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Zambia Monthly Briefing February 2022

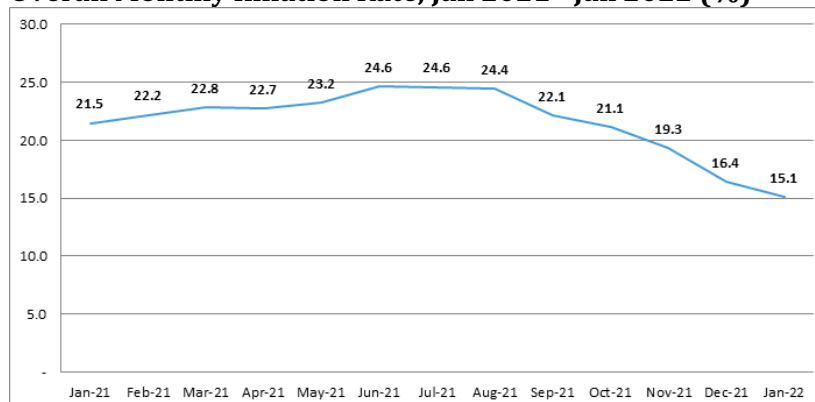
Zambia Summary 14 February 2022

Inflation continues a downward trajectory with the Bank of Zambia (BoZ) (central bank) Monetary Policy Committee set to announce the outcome of its quarterly meeting on 16 February. The Energy Regulation Board announces a reduction of fuel pump prices and migrates to a 30-day pricing cycle for petrol, diesel and low sulphur gas. Investments in the mining sector pick up while global copper prices continue to rise. President Hakainde Hichilema (2021-present) courts regional and international investors in a bid to promote economic growth and diversification. The opposition Patriotic Front (PF) rejects the results of the parliamentary elections in Kabwata constituency. PF acting president Given Lubinda and former Lusaka province minister Bowman Lusambo are caught in the crosshairs of corruption investigations. The ruling United Party for National Development government has granted the go-ahead for the controversial Kangaluwi Open Pit Mining project in the Lower Zambezi National Park, citing the binding nature of legacy decisions made by the PF. Covid-19 cases continue to decline in Zambia as the fourth wave of infections, driven by the omicron variant, subsides.

Inflation continues to decline, while global copper prices tick upwards

Zambia's downward trend in inflation continues. Latest data from the **Zambia Statistics Agency** indicates that annual inflation in Zambia stood at 15.1 % in January 2022, down from 16.4% in December. Finance and national planning minister **Situmbeko Musokotwane** announced in October the goal of reducing inflation to single digits by the end of 2022 and bringing it within the target band of 6-8% by mid-2023.¹ The country's continued economic recovery will enable the **Bank of Zambia (BoZ)** (central bank) to focus more strongly on containing inflation, with a policy decision to be announced on 16 February after the BoZ's first quarterly **Monetary Policy Committee (MPC)** meeting for 2022. The apex bank decided at its previous MPC meeting, on 22-23 November, to raise the monetary policy rate by 50 basis points to 9.0.²

Overall Monthly Inflation Rate, Jan 2021 - Jan 2022 (%)



Source: ZamStats Prices Statistics, 2022

Note: 2009=100

¹ 2022 Budget Address, 29 October 2021

² BoZ, 23 Nov 2021

In positive news for Zambian consumers, the **Energy Regulation Board (ERB)** announced on 31 January a reduction in fuel prices, lowering petrol prices by K1.32 (\$0.07) per litre and diesel prices by K1.22 (\$0.07). Transport and logistics minister **Frank Tayali** said the decrease is expected to feed through into lower transportation fares.³ The ERB migrated to a 30-day pricing cycle for petrol, diesel and low sulphur gas on 25 January.

Higher copper prices are also a welcome boost for Zambia's economy. The price of copper closed at \$10,222 a metric tonne on 10 February, the highest level since 19 October 2021 (\$10,651), with prices expected to remain elevated during 2022, owing to higher global demand for the metal and low copper stocks.⁴ This bodes well for Zambia's economic growth, which is highly dependent on a mining sector dominated by copper. In January, **Mukula Mining Investments Limited** divulged that it had earmarked an \$8m investment for the development of an open-pit mine and copper processing facilities in **Lufwanyama District** in the **Copperbelt Province**. The mine is expected to have a lifespan of 10 years, and produce 500,000 tonnes of copper per year, processing copper ore into concentrates.⁵

Through its mining investment vehicle company, **ZCCM Investments Holdings (ZCCM-IH)**, the Zambian state granted on 25 January a \$10m guarantee to **Zambia National Commercial Bank** to provide working capital to **Konkola Copper Mine (KCM)**.⁶ This is to enable the latter to continue its operations until 31 December 2022 despite an ongoing legal battle between the government, which owns 20% of KCM through ZCCM-IH, and **Vedanta Resources**, which owns the remaining 80%. In 2019, the then PF-led government moved to liquidate KCM, alleging a series of breaches by Vedanta Resources of its mining licences, including a failure to pay taxes (see *ARC Briefing Zambia May-June 2019*).⁷ The parties have been embroiled in a legal dispute since then.

Hichilema promotes Zambia as a trade and investment destination...

While the uptick in commodity prices will support Zambia's economy, its reliance on its extractives industry means it will continue to be vulnerable to changes in global prices and demand for minerals. To that end, the **United Party for National Development (UPND)** government led by President **Hichilema Hakainde** (2021-present) has placed emphasis on diversifying the economy, courting regional and international trade and investment to develop the country's non-mining sectors. In his 2022 budget speech, finance minister Musokotwane said:

"The dependence on copper has left us vulnerable to external shocks. This situation needs to be addressed."⁸

Raising Zambia's profile as a trade and investment hub is a core feature of Hakainde's plan to catalyse an economic turnaround for the country. The president's international charm offensive saw him visit **South Africa, Dubai** and **Ethiopia** in January and February. Following his visit to South Africa and a meeting with his South African counterpart, President **Cyril Ramaphosa** (2018-present) in January, Ramaphosa's spokesperson, **Tyrone Seale**, stated:

"The leaders identified the need for SA and Zambia to keep one another abreast of investment opportunities in each country and to actively encourage business to invest in areas of mutual benefit for regional development, such as in mineral beneficiation, local manufacturing and agriculture."

During Hakainde's visit to the **Dubai Expo 2020** in January, where over 50 Zambian companies exhibited their products and services, he promoted the country's potential for investment in priority

³ Zambia Daily Mail, 2 Feb 2022

⁴ Business Insider, 11 Feb 2022

⁵ Zambia Daily Mail, 13 Jan 2022

⁶ Zambia Daily Mail, 27 Jan 2022

⁷ Mining Journal, 9 Mar 2021

⁸ Lusaka Times, 30 Oct 2021

sectors including tourism, agriculture, manufacturing, energy and construction.⁹ Hakainde also noted Zambia's potential to be a "significant contributor to food security around the world, through its vast arable land and network of water bodies".¹⁰ Food insecurity is a key focus area for the **Gulf** region as population growth continues to outstrip agricultural productivity.¹¹

During his maiden address at the **African Union** in early February, Hakainde reiterated his commitment to restore investor confidence and promote a business-friendly environment to attract foreign investment and also ramp up trade, starting with Zambia's **African** peers. He called on African leaders to "embrace a new paradigm... anchored by trade, investment, and partnerships".¹²

An improving tax environment and continued efforts by Zambian authorities to provide greater clarity and transparency regarding the country's tax framework will also boost investor appetite. On 11 February, the **Zambia Revenue Authority** published **Practice Note No. 1/2022** providing guidance on changes to taxes introduced by amendments to laws governing income tax, property transfer tax, Value-Added Tax, insurance premium levies, and customs and excise. Key changes in the note, effective from 1 January 2022, include:

- The reduction of standard corporate income tax from 35% to 30%;
- The introduction of tax incentives on income from exports, for qualifying enterprises;
- Increase in the carry forward period of disallowed interest expense for mining operations and electricity generating entities, from five years to 10 years;
- Introduction of a 0% tax rate for 10 years, on dividends declared on profits from exports by a company operating in a multi-facility economic zone or industrial park under the **Zambia Development Agency Act**.¹³

... but the ruling party continues to contend with legacy issues

Back home, however, Hakainde faces growing scrutiny over the frequency of his international trips, particularly as he, too, was once a strong critic of former president **Edgar Lungu's** (2015-2021) international travel schedule. Hakainde's visit to Ethiopia in February was his tenth international engagement since his election as president in August 2021.¹⁴ This criticism is likely to persist until his investment promotion agenda can produce a tangible result in terms of increased employment and a higher standard of living for Zambians.

A parliamentary by-election on 3 February in the **Kabwata** constituency, representing the areas of Kabwata, **Libala** and **Chilenje** in **Lusaka Province**, was hotly contested. UPND candidate **Andrew Tayengwa** narrowly beat out opposition **Patriotic Front (PF)** candidate **Clement Tembo** with 13,574 votes to 11,192 votes. The euphoria that characterised the August 2021 presidential elections appears to have waned, as this election experienced low voter turnout in contrast to the record voter numbers recorded in August: out of 108,729 registered voters, only 27,677 cast their votes in the parliamentary elections, representing a voter turnout of 25.5%.¹⁵

On the upside, the electoral environment was relatively peaceful. The **Christian Churches Monitoring Group**, a local election observation organisation noted only three incidents of violence involving representatives of the ruling party as well as the opposition PF.¹⁶ This marked a change

⁹ Zambia Daily Mail, 22 Jan 2022

¹⁰ <http://www.cen.gov.zm/?p=5789>

¹¹ World Bank, 25 Sept 2021

¹² Times Live, 26 Jan 2022

¹³ Zambia Revenue Authority Practice Note No. 1/2022

¹⁴ The Star, 27 Jan 2022

¹⁵ Electoral commission of Zambia, 4 Feb 2022

¹⁶ Daily Nation, 7 Feb 2022

from the tense atmosphere during the run-up to the presidential elections in August, which saw former president Edgar Lungu deploying the military and citing the need to curb political violence.¹⁷

However, the monitoring group alleged there were some procedural issues, including some voters being allowed to vote without national registration cards and nine polling stations not disclosing results.¹⁸ The PF has since rejected the election results, gearing up for a legal battle, a move set to delay service delivery at a time when the country's citizens are struggling with access to basic needs such as water, electricity, housing, basic education and food security.¹⁹

The UPND government is continuing its pledge to tackle corruption, which contributed significantly to Zambia's present debt crisis – as at 29 October, this stood at \$26 billion.²⁰ A number of institutions have embarked on a process to recover stolen state assets and prosecute perpetrators of financial crimes (see *ARC Briefing Zambia Dec 2021*). Two prominent members of the former ruling party, PF acting president **Given Lubinda** and former Lusaka province minister **Bowman Lusambo** are the latest persons of interest in a series of high-profile investigations. The **Anti-Corruption Commission** summoned Lubinda to appear before it on a “*warn and caution*” on 31 January, under suspicion of being in possession of property reasonably suspected to be the proceeds of crime.²¹ Lusambo faces five counts of “*corrupt acquisition of public property and possession of assets suspected to be proceeds of crime*” relating to properties worth over \$200,000 which the state alleges he concealed in his wife's name.²²

The UPND government has also granted the go-ahead for the controversial **Kangaluwi Open Pit Mining Project** by **Mwembeshi Resources Limited**, following a protracted legal battle that has made its way through the Zambian courts since 2014. This decision paves the way for Mwembeshi Resources Limited to begin mining in the **Lower Zambezi National Park**. Minister of green economy and environment **Collins Nzovu** has lamented the difficulty in reversing a legally binding decision made by Lungu's administration, which overrode a decision by the **Zambia Environmental Management Agency** to deny Mwembeshi Resources Limited a mining licence on environmental protection grounds, opting to grant the firm a mining licence nonetheless. This decision has faced significant backlash from conservationists, non-governmental organisations, civil society as well as the country's citizens who cite strong concerns including pollution of the **Zambezi River**, which poses a threat to the protected species and human lives that depend on the river for their livelihoods.²³

Covid fourth wave subsides

Zambia is seeing its fourth wave of Covid-19 infections subside. The average daily number of confirmed new Covid-19 cases as of 10 February was 506, down from 1,485 a month earlier, indicating that Zambia is exiting the fourth wave of infections driven by the omicron variant.²⁴ At end-January, health minister **Sylvia Masebo** noted a weekly Covid-19 positivity rate of below 10%, and introduced a target of 5% positivity, which will indicate that community transmission has been contained. The health ministry has recorded a total of 309,579 cases of Covid-19 in Zambia's population of roughly 18.9 million, with 303,143 recoveries and 3,938 Covid-19-related deaths as at 14 February.²⁵

As at 10 February, the ministry of health reports that just over 1.7 million people have been vaccinated against Covid-19, an estimated 9.2% of the population.²⁶ This is far below the

¹⁷ Aljazeera, 1 Aug 2021

¹⁸ Daily Nation, 7 Feb 2022

¹⁹ Lusaka Times, 5 Feb 2022

²⁰ Zambia Daily Mail, 19 Jan 2022

²¹ Zambian Observer, 31 Jan 2022

²² Zambia Daily Mail, 10 Feb 2022

²³ The Star, 1 Feb 2022

²⁴ Worldometers, accessed 10 Feb 2022

²⁵ Ministry of Health, 14 Feb 2022

²⁶ Ministry of Health, 10 Feb 2022

government's target of 70% coverage by June 2022.²⁷ On 27 December, the government rolled out a programme to begin administering booster vaccinations to fully vaccinated individuals; by 10 February take-up stood at 20,269.²⁸ Masebo has appealed to parents to consent for their children aged 12-17 to receive the vaccine, as children represent 10% of the total number of Covid-19 cases reported in the country, with 276 of these lost to date.²⁹ Take-up of the vaccine within this age group has been slow, with only 18,178 vaccinated as at 10 February.

Bars, restaurants, clubs, casinos and churches are permitted to open without restrictions on hours or capacity. Public transport may also operate without capacity restrictions. As the fourth wave wanes, 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.³⁰

Planner

16 Feb 2022 **Lusaka (Zambia) Bank of Zambia** (central bank) will provide an announcement and press briefing on the quarterly Monetary Policy Committee meeting.

Chronology

9 Feb 2022 **Lusaka (Zambia) Bloomberg**. The **Bank of Zambia** (central bank) says it is conducting research on the implementation of a **central bank digital currency (CBDC)**, aiming to conclude this research imminently and possibly introducing a CBDC by Q4 2022;

4 Feb 2022 **Addis Ababa (Ethiopia) Zambia National Broadcasting Corporation**. President **Hichilema Hakainde** arrives in **Addis Ababa** to attend the 35th Ordinary Session of **African Union (AU) Heads of State and Government Summit**;

4 Feb 2022 **Lusaka (Zambia) Electoral Commission of Zambia**. The ruling **United Party for National Development's (UPND)** candidate **Andrew Tayengwa** narrowly beats out the **Patriotic Front's (PF) Clement Tembo** with 13,574 votes to 11,192 votes in the parliamentary by-election for the **Kabwata** constituency;

3 Feb 2022 **Lusaka (Zambia) Zambia Daily Mail**. The ministry of infrastructure, housing and urban development divulges that the **Zambian government** has received revenues of over K7.35 billion (\$391.3m) for toll fees since the launch of the **National Road Tolling Programme** in 2013;

1 Feb 2022 **Lusaka (Zambia) Energy Regulation Board**. The **Energy Regulation Board (ERB)** decreases fuel pump prices of petroleum products by K1.22 (\$0.07) per litre for diesel and K1.32 (\$0.07) per litre for petrol, while the price of kerosene remains unchanged;

31 Jan 2022 **Lusaka (Zambia) Zambia National Broadcasting Corporation**. The **Anti-Corruption Commission** issues a warning and caution for opposition **Patriotic Front** acting president **Given Lubinda** on allegations of being in possession of property reasonably suspected to be proceeds of crime.

27 Jan 2022 **Lusaka (Zambia) Zambia Daily Mail**. Partially state-owned **ZCCM Investments Holdings (ZCCM-IH)** agrees to provide a \$10m corporate guarantee to the **Zambia National Commercial Bank** to provide working capital to **Konkola Copper Mine (KCM) Plc**, valid until 31 December 2022;

26 Jan 2022 **Johannesburg (South Africa) Times Live**. **Zambia's** President **Hichilema Hakainde** meets with **South Africa's** president **Cyril Ramaphosa** during a trip to South Africa, discussing topics from investment opportunities in areas including mineral beneficiation,

²⁷ Ministry of Health, 23 Dec 2021

²⁸ Ministry of Health, 10 Feb 2022

²⁹ Ministry of Health, 31 Jan 2022

³⁰ Source, analyst Zambia

manufacturing and agriculture to **Covid-19** vaccine development and distribution as well as regional issues around peace and security;

26 Jan 2022 **Lusaka (Zambia)** *Zambia Daily Mail*. The **Financial Intelligence Centre (FIC)** fines **Stanbic Bank Zambia** K405,000 (\$21,564) for failing to report suspicious transactions from January to December 2020, in breach of the **FIC Act of 2010**;

25 Jan 2022 **Lusaka (Zambia)** *Zambia National Broadcasting Corporation*. The **Energy Regulation Board** announces it will begin reviewing prices for petrol, diesel and low sulphur gas on a monthly basis.

20 Jan 2022 **Lusaka (Zambia)** *Zambia Statistics Agency*. The **Zambia Statistics Agency** announces it will conduct a national census exercise from 18 August to 14 September 2022, updating the previous census conducted in 2010;

15 Jan 2022 **Lusaka (Zambia)** *Zambia Daily Mail*. The **United Party for National Development** government extends the import tax waiver on petroleum products to 30 June 2022, ensuring that the customs duty rate for petrol, diesel, kerosene and liquefied petroleum gas has been zero-rated.

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