

AFRICA RISK CONSULTING

Zambia Monthly Briefing May 2022

Zambia Summary 16 May 2022

The Zambian government continues its efforts to secure an agreement with its creditors and a bailout from the International Monetary Fund as China commits to joining Zambia's creditor committee. President Hakainde Hichilema (2021-present) attends the 2022 Mining Indaba in Cape Town (South Africa), promoting a more business-friendly approach to the Zambian mining sector as he focuses on improving relations with key sector stakeholders. United Kingdom (UK)-headquartered mining company Vedanta Resources and the Zambian government agree to suspend legal proceedings over Vedanta subsidiary Konkola Copper Mines and instead pursue settlement discussions. UK-based AIM-listed exploration firm Arc Minerals and UK-headquartered mining company Anglo American enter an agreement for the latter to take a 70% stake of Arc Minerals' copper-cobalt licences for the North-Western province. Canada-based First Quantum Minerals plans to invest in a \$1.25 billion expansion of its Kansanshi mine in Zambia, reflecting renewed confidence in the Zambian mining sector. To improve its trade prospects, the government pursues deeper bilateral trade relationships with its peers in the region. Zambia Statistics Agency reports that Zambia's inflation rate fell once again in April, reaching 11.5%, down from 13.1% in March, as the price of food as well as non-food items decreased. Zambia lags behind its target of 70% Covid-19 vaccination for the population by July 2022, owing to the low levels of uptake.

Debt negotiations continue ...

Zambia is making slow progress towards an agreement with its creditors and a rescue package from the **International Monetary Fund (IMF)**. The government has been attempting to restructure its foreign debt since 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*).¹ According to data released by the finance ministry on 23 March, Zambia's total debt burden stood at \$31.74 billion at end-2021, up from \$26.96 billion in June 2021 (see *ARC Briefing Zambia Apr 2022*). **Chinese** creditors hold around a third, \$5.78 billion, of Zambia's total debt burden.²

The Chinese government committed on 21 April to joining Zambia's creditor committee, after it had been widely reported that it was the creditor delaying a decision on Zambia's proposed debt restructuring plan (see *ARC Briefing Zambia Apr 2022*). It reportedly also offered to be a co-chair on Zambia's creditor committee. However, finance minister **Situmbeko Musokotwane** suggested that China, as the country's largest single creditor, should instead head the committee, to enable a speedier resolution process.

The Zambian government has expressed its frustration with the slow pace of progress towards an agreement with its creditors. The country has been engaged in talks to restructure its external debt, which stood at around \$14.5 billion in December.³ The present government, under President **Hakainde Hichilema** (2021-present), opted to employ the **Common Framework** for debt treatment created by the **G20**; however, the creditor committee for the process has yet to be formed despite the government reaching a staff level agreement with IMF in December for a three-year \$1.4 billion

¹ Bloomberg, 18 Nov 2020

² Ministry of Finance and National Planning

³ Ministry of Finance and National Planning Debt Statistical Bulletin, December 2021

extended credit facility.⁴ Musokotwane told parliament on 25 March that he expected the committee to be formed “*within weeks*” with a deal expected by June.⁵ However, during a visit to the IMF’s spring talks in **Washington DC (United States)** in April, Musokotwane said that talks had stalled as the committee has failed to sit:

*“We are now in the fourth month from the time when we thought we would quickly move to the discussion with creditors... so we’ve come here to complain and also discuss with the leaders of the G20.”*⁶

... as Hichilema promotes Zambia’s mining sector at Mining Indaba

President Hichilema attended the **2022 Mining Indaba** held in **Cape Town (South Africa)** from 9-12 May.⁷ Hichilema is pursuing a more business-friendly approach to governing the country’s mining sector, dialing back former president **Edgar Lungu’s** (2015-2021) steps towards resource nationalism in the sector, and improving relations with key sector stakeholders. Hichilema’s government has set an aim to triple the mining sector’s annual copper output to 3 million tonnes within the next three decades. Overall, Zambia’s exports of refined copper in Q1 2022 increased to 464,800 metric tonnes from 463,700 metric tonnes for the same period last year.⁸

Zambia’s mining firms have generally been encouraged by a more attractive investment environment under the Hichilema administration, as well as plans for mining reform. **Canada-based First Quantum Minerals (FQM)** announced plans at the Mining Indaba to invest in a \$1.25 billion expansion of its **Kansanshi** mine in Zambia, citing renewed confidence in the Zambian mining sector. The company also approved a \$100m investment in its nickel plant, **Enterprise**, located in **North-Western Province**. It aims to begin producing nickel in 2023, producing 30,000 tonnes of nickel in concentrate annually.⁹ FQM expects to increase copper and gold production by 25%, with its mining operations in the country set to extend beyond 2040. FQM appears to be taking a longer-term view of the market, despite the company reporting a decline in copper production in the first quarter of 2022. FQM’s copper production declined to 41,899 tonnes from over 42,800 tonnes in the fourth quarter of 2021, while production at the **Sentinel** mine fell to 52,475 tonnes from about 60,197 tonnes the previous quarter. FQM attributed this to a decline in ore grades.¹⁰

In other positive news for Zambia’s mining sector, **London Stock Exchange**-listed exploration firm **Arc Minerals** and **United Kingdom (UK)**-headquartered mining company **Anglo American** entered an agreement on 12 May for the latter to take a 70% stake of Arc Minerals’ copper-cobalt licences for North-Western province.¹¹ Under the agreement, Anglo American will pay Arc \$3.5m on signing and spend \$74m on exploration within seven years of signing and make cash payments of \$11m to Arc.¹² This is the first time in 20 years that Anglo American has made a new investment in Zambia.¹³

Russia’s military operations in **Ukraine** have improved long-term prospects for cobalt exploration and eventual mining operations. Although Russian cobalt has not come under sanctions, global supply chains are expected to shift slightly as traders look to lessen their long-term risk exposure to Russia, the world’s second largest producer of cobalt.¹⁴ The copper price continues to rise on global markets, trading at \$9,064 a tonne on the **London Metal Exchange** on 16 May.¹⁵

⁴ Bloomberg, 21 Apr 2022

⁵ Reuters, 25 Mar 2022

⁶ CNBC Africa, 22 Apr 2022

⁷ Lusaka Times, 11 May 2022

⁸ Zambia Daily Mail, 2 May 2022

⁹ Reuters, 8 May 2022

¹⁰ Zambia Daily Mail, 4 May 2022

¹¹ Reuters, 12 May 2022

¹² Reuters, 12 May 2022

¹³ Mining Technology, 13 May 2022

¹⁴ Fastmarkets, 25 Feb 2022

¹⁵ London Metal Exchange, accessed 16 May

In other mining news, **India-based Vedanta Resources** agreed to suspend its legal proceedings to reclaim its stake of **Konkola Copper Mines (KCM)**, which the former **Patriotic Front**-led government seized in 2019, placing KCM in liquidation (*see ARC Briefing Zambia Feb 2022*).¹⁶ Vedanta has indicated that it will be pursuing settlement discussions with the government.¹⁷ The government has also agreed to suspend its legal action; however, it has stated that this does not mean it is returning control of the mine to Vedanta.¹⁸ President Hichilema declined to comment on the outcome, but noted:

“...there will be a resolution of Konkola Copper Mines.”¹⁹

Regional trade improving

The government has been pursuing deeper bilateral trade relationships with its peers in the region. Zambia signed a cooperation agreement on 30 April with the **Democratic Republic of the Congo (DRC)** for the two countries to begin electric battery manufacturing.²⁰ Under the development cooperation agreements, Zambia and the DRC countries will focus on developing value chains in electric vehicle battery production, leveraging key minerals found in both countries.²¹

Deepening ties with **Angola**, Zambia’s minister of commerce, trade and industry, **Chipoka Mulenga**, and his Angolan counterpart, industry minister **Victor Fernandes**, signed an addendum to the **Bilateral Trade Agreement (BTA)** between Zambia and Angola on 14 April.²² The BTA was first signed in 2016 but could not be implemented until the parties agreed to sign the addendum. Despite sharing six geographical border posts, trade performance between the two countries is low, amounting to around \$5m annually. Mulenga described Angola as a “*potential lucrative market for Zambia*” considering the country’s population and per capita income.²³ The BTA lists around 150 products that could be exported duty-free to both countries across the agriculture, extractive, agro-processing, and manufacturing sectors, among others. Mulenga also encouraged firms to explore opportunities to exploit value chains and commercial linkages between the countries, noting those involved in agriculture, agro-processing and manufacturing. Mulenga also called for the supply of refined oil products from Angola to Zambia:

“A competitive private sector cannot flourish if it produces only for a small domestic market.”²⁴

Zambia increased its total trade value to K31.4 billion (\$1.8 billion) in March compared to K28.2 billion (\$1.7 billion) in February.²⁵ Notably, wheat production in the country rose to just under 400,000 metric tonnes in 2021 from 205,000 metric tonnes the previous year, according to the **Grain Traders Association of Zambia**. This increase has been supported by increased demand for wheat from Zambia’s regional partners, mainly northern neighbour DRC.

Meanwhile, cotton production has declined from 275,000 metric tonnes in 2012 to only 350 kilograms in 2021, with **Cotton Board of Zambia** executive director **Sunduzwayo Banda** attributing this to a decline in the quality of inputs and seeds as well as limited extension services. Agriculture minister **Reuben Mtolo** stated on 2 May that the existence of cartels in the sector has contributed to its poor performance, pledging to assist farmers in ramping up production and improving the quality of their cotton outputs.²⁶

¹⁶ Bloomberg, 11 May 2022

¹⁷ Bloomberg, 11 May 2022

¹⁸ Daily Hindustan News, 11 May 2022

¹⁹ Mining.com, 9 May 2022

²⁰ News Diggers, 30 Apr 2022

²¹ Zambia Daily Mail, 4 May 2022

²² Lusaka Times, 15 Apr 2022

²³ Zambia Daily Mail, 26 Apr 2022

²⁴ Zambia Daily Mail, 26 Apr 2022

²⁵ Zambia Daily Mail, 28 Apr 2022

²⁶ Zambia Daily Mail, 2 May 2022

Government focuses on improving national electrification rates

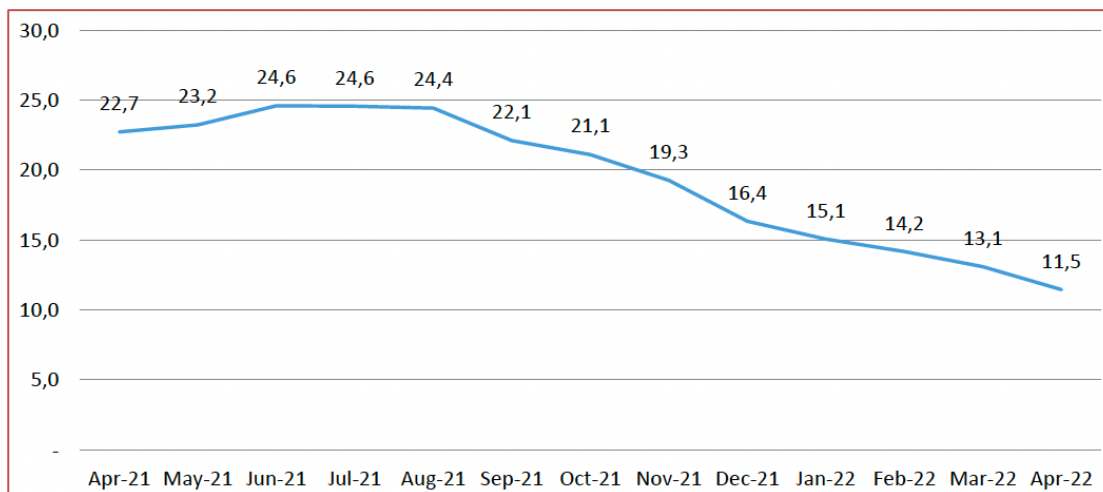
National power utility **Zambia Electricity Supply Corporation (ZESCO)** announced on 21 April plans to spend around €12m (\$12.6m) on new builds as well as the rehabilitation of substations in **Livingstone** and **Mazabuka** in Zambia's **Southern Province**. On 10 May, the government announced that 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.²⁷ The government also revealed in May that the **Northwestern Energy Corporation Limited** is in discussions with ZESCO to enter into a concessional agreement for the latter to supply power to the predominantly mining town of **Solwezi** (North-Western Province). The project will cost around \$50m and involve the build-out of infrastructure to enable the wheeling of electricity into the town.²⁸ According to the **World Bank**, only 44.5% of Zambia's population had access to electricity in 2020.²⁹

On 10th May, the **Energy Regulation board** invited public comments on ZESCO's application for an increase in electricity connection fees, from K769 (\$45.16) to K4,600 (\$270.11) for customers in high-density areas, K13,300 (\$780.98) up from K2,873 (\$168.70) for those in low-density areas and K7,000 (\$411.04) for those in un-demarcated high-density areas, up from K1,709 (\$100.35). This is likely to have a negative impact on the affordability for end-users to take up electricity services. ZESCO has argued that the price increase is 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.³⁰

inflation continues to decline ahead of MPC meeting

Zambia Statistics Agency (ZSA) reported on 12 May that Zambia's inflation rate fell once again in April, reaching 11.5%, down from 13.1% in March, marking the ninth consecutive month of decline.³¹ The decline in April was driven by price movements in non-food items such as vehicles, household items, footwear, cement and charcoal, while inflation also slowed in food items such as meat and vegetables.³² The rate of inflation reached a two-and-a-half year low in April, despite the impact of a hike in global prices for commodities such as oil and natural gas as Russia continues its military operations in Ukraine.

Zambia Annual Inflation Rate, Apr 2021 – Apr 2022 (%)³³



Note: 2009=100

²⁷ Rural Electrification Authority, 10 May 2022

²⁸ Zambia Daily Mail, 13 May 2022

²⁹ World Bank data portal, accessed 15 May 2022

³⁰ ZESCO, accessed 14 May 2022

³¹ Zambia Daily Mail, 28 Apr 2022

³² Zambia Daily Mail, 28 Apr 2022

³³ Zambia Statistics Agency

The continued decline in the inflation rate will lessen pressure on the **Bank of Zambia** (central bank) and could allow it to opt not to raise interest rates at its next **Monetary Policy Committee**, scheduled for June.³⁴ This decision could also be aided by the kwacha's strengthening against the **United States** dollar, registering 6% appreciation against the dollar in April, to be the strongest performing currency in **Africa** for the month.³⁵ A better performing currency will support the country's purchasing power, particularly for crucial import food and fuel products, enabling a knock-on effect for lower prices for consumers.

Covid-19 case remain negligible

Average daily numbers of confirmed new **Covid-19** cases have declined, reaching 36 as of 15 May, compared to 175 a month earlier.³⁶ The health ministry has recorded a total of 320,627 cases of Covid-19 in Zambia's population of roughly 18.9 million, with 316,076 recoveries and 3,983 Covid-19-related deaths as at 15 May.³⁷ Zambia exited the fourth wave of Covid-19 infections driven by the **omicron** variant in February.

The health ministry has made slow progress in its Covid-19 vaccination campaign. Health ministry permanent secretary **Lackson Kasonka** stated on 11 May that only 22% of the country's eligible population had received a Covid-19 vaccination since the vaccination drive was launched in April 2021. He expressed doubt that the country would achieve its target of 70% vaccination by July 2022, owing to the low levels of uptake.

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.³⁸ 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.

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.³⁹

³⁴ Open Zambia, 28 Apr 2022

³⁵ Bloomberg, 27 Apr 2022

³⁶ Worldometers, accessed 16 May 2022

³⁷ Worldometers, accessed 16 May 2022

³⁸ Source, analyst, Zambia

³⁹ Ministry of Health

Planner

June 2022 **Lusaka (Zambia) Bank of Zambia's Monetary Policy Committee Meeting**

Chronology

14 May **Lusaka (Zambia) Telecompaper. Bank of Zambia** (central bank) reveals K50.4 billion (\$3 billion) was transacted across the country's three mobile money platforms – **MTN Zambia, Airtel Networks Zambia** and **Zamtel** in Q1 2022, up from K30.1 billion (\$1.8 billion) during the same period last year;

13 May 2022 **Lusaka (Zambia) Zambia Daily Mail.** Finance ministry releases K150m (\$8.8m) to the **Local Authorities Superannuation Fund (LASF)** for payment of outstanding pensions, aiming to pay K120m (\$7.0) to 1,067 retirees who are owed lump-sum benefits, and to channel K30m (\$1.7m) to 4,179 pensioners as annual pensions;

12 May 2022 **North-Western Province (Zambia) Reuters. United Kingdom-**headquartered mining company **Anglo American** agrees to take a 70% stake in exploration firm **Arc Minerals'** copper-cobalt licences for North-Western province;

10 May 2022 **Lusaka (Zambia) Zambia Daily Mail.** Agriculture ministry increases the threshold of quantities of mealie meal that millers may export per month from 50,000 to 80,000 metric tonnes, aiming to increase profits for exporters and pass lower mealie meal prices onto domestic consumers;

10 May 2022 **Lusaka (Zambia) Zambia Daily Mail. Zambia Electricity Supply Corporation (ZESCO)** applies to the **Energy Regulation Board** for an increase in electricity connection fees, from K769 (\$45.16) to K4,600 (\$270.11) for customers in high-density areas, K13,300 (\$780.98) from K2,873 (\$168.70) for those in low-density areas and K7,000 (\$411.04), up from K1,709 (\$100.35), for those in un-demarcated high-density areas;

9 May 2022 **Lusaka (Zambia) Zambia Daily Mail.** The Treasury Bills auction is oversubscribed, with total bids received amounting to K2.6 billion (\$152.7m) against an allocation of K2 billion (\$117.4m) at cost;

9 May 2022 **Lusaka (Zambia) All Africa.** The government signs development co-operation agreements with the **Democratic Republic of the Congo** for the development of value chains in electric vehicle battery production, leveraging key minerals found in both countries, as well as in the clean energy sector;

8 May 2022 **Cape Town (South Africa) Reuters. Canada-**headquartered **First Quantum Minerals** announces plans to invest in a \$1.25 billion expansion of its **Kansanshi** mine in Zambia, and an additional \$100m in its nickel plant, **Enterprise**, in **North-Western Province**;

29 Apr 2022 **Lusaka (Zambia) Reuters. South Africa's** finance ministry offers to co-chair a committee of **Zambia's** creditors with **France**, at the request of the French government;

28 Apr 2022 **Lusaka (Zambia) Zambia Daily Mail.** Zambia's inflation rate falls to 11.5% in April, down from 13.1% in March on the back of a decline in prices of food and non-food items;

28 Apr 2022 **Lusaka (Zambia) Zambia Daily Mail.** The **Copperbelt Energy Corporation** confirms it has commenced arbitration proceedings over a \$170m debt owed to it by **Konkola Copper Mines (KCM)**, in relation to a power supply arrangement between it and KCM;

25 Apr 2022 **Lusaka (Zambia) Reuters.** President **Hakainde Hichilema** says his government is close to finding a private investor for **Mopani Copper Mines** in order to ramp up production at the mine, one of **Zambia's** largest;

21 Apr 2022 **Washington DC (United States) CNBC Africa.** Finance minister **Situmbeko Musokotwane** says at the **International Monetary Fund** Spring Meetings that **Zambia's** debt

restructuring process has “stalled” as it awaits the formation of a creditor committee, which **China** commits to joining;

14 Apr 2022 **Luanda (Angola)** *Zambia Daily Mail*. The governments of **Zambia** and **Angola** sign an addendum to the **Bilateral Trade Agreement (BTA)** between Zambia and Angola, first signed in 2016, enabling its implementation.

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