

AFRICA RISK CONSULTING

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Zambia Summary 23 November 2022

Finance minister Situmbeko Musokotwane confirms that the Export-Import Bank of China will lead the representation for the Chinese government in Zambia's debt restructuring talks. United States ambassador to Zambia, Michael Gonzales, calls on creditors to accept debt write-offs. The Zambia Statistics Agency announces on 31 October that inflation decreased to 9.7% year-on-year in October from 9.9% in September, as the Energy Regulation Board increases fuel pump prices. The finance ministry engages private firms to audit the country's domestic debt, at a fee of ZMW16.8m (\$1m), hoping it will give government a clearer picture of its domestic liabilities. The Zambian government requests the Russian government to provide information regarding the circumstances under which a Zambian national, incarcerated in Russia, was killed on the battle front in the latter's war against Ukraine. Government approves the National Anti-Money Laundering and Countering Terrorism and Proliferation Financing (AML/CTPF) Policy on 14 November which aims to curb corruption, tax evasion, drug trafficking, theft and fraud. This follows an announcement by the Drug Enforcement Commission that Zambia has lost over K277m (\$16.6m) to fraud and cybercrime-related activities since 2020.

Zambia inches closer to renegotiating its external debt...

Zambia is seeking to restructure \$12.8 billion of foreign loans through talks with creditors ranging from **Chinese** state-owned banks to international bondholders. The finance ministry has projected that its creditors will need to take a 49% cut in present-value terms to enable the country to achieve debt sustainability, an amount to which creditors are unlikely to agree.¹ Chinese lenders account for 75% of Zambia's external liabilities.

Nevertheless, Zambia is moving forward with negotiations; finance and national planning minister **Situmbeko Musokotwane** announced on 3 November that the **Export-Import Bank of China** will lead the representation for the Chinese government in the talks to renegotiate the almost \$6 billion in loans that Zambia owes.² Historically, China has offered debt relief through extending maturities owed by its debtors rather than offering a write-down on its loans.

United States (US) ambassador to Zambia, **Michael Gonzales**, also called on creditors to accept debt write-offs, advising them to take a "haircut" on the principal amounts the country owes them.³ Gonzales cautioned that the countries should "not just restructure so that the Zambian people keep paying longer and more into perpetuity." Gonzales added that a lot of "shenanigans" went into amounting the debt that Zambians are now stuck with for a generation. Zambia was the first **African** country to default on its international loans during the **Covid-19** era as it struggled with debt amounting to 133% of GDP by the end of 2021. The **International Monetary Fund (IMF)** estimates that Zambia needs \$8.4 billion of "cash debt relief", which will necessitate slashing both interest as well as loan payments between 2022 and 2025.

World Bank president **David Malpass** told US-based media house **Reuters** on 15 November that it is "important" to finalise a memorandum of understanding (MoU) on the debt reduction by the end of

¹ Bloomberg, 13 Nov 2022

² Reuters, 3 Nov 2022

³ Bloomberg, 14 Nov 2022

the year, cautioning that the longer the process drags on, the greater the risk that it will be delayed, noting that the debt reduction framework was already initiated in early 2021.⁴ Any MoU will need to be concluded 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.

... as government seeks to audit domestic debt

Finance minister Situmbeko Musokotwane told parliament on 17 November that the government had decided to engage private firms to audit the country's domestic debt, at a cost of ZMW16.8m (\$1m).⁵ Musokotwane highlighted that domestic debt has played a role in the country's debt instability, which stood at K76.4 billion (\$46m) on 22 November. The exercise is expected to be conducted across ministries to give the government a clearer picture of its domestic liabilities.⁶

However, opposition parties have criticised the decision to award contracts to private firms, including **United Kingdom (UK)**-headquartered **EY** and US-headquartered **Grant Thornton**, to audit the spending of ministries such as the defence ministry. Critics have raised concern about granting private firms access to sensitive information relevant to national security. This comes amid claims that the auditors were single-sourced, instead of selected through a competitive tender process under the **Zambia Public Procurement Authority**. Opposition parties have since threatened legal action against the government.⁷ Government spokesperson **Thabo Kawana** responded to the criticism stating that the auditors would not need to look at all the defence ministry's files but would instead focus on specific files. Kawana said the government would meet the opposition parties in court.⁸

Zambia strengthens diplomatic relations

President **Hakainde Hichilema** (2021-present) and his government are continuing to court international investment and support for the country's economic development aims. The government announced on 2 November that it has finalised measures aimed at allowing for a waiver of visa requirements for countries including China, the UK, **Canada** and the **European Union (EU)** bloc.⁹ These measures have partially met government reforms aimed at improving the ease of doing business, particularly conditions related to visa requirements to enter the country.

The World Bank also approved on 27 October a \$275m grant to Zambia to assist the country's recovery from the impacts of the Covid-19 pandemic and the fallout from the war in **Ukraine** as the country looks to emerge from its debt crisis. The World Bank noted that Zambia is in debt distress and in need of "*deep and comprehensive debt treatment*" to get public debt on a sustainable path. The grant aims to support 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.¹⁰

However, Zambia is facing tensions with **Russia** over the death of a Zambian student. Zambia's foreign minister, **Stanley Kakubo**, revealed on 14 November that the Russian government had informed his ministry on 9 November that Zambian national **Lemekhani Nathan Nyirenda** had been killed on 22 September fighting for Russia "*at the battlefield*" of the war in Ukraine. Nyirenda had been studying nuclear engineering at the **Moscow Engineering Physics Institute** prior to receiving a prison sentence of nine years and six months in April 2020 for an unknown offence. He was incarcerated at **Tyer** medium-security prison located on the outskirts of Moscow. Kakubo stated that the Zambian government has requested the Russian government to provide information regarding

⁴ Yahoo Finance, 15 Nov 2022

⁵ News Diggers, 18 Nov 2022

⁶ Zambia Daily Mail, 19 Nov 2022

⁷ News Diggers, 22 Nov 2022

⁸ Zambia Daily Mail, 19 Nov 2022

⁹ Xinhua, 3 Nov 2022

¹⁰ Lusaka Times, 27 Oct 2022

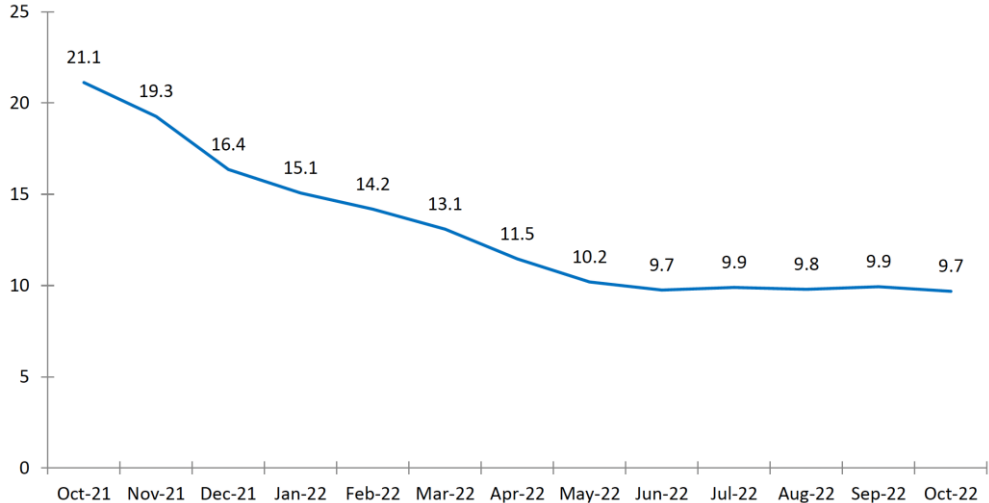
the circumstances under which Nyirenda “could have been recruited to fight in Ukraine and subsequently lose his life”.¹¹

The incident poses a threat to Russo-Zambian relations, particularly as Zambia and Russia enjoy strong cultural ties, mainly in the field of education, with Russia hosting a number of Zambian students. During a visit in February 2020, **Federation Council of the Federal Assembly of the Russian Federation** chair **Valentina Matviyenko** told Zambia’s parliament that Zambia ranks highly among African states in terms of Russian state scholarships awarded to Zambians to study in Russia.¹²

Inflation decreases slightly

The **Zambia Statistics Agency (ZamStats)** announced on 27 October that Zambia’s inflation rate had decreased to 9.7% year-on-year (y/y) in October from 9.9% y/y in September. Lower inflation was driven by a decline in non-food goods inflation, which decelerated to 6.5% in October from 7.2% in September as prices of shoes, furniture and motor vehicles fell. Food inflation increased slightly to 12.2% in October from 12.1% in September, which ZamStats attributed to the rise in the price of cereals, vegetables and dried beans.¹³

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



Source: Zambia Statistics Agency

Despite Zambia’s inflation trend differing from that of many other countries, it continues to feel the effects of the conflict between Russia and Ukraine, which has constrained global oil supplies and increased fuel prices. The **Energy Regulation Board (ERB)** announced an increase in fuel pump prices on 31 October. Petrol rose to K24.31 (\$1.46) per litre from K22.74 (\$1.36) and diesel to K27.38 (\$1.64) from K26.16 (\$1.57)¹⁴ The ERB’s director for economic activity, **Alfred Mwila**, also disclosed that, according to the recently conducted Electricity Cost of Service Study, Zambia requires \$14 billion to meet the population’s expected electricity demand of 4,169 megawatts (MW) by 2040. The study commissioned by the authority reveals that electricity demand is expected to rise by 95% from 2,143MW in 2020 to 4,169MW by the year 2040.¹⁵

¹¹ Times of Israel, 14 Nov 2022
¹² News Diggers, 20 Feb 2022
¹³ Zambia Statistics Agency, accessed 20 Nov 2022
¹⁴ Lusaka Times, 31 Oct 2022
¹⁵ News Diggers, 18 Nov 2022

Journalists' rights called into question

US-based NGO **Committee to Protect Journalists (CPJ)** has called on the Zambian government to nullify the fines of, and admissions of guilt by, journalists **Innocent Phiri** and **Obvious Kapunda**, employed by privately-owned television station **Muvi TV**, following their arrest on 13 November. The CPJ described the arrests as “*arbitrary*” and claimed that the admissions of guilt were made under duress.¹⁶ Phiri and Kapunda were arrested while attempting to film the arrest of opposition **Economic and Equity Party** leader **Chilufya Tayali** by authorities at his home in **Lusaka**. The journalists were detained for 21 hours and released only after signing an admission of guilt for disorderly conduct and paying a fine of ZMW54 (\$3.25).

The CPJ called on the Zambian government to ensure that police do not harass journalists who are performing their duties. CPJ’s Africa programme coordinator, **Angela Quintal**, urged the Zambian authorities to freely allow journalists to cover breaking news that is of public interest “*without having to contend with censorship and heavy-handed actions of police, including arbitrary detention*”.¹⁷

Zambian authorities also arrested opposition leader **Saboi Imboela** in Lusaka on 1 November on charges of libel and hate speech for criticising Hichilema’s media director, **Clayson Hamasaka**. Such developments call into question the ‘*New Dawn*’ government’s commitment to ensuring press freedoms – a campaign promise made by Hichilema who often faced prosecution under the previous **Patriotic Front** government. The CPJ has called on Hichilema to institute the press freedom reforms he promised at his inauguration, which included repealing the cybercrime law and amending legislation to protect the populace’s rights, reforming the penal code to ensure journalists cannot be charged for carrying out their duty to report news, and preventing attacks and harassment of the press corps.¹⁸

Government begins implementing money laundering reforms

Government approved the **National Anti-Money Laundering and Countering Terrorism and Proliferation Financing (AML/CTPF) Policy** on 14 November, which aims to curb corruption, tax evasion, drug trafficking, theft and fraud.¹⁹ **Mathias Kamanga**, Zambia’s **Drug Enforcement Commission (DEC)** deputy commander for **Northern Province**, divulged on 16 November that the country has lost over K277m (\$16.6m) to fraud and cybercrime-related activities since 2020, as reported in the outcomes of over 26 fraud and cybercrime cases managed during the period under review. Kamanga stated:

“If we are able to preserve these funds within the country, we are assured that we will be able to grow our economy and contribute to the development of the nation.”²⁰

Zambia has demonstrated its commitment to establish a strong AML/CTPF framework and has enacted several laws and policies to deal with money laundering, financing of terrorism, forfeiture and seizure of proceeds of crimes, prevention of corruption, fraud, and financial crime among others. The new policy encompasses areas including the provision of a designated anti-money laundering authority, a task force on AML/CTPF matters, as well as defining supervisory authorities and reporting entities related to AML/CTPF matters.²¹ Zambia is also part of the network of the **Financial Action Task Force (FATF)**, the global money laundering and terrorist financing watchdog. The government’s focus on the new policy come as it earmarks economic development through

¹⁶ Committee to Protect Journalists, 17 Nov 2022

¹⁷ Committee to Protect Journalists, 17 Nov 2022

¹⁸ The Nigerian Voice, 17 Nov 2022

¹⁹ News Diggers, 18 Nov 2022

²⁰ Zambia Daily Mail, 16 Nov 2022

²¹ Financial Intelligence Centre, accessed 23 Nov 2022

investment across several sectors including mining and agriculture, necessitating compliance with global AML/CTPF standards.

Planner

28 Nov 2022 **Lusaka (Zambia)** Blockchain Summit

Chronology

22 Nov 2022 **Lusaka (Zambia)** *Xinhua*. Finance minister **Situmbeko Musokotwane** launches the ministry's risk management guidelines aimed at enhancing transparency, accountability and good governance in the use and management of public funds;

21 Nov 2022 **Cairo (Egypt)** *See News*. An economic forum jointly organised by the **Egyptian African Businessmen Association** and the **Zambia Development Agency** begins, focused on supporting economic cooperation between Egyptian and Zambian businesses;

18 Nov 2022 **Lusaka (Zambia)** *News24*. **Johannesburg Stock Exchange**-listed mining firm **Gemfields** announces that a 187,700 carat **Kafubu** cluster discovered at its **Kagem Emerald Mine**, located in Zambia's copper belt, has set a record as the most expensive single emerald item ever sold by the firm;

18 Nov 2022 **Lusaka (Zambia)** *Anadolu Africa*. President **Hakainde Hichilema** calls on the **United Nations** to provide more assistance to countries that are hosting refugees and have taken further strain owing to external economic conditions;

18 Nov 2022 **Lusaka (Zambia)** *Tech Cabal*. **Pan-African** cross-border payment app **Chipper Cash** announces plans to acquire **Zambian** fintech firm **Zoona Transactions International**;

17 Nov 2022 **Lusaka (Zambia)** *Times of Zambia*. Technology minister **Felix Mutati** announces the launch of a 5G network by **MTN Zambia** on 24 November;

16 Nov 2022 **Lusaka (Zambia)** *Xinhua*. The **2022 Innovation Africa Ministerial Summit** begins, focusing on leveraging digital transformation to improve the quality of education on the continent;

11 Nov 2022 **Lusaka (Zambia)** *News Diggers*. **Felix Nkulukusa**, accountant general in the finance and national planning ministry, divulges that the ZMW5.6 billion (\$337.2m) allocated to the countries' ministries remains unused;

8 Nov 2022 **Lusaka (Zambia)** *Xinhua*. **Zambia** signs a memorandum of understanding (MoU) with the **European Union (EU)** aimed at partnering in the sustainable management of the forestry sector;

2 Nov 2022 **Lusaka (Zambia)** *News Diggers*. **Drug Enforcement Commission (DEC)** arrests three former directors of the **National Housing Empowerment Fund** for money laundering involving K36m (\$2.2m);

25 Oct 2022 **Lusaka (Zambia)** *Xinhua*. **Zambia's** investment agency, the **Zambia Development Agency**, says Zambian firms clinched export deals amounting to \$24.5m through the just-ended trade mission to the **DRC**;

24 Oct 2022 **Lusaka (Zambia)** *Zambia Daily Mail*. President **Hakainde Hichilema** pardons 1,125 inmates from jails across the country to commemorate **Zambia's** 58th independence anniversary.

About Africa Risk Consulting:

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