

AFRICA RISK CONSULTING

Zambia Monthly Briefing August 2020

Zambia Summary 28 August 2020

President Edgar Lungu (2015-present) unexpectedly dismisses Bank of Zambia (central bank) governor Denny Kalyalya and replaces him with former deputy secretary to the cabinet Christopher Mphanza Mvunga, who is widely regarded as less qualified. Mining sector sources inform ARC that the mines ministry is currently reviewing some 800 mining licences in an apparent clean up. Mines minister Richard Musukwa says state-owned mining investment company ZCCM Investments Holdings is seeking to buy a controlling stake in Switzerland-based Glencore's local copper unit, Mopani Copper Mines, following a dispute with Glencore over its plan to halt production.

“Central bank independence is key”

President **Edgar Lungu** (2015-present) dismissed **Bank of Zambia** (central bank) governor **Denny Kalyalya** on 22 August without explanation and replaced him with former deputy secretary to the cabinet **Christopher Mphanza Mvunga**.¹ The dismissal has raised concerns among investors who saw Kalyalya as an independent, more competent governor than his successor. Mvunga is widely regarded as unqualified, and takes the position amid the country's first recession in 20 years, runaway inflation and declining investor confidence.² **Lusaka**-based economist **Trevor Simumba** said:

*“It is quite surprising because Kalyalya has performed sterlingly under very extreme circumstances. To fire him in this manner sends a very negative signal. I'm shocked.”*³

Opposition **United Party for National Development** party leader **Hakainde Hichilema** said:

*“[Mvunga] does not have the depth of training, qualifications and experience in economics required to run the Zambia Central Bank. His integrity, credibility and personal character [are] also questionable.”*⁴

Lungu's surprise move is an indication of the state of politics in **Zambia** and could have devastating effects on the country's economy and development for years to come. One source said the move effectively means the government is reversing 30 years of stable macroeconomic management and will start printing money in an attempt to manage its \$200m debt crisis.⁵

The move is widely seen as political interference.⁶ The **International Monetary Fund** commented:

*“It is imperative that central banks' operational independence and credibility is maintained, particularly at this critical time when economic stability is threatened by the **Covid-19** pandemic.”*⁷

The most likely reason for the president's move is that the ruling **Patriotic Front (PF)** is gearing up for the 2021 elections with empty coffers. Kalyalya, Lungu's former finance minister, was not willing

¹ Business Day, 23 Aug 2020

² Bloomberg, 23 Aug 2020 and Source, Zambian political analyst, United Kingdom

³ Trevor Simumba quoted in Bloomberg, 23 Aug 2020

⁴ Africa Confidential, 27 Aug 2020

⁵ Source, Zambian political analyst, United Kingdom

⁶ Africa Confidential, 27 Aug 2020

⁷ IMF, 24 Aug 2020

to boost spending to advance Lungu's chances of remaining in power. While Lungu wants a central bank governor who will not hesitate to print money, Kalyalya repeatedly urged the government to cut the fiscal deficit amid ballooning debt and falling foreign-exchange reserves.

Zambia's external debt service costs for 2020 have risen to \$481m while government expenditure has increased by \$1.11 billion.⁸ Public debt exceeded 90% of GDP prior to the Covid-19 pandemic, and the fiscal deficit was over 10% of GDP. The finance ministry also defaulted on multiple loans last year.

This precarious financial situation is expected to worsen in the latter half of 2020 and next year.

United States-based credit ratings agency **Moody's** forecasts that public debt may surpass 110% of Zambia's GDP in 2020.⁹ The IMF, which includes Zambia in its list of countries at "*high risk of debt distress*", expects the economy will contract by 5% this year.¹⁰ The IMF has been unwilling to provide emergency financial assistance to Zambia due to excessive spending.

This has pushed Zambia to seek financial assistance elsewhere, particularly from **Africa's** largest lender, **China**.¹¹ Zambian government figures show that it owed Chinese lenders \$9.7 billion by the end of 2018, but the actual amount is likely to be much higher.¹² An article co-authored by Africa Risk Consulting's **Leonard Mbulle-Nziege** notes that local media outlets have reported that Chinese lenders requested the control of mining concessions as collateral for unpaid debts.¹³ President Lungu on 20 July requested China for urgent debt relief but **Beijing** has been reluctant to grant immediate debt relief concessions to Zambia and other countries in the region.¹⁴ This could result in Zambia trading a substantial portion of the ownership of its natural resources, as well as its political sovereignty, for Chinese economic security.

All mining licences on the table

Mining sector sources in Zambia have told ARC that government officials are currently reviewing some 800 mining licences with the possibility of scrapping them. A source said it appears that the mines ministry has targeted some companies with threats to revoke their mining licences in a shock clean-up of the sector. It is likely that the move is due to a drop in mining revenues this year, which has pushed the ministry to show that it is taking action to remedy the problem. Sources report that several people are closely watching the movement of licences in order to "*flip*" them. One source said it is likely that some politicians will use the review process to gain personal interests in profitable licences.

One such target of the government's ongoing review process is **Canada**-based junior uranium miner **GoviEx Uranium**, which issued a press release on 7 July stating that the company had received a letter from the **Mining Cadastre Department of Zambia** notifying it that its **Chirundu** mining licence has been terminated.¹⁵ GoviEx said it has appealed the decision and is awaiting a response. A source said that the government justified its action based on the lack of progress at the Chirundu project.

The government has been pushing for more control over its mining resources to earn immediate revenue to plug its burgeoning financial problems. State-owned mining investment company **ZCCM Investments Holdings (ZCCM-IH)** in July disclosed that it intends to run mines as an operator rather than a minority investor in future investments. **Mateyo Kaluba**, the chairman of the owner of ZCCM, state-owned holding company **Industrial Development Corporation**, said:

⁸ Tellimer, 27 Jun 2020

⁹ Moody's, 6 Jul 2020

¹⁰ IMF, 15 Jul 2020

¹¹ China has disbursed resource-backed loans to African countries to facilitate the ease of access to these resources, which amounted to 33% of loans to Africa from 2000 to 2014. Daily Maverick, 27 Aug 2020

¹² 'Chinese Loans to Africa Database', China Africa Research Initiative (last accessed 28 Aug 2020)

¹³ Daily Maverick, 27 Aug 2020

¹⁴ Business Day, 21 Jul 2020

¹⁵ GoviEx Uranium

“We are not averse to them getting into partnerships but those partnerships must be balanced. Most of the partnerships that ZCCM-IH has right now are not balanced because the stakes are very small minorities.”¹⁶

ZCCM chief executive **Mabvuto Chipata** has stated that ZCCM’s equity push will not threaten private involvement in mining.¹⁷ However, investors are not confident, given the government’s tough stance on foreign companies in recent times. Last year, the government clashed with **United Kingdom**-based mining company **Vedanta Resources**, and moved to provisionally liquidate its operation in the country (see *ARC Briefing Zambia February 2020*). Government has since 2018 increasingly implemented resource nationalist measures against investors in the mining sector, which accounts for more than 75% of total exports.¹⁸ However, resource nationalism has not proven a success for the government. Tax revenue from mineral royalties decreased 12% in 2019, presumably owing to lower levels of production.¹⁹

Mining is not the only sector in which the government is seeking greater returns. Energy minister **Matthew Nkhwa** issued a statement, known as a statutory instrument, on 3 June declaring all of former state-owned firm **Copperbelt Energy Corporation (CEC)** distribution and transmission lines as a “*common carrier*,” effectively expropriating CEC’s power lines, which other electricity distribution companies may now use.²⁰

The global pandemic has also hit the mining sector. Zambian mining companies saw a significant decline in revenue by approximately 30% between February and April 2020.²¹

... as brinkmanship at Mopani continues

Mines minister **Richard Musukwa** on 25 August said ZCCM Investment Holdings is seeking to buy a controlling stake in **Switzerland**-based **Glencore**’s local copper unit, **Mopani Copper Mines (MCM)**, following a dispute with Glencore over its plan to halt production.²² Two undisclosed sources at Glencore came back by putting the company’s entire stake at MCM on the table, rather than settling as a minority shareholder.²³

The mines ministry and Glencore seem to be involved in a game of brinkmanship. The government has not said how it intends to pay for the acquisition, valued by Glencore at \$514.6m, which the cash-strapped government can ill-afford. This suggests that Musukwa’s recent announcement is a threat rather than a likely reality. It is therefore likely that the parties will find a solution to avoid the buyout.

Glencore has had a troubled relationship with the authorities in Zambia, Africa’s second-largest copper producer. Government in April threatened to revoke MCM’s mining licence after Glencore announced that it intended to suspend operations at the mine due to low copper prices and the global pandemic. In May, MCM said it would resume mining operations for 90 days but still expected to go into care and maintenance. On 16 July, MCM said it would appeal the mines ministry’s decision to reject its proposal to suspend the operations. Government in July rejected MCM’s plans to place the mine under care and maintenance, forcing Glencore to continue operating the mine despite health and financial concerns due to the Covid-19 pandemic.

ZCCM-IH currently holds a 10% stake in MCM and Glencore is the majority owner with 73.1%. Canada-based miner **First Quantum Minerals**, which owns the remaining 16.9% stake, is yet to comment on the matter. Glencore decreased its valuation of MCM by \$1.144 billion in its half-year

¹⁶ Ventures Africa, 20 Jul 2020

¹⁷ 26 Jun 2020

¹⁸ TrendEconomy, 14 Aug 2020

¹⁹ TrendEconomy, 14 Aug 2020

²⁰ Reuters, 3 Jun 2020

²¹ ‘op cit note 7’, Zambian chamber of mines (last accessed 27 Aug 2020)

²² Reuters, 25 Aug 2020

²³ Reuters, 27 Aug 2020

earnings report this month, saying the estimated recoverable value was \$704m, including tax receivables.

Planner

2021 **(Zambia)** Presidential and legislative elections.

Chronology

25 Aug 2020 **Lusaka (Zambia)** *Bloomberg*. Mines minister **Richard Musukwa** says state-owned mining investment company **ZCCM Investments Holdings** is seeking to buy a controlling stake in **Switzerland**-based **Glencore**'s local copper unit **Mopani Copper Mines**, reportedly to keep the operations running and protect jobs;

24 Aug 2020 **Johannesburg (South Africa)** *Business Day*. President **Cyril Ramaphosa** reprimands finance minister **Tito Mboweni** over comments he made on social media about the dismissal of **Zambia**'s central bank governor, **Denny Kalyalya**, without explanation;

24 Aug 2020 **Lusaka (Zambia)** *Bloomberg*. **Zambia**'s currency falls 0.7% against the dollar and Eurobond yields surge 30.34% after President **Edgar Lungu**'s dismissal of **Bank of Zambia** (central bank) governor **Denny Kalyalya** raises questions about the independence of the institution;

22 Aug 2020 **Lusaka (Zambia)** *Times of Zambia*. President **Edgar Lungu** dismisses **Bank of Zambia** (central bank) governor **Denny Kalyalya** without explanation and replaces him with former deputy finance minister **Christopher Mphanza Mvunga**;

19 Aug 2020 **Lusaka (Zambia)** *Reuters*. **Bank of Zambia** (central bank) cuts its benchmark lending rate by 125 basis points to 8.0% to safeguard financial sector stability and protect livelihoods in the wake of the **Covid-19** pandemic;

19 Aug 2020 **Lusaka (Zambia)** *News24*. The presidency says vice president **Inonge Mutukwa** has tested positive for **Covid-19**, but she is in a stable condition;

4 Aug 2020 **Lusaka (Zambia)** *Business Day*. **South Africa**-based investment company **Ecsponent** sells its 25% stake in fintech operator **MyBucks Zambia** for \$1.5m;

29 Jul 2020 **Lusaka (Zambia)** *Business Day*. **Gemfields** warns shareholders that it might issue shares to prop up finances due to the impact on production from the **covid-19** pandemic.

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 whistleblower support on one end to crisis media management and regular monitoring on the other.

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