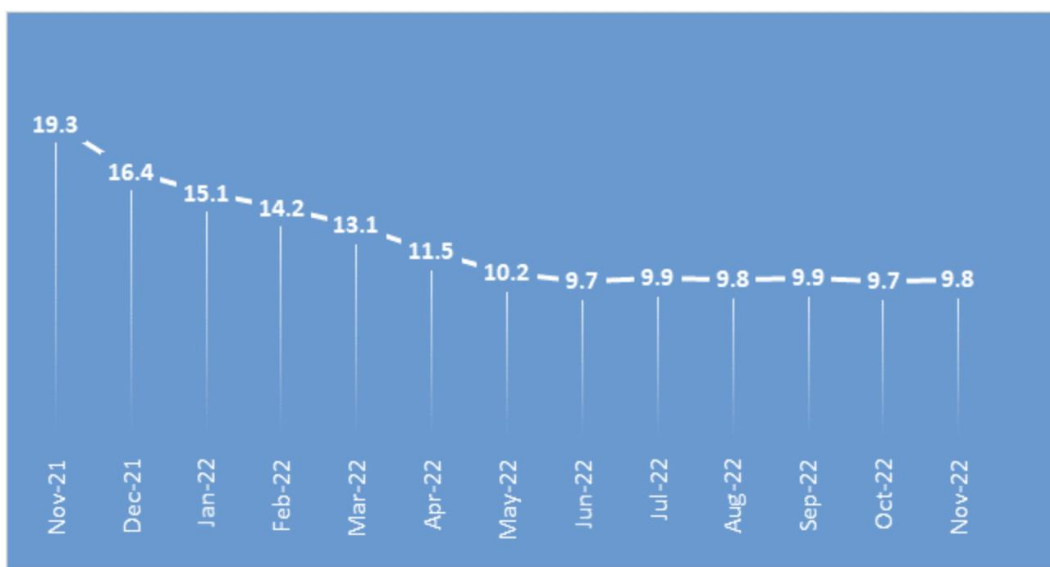
¹⁷ Xinhua, 3 Nov 2022

Hichilema also arrived in **Washington** (US) to attend the **US-Africa Leaders' Summit** on 13 December to promote Zambia's trade and investment openness to the global community. US secretary of state **Anthony Blinken** signed a memorandum of understanding on 14 December with the foreign minister **Stanley Kakubo** and the **Democratic Republic of Congo's** foreign minister **Christophe Lutundula** to support the two countries in developing an electric vehicle value chain.¹⁸ There is potential for growth to be supported by improved investor sentiment in 2023 as Hichilema's government pursues debt consolidation and inches closer towards an agreement with the IMF, while the effects of the pandemic lessen as business activity and exports accelerate. However, near-term headwinds to growth persist from the ongoing conflict in **Ukraine** and rising fuel and food prices weakening consumer activity.

Inflationary pressures remain a concern

The **Zambia Statistics Agency (ZamStats)** announced on 25 November that inflation increased to 9.8% year-on-year (y/y) in November from 9.7% y/y in October. This was driven by an increase in non-food goods inflation, which rose from 6.5% in October to 6.7% in November as prices of fuel, charcoal and pharmaceutical products increased. Food inflation declined slightly from 12.2% in October to 12.1% in November, which ZamStats attributed to the fall in the price of meats, fruits, and cooking oil.¹⁹

Annual Inflation Rate, Nov 2021- Nov 2022 (%)



Source: Zambia Statistics Agency

Zambia's inflation has, however, maintained a downward trend during 2022, which is expected to continue into 2023 but consumers will continue to experience strain owing to the effects of the conflict between **Russia** and Ukraine, which has constrained global oil supplies and increased fuel prices and will continue to drive volatility in pump prices during the coming year. This has also contributed to the weakening of the global currency during the year. The onset of Zambia's rainy season has also driven a spike in fertiliser imports which have since seen an annual increase of 150% according to the **Alliance for Commodity Trade in Eastern and Southern Africa**.²⁰ However,

¹⁸ The Mirage, 14 Dec 2022

¹⁹ Zambia Statistics Agency, accessed 16 Dec 2022

²⁰ Lusaka Times, 27 Oct 2022

World Bank and the IMF funding will provide some relief and will bode well for the government's reforms focused on restoring fiscal and long-term debt sustainability, increasing farmer productivity and access to agriculture markets, ensuring sustainable access to energy, and enhancing access to finance and private sector development.

Planner

22 Apr 2022 **Lusaka (Zambia)** AgriTech Expo Zambia

Chronology

15 Dec 2022 **Lusaka (Zambia)** *News Diggers*. **Zambia's** green economy and environment ministry launches the 2022/2023 National Tree Planting Season which will run until 15 January;

15 Dec 2022 **Lusaka (Zambia)** *AA*. Defense minister **Ambrose Lufuma** says **Zambia** will offload a presidential plane purchased for \$194.9m by the previous government because of colossal maintenance and servicing costs;

15 Dec 2022 **Lusaka (Zambia)** *Daily News Egypt*. **Zambia's** technology minister **Felix Mutati** and his **Egyptian** counterpart **Amr Talaat** sign a Memorandum of Understanding (MoU) to enhance cooperation in the fields of communications and information technology;

14 Dec 2022 **Lusaka (Zambia)** *Mining Weekly*. **United States**-based exploration firm **KoBold Metals**, which uses artificial intelligence and machine learning to identify battery metal deposits, says it is investing \$150m to develop a copper mine in **Zambia**;

13 Dec 2022 **Lusaka (Zambia)** *Ministry of Information and Media*. Finance minister **Situmbeko Musokotwane** announces that the government has released K10.8 billion (\$610, 302) for public service delivery in November.;

10 Dec 2022 **Prague (Czech Republic)** *United States Department of State*. **United States (US)** deputy secretary of state **Wendy Sherman** commends **Zambia** for "peaceful and fair" elections;

10 Dec 2022 **Lusaka (Zambia)** *Indepth News*. Foreign affairs minister **Stanley Kakubo** calls on **Russian** authorities to provide further details regarding the recruitment of **Nathan Nyirenda** to fight on behalf of Russia in **Ukraine**, and his subsequent death;

8 Dec 2022 **Washington D.C. (United States)** *News Diggers*. Finance and national planning minister **Situmbeko Musokotwane** and **United States** ambassador to Zambia, **Michael Gonzales** sign the **Compact Development Funding Grant Agreement** for \$8.3m focused on job creation and economic growth;

7 Dec 2022 **Lusaka (Zambia)** *Mwebantu*. President **Hakainde Hichilema** assents to the **National Pension Scheme Bill** which introduces an option to claim for the partial withdrawal from the scheme by a member under the prescribed minimum pensionable age of thirty-six under the existing fund;

About Africa Risk Consulting:

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