

AFRICA RISK CONSULTING

Zambia Monthly Briefing July 2020

Zambia Summary 29 July 2020

President Edgar Lungu (2015-present) asks China for debt relief and cancellation amidst the economic impact of the Covid-19 pandemic. Zambia's copper production rises by 3.9% to 342,734 tonnes in the first five months of 2020 despite the semi-closure of mines during the Covid-19 national lockdowns, while mineral revenues drop by 30% over the period between February and April. Lusaka-based mining investments and operations company Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH) partners with United States-based mining services company Array Metals to play a role in Zambia's economic recovery.

Zambia appeals to China for debt relief ...

The global **Covid-19** pandemic has taken a massive toll on **Zambia's** economy.¹ President **Edgar Lungu** (2015-present), in a telephone meeting on 20 July, appealed to his **Chinese** counterpart, **Xi Jinping** (2013-present), for debt relief and cancellation due to a pandemic-induced decline in government revenue and Zambia's inability to stimulate its economy.² Zambia is battling to finance its \$10-billion debt, of which approximately \$3 billion is owed to China, and has defaulted on repayments of loans.³

President Lungu is yet to receive a public response to his appeal from the Chinese embassy in **Lusaka**, the foreign ministry in **Beijing** or President Jinping himself. However, presidential public relations assistant **Isaac Chipampe**, in a statement to media on 20 July, relayed Jinping's response that China would do what it could to help Zambia and other **African** countries overcome the pandemic and restore economic and social progress:⁴

"I called for greater support for African countries on multiple occasions. China is stepping up the implementation of the relevant measures and will continue to do its best to support Zambia and other African countries in Covid-19 response and economic recovery."⁵

Zambia's relationship with China dates back to the establishment of the **Tanzania-Zambia Railway Authority (TAZARA)**, overseeing a 1,860-kilometre railway line linking Tanzania's port of **Dar es Salaam** and **Kapiri Mposhi** in central Zambia, which China financed and built in 1976.⁶ China's demand for Zambia's primary export commodity, copper, has further strengthened the bond between the two countries.⁷

Over the last few years, Zambia's public debt has ballooned.⁸ The current Zambian administration has taken significant loans to finance mass infrastructure development projects with a substantial amount of debt coming from Chinese lenders.⁹ Despite the price of copper nearing a two-year high, the current global Covid-19-induced economic crisis has reduced demand and hit Zambia's revenues.

¹ Source, analyst, Pretoria

² Lusaka Times, 21 Jul 2020

³ China Africa Project, 22 Jul 2020

⁴ State House Special Assistant Press & Publications, 20 Jul 2020

⁵ President Xi Jinping quoted by State House Special Assistant Press & Publications, 20 Jul 2020

⁶ Ventures Africa, 23 Jul 2020

⁷ Source, analyst, Pretoria

⁸ Ventures Africa, 23 Jul 2020

⁹ China Africa Project, 22 Jul 2020

The Zambian government hired **Bermuda**-based financial consultancy firm **Lazard** in May to advise on Zambia's growing debt distress and restructuring its \$11.23 billion of external foreign debt after a tender process (see *ARC Briefing Zambia June 2020*).¹⁰ The engagement of Lazard was a precondition to receiving emergency assistance from the **World Bank** under its **Debt Service Suspension Initiative (DSSI)**, a fund helping nations respond to the economic and health challenges posed by Covid-19. **International Monetary Fund (IMF)** communications director **Gerry Rice** noted in May that Zambia must engage its creditors to demonstrate an ability to manage current debts before receiving further assistance.¹¹

... as Zambia's economy shrinks

The government has revised its previous forecasts for the country's economic trajectory, predicting that the economy will shrink by 4.2% in 2020 in comparison to the initial growth of at least 3% that it had initially forecasted in January.¹² In a statement delivered to parliament in **Lusaka** on 24 July, finance minister **Bwalya Ng'andu** confirmed that Zambia had revised its 2020 growth forecast downwards as a result of the double-whammy of Covid-19 and the 2019 drought.¹³ The Covid-19 pandemic has reduced manufacturing and mining output, as well as tourism revenue, while the **El Niño**-induced drought disrupted agricultural production in the 2019-2020 cropping season.¹⁴ Ng'andu noted that primary and secondary sectors such as mining, energy, construction and manufacturing are expected to record poor performance while service sectors such as wholesale and trade, tourism, transport and professional services are equally expected to underperform.¹⁵

The IMF in its **Sub-Saharan Africa Economic Outlook**, published on 29 June, makes slightly less optimistic projections for Zambia, predicting that its economy will decline by 5% in 2020.¹⁶ The IMF's projections for Zambia align with its forecast of countries in **sub-Saharan Africa** that the Covid-19 pandemic is likely to affect the most.¹⁷ The IMF predicts that growth will contract the most in tourism-reliant and resource-dependent economies.¹⁸

While Zambia's economy is not tourism-intensive, it is particularly reliant on mining.¹⁹ The **Southern African** nation is Africa's second-largest copper producer after the **Democratic Republic of the Congo**, earning 60% of foreign exchange from copper exports in 2019, which accounted for 12.2% of its gross domestic product.²⁰ Following the completion of its virtual mission to Zambia on 15 July, the IMF cited a number of factors that will contribute to significantly impacting Zambia's economic prospects in 2020, most notably Covid-19.²¹

"The Covid-19 shock has significantly impacted economic prospects – growth this year will be negative, poverty has likely increased, and fiscal pressures have increased further with lower revenues, higher expenditure needs, and an already high debt service burden."²²

The transparent response led by the Zambian ministry of health, and advised by experts from the **World Health Organization (WHO)** and **Center for Disease Control and Prevention (CDC)** has allowed Zambia to keep its confirmed cases relatively low. As of 28 July, Zambia had registered 4,552 confirmed cases of the coronavirus, 140 deaths, and 2,815 recoveries in its population of 17.35

¹⁰ Milken Institute, 28 May 2020

¹¹ IMF Press Briefing, 21 May 2020

¹² African Mining, 23 Jan 2020

¹³ Premium Times, 15 Jul 2020

¹⁴ Premium Times, 15 Jul 2020

¹⁵ Premium Times, 15 Jul 2020

¹⁶ International Monetary Fund, 29 Jun 2020

¹⁷ Source, analyst, Pretoria

¹⁸ International Monetary Fund, 29 Jun 2020

¹⁹ Source, analyst, Pretoria

²⁰ Trading Economics, Jan 2020

²¹ International Monetary Fund, 15 Jul 2020

²² International Monetary Fund, 15 Jul 2020

million.²³ At present, Zambia's mortality rate is just over 8 deaths per one million inhabitants, significantly lower than that of some of its counterparts in **Southern Africa**, including Africa's Covid-19 epicentre, **South Africa**, which has recorded just under 126 deaths per one million people. However, Zambia's mortality rate is slightly higher than that of a number of other Southern African countries, most notably **Mozambique**, which has registered lower than 1 death per million people, and **Zimbabwe**, which has recorded fewer than three deaths per million inhabitants.²⁴

COVID-19 deaths per one million population ²⁵			
	Confirmed deaths	Deaths per million	Population (millions)
Zambia	142	8.18	17.35
South Africa	7252	125.6	57.78
Mozambique	11	0.37	29.5
Zimbabwe	40	2.77	14.44

Copper output rises as mineral revenues suffer ...

The mines ministry announced on 9 July that Zambia's copper output rose by 3.9% to 342,734 tonnes in the first five months of 2020, an increase of 3.85% (330,024 tonnes) over the same time period last year. Copper production is expected to continue on an upward trajectory in both the third and fourth quarter of the year.²⁶

However, the Covid-19 pandemic has negatively impacted Zambia's mining sector, as seen in the drop in mining revenue.²⁷ **Zambia Chamber of Mines (ZCM)** CEO **Sokwani Chilembo** announced on 24 July that Zambia's mineral revenues had declined by 30% over the three months between February and April. Chilembo attributed the fall in revenue to global restrictions on movement, which have disrupted supply chains and affected copper exports and prices. The price of copper fell by 12% in comparison to the same time period in 2019.²⁸

*"Zambia's mining companies have suffered an alarming drop in revenue over the three months February-April 2020, illustrating the deep impact of Covid-19 on mining companies. So while companies have been able to maintain production levels, they have struggled to export and sell their copper."*²⁹

Revenues from ore mining account for approximately 70% of Zambia's export earnings.³⁰ The fall in mining revenues has led to a drop in mineral royalty payments, which are projected to come in at around \$60m-\$65m over the three-month period between February and April, rather than the expected \$85m-\$90m.³¹

... as mining sector is expected to lead Zambia's economic recovery

Despite Zambia's challenging economic trajectory, the government hopes its wealth of natural resources will open new opportunities for investors.³² As countries around the globe gradually begin

²³ Worldometers, 27 Jul 2020

²⁴ Statista, 28 Jul 2020

²⁵ Statista, 28 Jul 2020

²⁶ Resources Magazine, 10 Jul 2020

²⁷ African Mining Market, 18 Jun 2020

²⁸ Taarifa, 24 Jul 2020

²⁹ Sokwani Chilembo quoted by Taarifa, 24 Jul 2020

³⁰ Africa CGTN, 11 Jun 2020

³¹ African Mining Market, 18 Jun 2020

³² Source, analyst, Pretoria

to reopen their economies and resume economic activities, Zambia is looking to its mining sector to lead economic recovery.³³

As part of its economic recovery strategy, Lusaka-based mining investments and operations company **Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH)** – whose major shareholder is the Zambian government – is looking to take on a leadership role in partnership with **United States**-based mining services company **Array Metals**.³⁴ The project aims to process production from a gold deposit in **Mumbwa** and is expected to produce approximately 3 tonnes of gold, worth about \$150m at prevailing market prices. The Mumbwa project is expected to create approximately 300 local jobs in the short term and additional jobs as mining operations expand.³⁵ The partnership between ZCCM-IH and Array Metals is also expected to offer smaller mining exploration and extraction firms opportunities that discoveries in Zambia’s mineral extraction and exploration landscape present.

Array Metals has an estimated inferred resource of 3 million tonnes of gold ore in Mumbwa. The government’s partnership demonstrates its attempts to diversify Zambia’s economy away from its dependence on copper and create sustainable jobs through underexplored markets such as gold. The IMF in its Sub-Saharan Africa Economic Outlook noted how the Covid-19 pandemic is likely to expose the vulnerabilities of economies in countries in the region – including Zambia’s – due to lack of economic diversification and significant reliance on a single commodity (see above).³⁶

Planner

25-26 June 2020 **Lusaka (Zambia)** International Financial Reporting Standard;

1-7 July 2020 **Ndola (Zambia)** Zambia International Trade Fair (ZITF)

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

Chronology

29 Jul 2020 **Lusaka (Zambia)** *Lusaka Times*. Zambia records 450 new **Covid-19** cases on 28 July, the second highest number since the Covid-19 pandemic reached Zambia;

28 Jul 2020 **Harare (Zimbabwe)** *Southern African Development Community*. **Southern African Development Community (SADC)** politics, defence and security organ chairperson President **Emmerson Mngangagwa** directs the SADC executive secretary to facilitate the constitution and deployment of a Technical Experts Team to conduct a mission to and along the **Zambia** and **Democratic Republic of the Congo** border following the security incidents that occurred in mid-March 2020 along the borders;

28 Jul 2020 **Lusaka (Zambia)** *CGTN Africa*. The **United Nations World Food Programme (WFP)** completes first distribution of cash to Zambians in urban areas impacted by **Covid-19**, reaching approximately 180,000 vulnerable residents in Lusaka and **Kafue**;

23 July 2020 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** chairs a meeting during which the government concludes it will not enforce national lockdown, despite rising **Covid-19** cases and deaths in Zambia;

18 Jul 2020 **Lusaka (Zambia)** *CGTN*. State-owned investment arm **Industrial Development Corporation** head **Mateyo Kaluba** says the state will run mines as an operator rather than a minority investor in future investments, as it seeks a more active role in mining assets it holds;

16 Jul 2020 **Lusaka (Zambia)** *Reuters*. **Switzerland**-headquartered commodity trading and mining company **Glencore’s Zambia** subsidiary, **Mopani Copper Mines**, says Zambia’s mines

³³ Source, analyst, Pretoria

³⁴ IT News Africa, 24 May 2020

³⁵ Array Metals, 21 May 2020

³⁶ International Monetary Fund, 29 Jun 2020

ministry rejected its proposal to suspend operations because of low copper prices and disruptions caused by the **coronavirus** crisis;

6 Jul 2020 **Lusaka (Zambia)** *International Consortium of Investigative Journalists*. **Zambia** becomes second nation to tear up **Mauritius** tax deal, and will now try to estimate how much revenue was lost;

25 Jun 2020 **Lusaka (Zambia)** *Reuters*. President **Edgar Lungu** says expenditure is expected to rise by approximately 20 billion kwacha (\$1.11 billion) this year as the local currency weakens, piling more pressure on a nation already struggling with huge debt;

25 Jun 2020 **Lusaka (Zambia)** *Renewables Now*. **National Pension Scheme Authority of Zambia** seeks to recruit a consultancy firm to provide investment and transaction advisory services in the area of renewable energy projects financing;

24 Jun 2020 **Lusaka (Zambia)** *Zambia Reports*. **Anti-Corruption Commission** says health minister **Chitalu Chilufya** has been arrested on four counts of possession of property “reasonably suspected of being proceeds of crime”;

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