

AFRICA RISK CONSULTING

Zambia Monthly Briefing February 2021

Zambia Summary 11 February 2021

The Zambian government has approached the Group of Twenty (G20) for debt relief under its Common Framework to tackle unsustainable debt stocks as Zambia misses a \$56.1m coupon payment on its Eurobond maturing in 2027. Zambia's investment arm, ZCCM-IH, takes on \$1.5 billion in debt to buy the majority share of Mopani Copper Mine from Switzerland-headquartered commodity trading and mining company Glencore. Germany-based non-governmental organisation Transparency International (TI) lowers Zambia's score and ranking in its 2020 Corruption Perceptions Index (CPI). TI notes the Covid-19 health crisis has highlighted corruption risks associated with public procurement and misappropriation of emergency funds as confirmed Covid-19 cases in Zambia hit 66,598 with 914 Covid-19-related deaths.

Zambia seeks debt restructuring under G20 framework...

Zambia has requested a restructuring of its debt under the new **Group of Twenty (G20) Common Framework**. The G20 in April 2020 offered the world's poorest countries temporary payment relief on debt owed to official creditors under its **Debt Service Suspension Initiative (DSSI)**. In November, it set up the common framework to tackle debt stocks that have become unsustainable due to the impact of **Covid-19**.¹ Zambia became **Africa's** first sovereign country in the Covid-19 pandemic-era to default on debt payments after it failed to pay a \$42.5m coupon after the grace period expired on 13 November (see *ARC Briefing Zambia November 2020*).²

Zambia's finance ministry said the debt treatment under the G20 common framework would be based on a debt sustainability analysis prepared in collaboration with the **International Monetary Fund (IMF)**.³ Zambia is due to begin negotiations shortly to establish a relief programme with the IMF.⁴ The **Paris Club** of creditors is also expected to coordinate its engagement with Zambia through the framework.⁵ Announcing Zambia's request for debt restructuring on 5 February, finance minister **Bwalya Ng'andu** described the move as positive, repeating the country's commitment to transparency and equal treatment of all creditors during the restructuring process:

*"Our application to benefit from the G20 Common Framework will hopefully reassure all creditors of our commitment to such treatment."*⁶

Zambia's \$3 billion in outstanding Eurobonds is not its only debt. It owes \$3.5 billion in bilateral debt, \$2.1 billion to multilaterals and \$2.9 billion to other commercial lenders. It also owes around \$3 billion to **China** and Chinese entities.⁷ The lack of transparency around the exact amount owed to China remains a major point of contention for private creditors and a sticking point in talks with the government. China has agreed to join the G20 Common Framework, which will require creditors and countries to be more transparent with information.⁸

¹ Reuters, 5 Feb 2021

² Bloomberg, 18 Nov 2020

³ Reuters, 5 Feb 2021

⁴ Reuters, 5 Feb 2021

⁵ Reuters, 5 Feb 2021

⁶ Reuters, 5 Feb 2021

⁷ Bloomberg, 5 Feb 2021

⁸ Source, Zambia analyst

The announcement of Zambia's request for debt restructuring under the common framework came just days after the finance ministry announced on 30 January that Zambia had missed a \$56.1m coupon payment on its Eurobond maturing in 2027, making this its second missed Eurobond coupon payment.⁹ Zambia sounded the alarm in 2020 that it would not be able to meet obligations unless creditors provided relief, while the government worked on restructuring its loans.¹⁰

... and takes on more debt to buy Glencore's Mopani copper mine

Zambia's state mining investment arm, **ZCCM-IH**, has reached an agreement to buy **Switzerland**-headquartered commodity trading and mining company **Glencore's** 90% interest in **Mopani Copper Mines**. The sale comes after Glencore attempted to mothball operations at the Mopani mine in April due to the slump in copper prices and Covid-19 disruptions (see *ARC Briefing Zambia April 2020*).¹¹ The government threatened to revoke the operating licence for the mine, forcing Glencore to shelve its mothball plans.¹² ZCCM-IH already holds the remaining 10% stake in Mopani, and is acquiring the remaining interest from Glencore subsidiary **Carlisle** for \$1 plus the transaction debt of \$1.5 billion, which Mopani will owe Carlisle and other Glencore group creditors following the completion of the deal.¹³

The government will fund the \$1.5 billion deal with debt and seek a new investor.¹⁴ ZCCM-IH and its top shareholder, the **Industrial Development Corporation (IDC)** (60.28%), are working to secure a new strategic equity partner and will identify the partner before the end of 2021.¹⁵ The Zambian government holds 17.25% of ZCCM-IH, directly through the finance minister.¹⁶ Under the terms of the deal, Glencore will retain buying rights to Mopani's copper and ZCCM-IH will repay the loan principal by giving Glencore creditors 3% of Mopani's gross revenue from 2021-2023 and between 10% and 17.5% of gross revenue from then on.¹⁷

The cash-strapped Zambian government has come under criticism for taking on debt to fund its acquisition of the Mopani mine, particularly in view of its recent interest payment defaults and application for G20 debt restructuring (see above). However, the government's strategy is driven by the need to safeguard jobs at the mine, whose closure it claims would result in 15,000 job layoffs. The move is likely to win favour with labour unions and workers ahead of the presidential and legislative elections in August.¹⁸ President **Edgar Lungu** (2015-present) has defended his strategy for the government to take greater control over mining assets, stating:

"What is wrong with government acquiring shares in the mines, especially when the investor was not keen to pump in resources?"¹⁹

Main opposition **United Party for National Development (UPND)** leader and Lungu's main electoral challenger **Hakainde Hichilema** condemned the acquisition of the Mopani mine, comparing Zambia's economy to a "bucket broken by debt".²⁰ The UPND has yet to launch its manifesto for 2021 to 2026, although it states its vision and mission on its website:

"The UPND philosophy is to promote and support economic and social services that promote social justice within a mixed economy. UPND believes that Government has business being in business while at the same time allowing the private sector to thrive."²¹

⁹ Business Day, 31 Jan 2021

¹⁰ Business Day, 31 Jan 2021

¹¹ Mining.com, 21 Apr 2020

¹² Mining.com, 20 Jan 2021

¹³ Mining Technology, 19 Jan 2021

¹⁴ Reuters, 19 Jan 2021

¹⁵ Reuters, 19 Jan 2021

¹⁶ ZCCM-IH website, accessed 11 Feb 2021

¹⁷ Mining.com, 20 Jan 2021

¹⁸ Bloomberg, 20 Jan 2021

¹⁹ Reuters, 21 Jan 2021

²⁰ Reuters, 21 Jan 2021

²¹ UPND Zambia website, accessed 11 Feb 2021

While Hichilema and the UPND have yet to disclose details of the mining policy they would promote if they won power in the August elections, Hichilema claims to have the support of mining companies.²² Reacting to former finance minister **Margaret Mwanakatwe**'s proposal in the 2019 budget to drastically change the tax laws that govern the mining industry, Hichilema raised the ire of some Zambians when he vowed to reverse the mining tax policy if elected, claiming that *"the mining companies are ... waiting for HH to come into power"*.²³

Zambia is **Africa**'s second largest copper producer after the **Democratic Republic of the Congo (DRC)**, and relies on copper exports for about 70% of export earnings.²⁴ Mining minister **Richard Musukwa** projects that Zambia will mine 1 million tonnes of copper in 2021, as demand and price increase across **Asia, Europe** and **North America** for the metal that is used in electric vehicles:²⁵

*"Given the assurances of a stable mining regime in the 2021 National Budget and the rising demand for copper on the international metal market, and the transition of the car manufacturing process that will require copper metal, we project to cash in and raise copper output to over one million tonnes in the short and medium-term."*²⁶

The price of copper rose to \$3.7 per pound in the second week of February, bolstered by the prospects of a faster global economic recovery on the back of vaccine rollouts and a fall in Covid-19 cases.²⁷

... as Zambia drops four places in corruption rankings ...

Zambia has once again dropped in **Germany**-based **Transparency International**'s annual **Corruption Perceptions Index (CPI)** falling four places to 117th out of 180 countries surveyed.²⁸ The annual index scores countries and regions according to their perceived levels of public sector corruption, on a scale of zero (extremely corrupt) to 100 ("very clean"). Zambia scored 33 points, one point lower than its 2019 CPI score of 34, and just one point above the **sub-Saharan African** average of 32 points.

TI 2020 CPI Rankings for Zambia					
	2020	2019	2018	2017	2016
Ranking	117/180	113/180	105/180	96/180	87/176
Score	33/100	34/100	35/100	37/100	38/100

Zambia trails behind **Botswana** (35th with 60 points) and **South Africa** (69th with 44 points) but outperforms **Angola** (142nd with 27 points), **Mozambique** (149th with 25 points) and **Zimbabwe** (157th with 24 points).

TI CPI Rankings 2020: Regional comparison (Southern Africa)					
	South Africa	Mozambique	Zimbabwe	Botswana	Zambia
Ranking	69/180	149/180	157/180	35/180	117/180
Score	44/100	25/100	24/100	60/100	33/100

Transparency International, in its report released on 28 January, singles Zambia out as a *"significant decliner"* and a *"country to watch"*:

²² Lusaka Times, 29 Jan 2019

²³ Lusaka Times, 19 Jan 2019; *Zambian Eye*, 19 Jan 2019

²⁴ World Bank, accessed 22 Nov 2020

²⁵ Zambia Chamber of Mines, 7 Dec 2020

²⁶ Zambia Chamber of Mines, 7 Dec 2020

²⁷ Trading economics, accessed 11 Feb 2020

²⁸ Transparency International, 28 Jan 2021

“Corruption is endemic in Zambia and affects people’s access to essential public services. According to our 2019 report, nearly one in five Zambian citizens paid bribes to receive services like health care or education. The mounting levels of corruption may be attributable to weaknesses in the national public procurement system, operating against a backdrop of rising foreign debt and high levels of poverty.”²⁹

... and Covid-19 increases corruption risks

TI notes that the current Covid-19 health crisis has highlighted structural gaps throughout sub-Saharan Africa in national health care systems, as well as corruption risks associated with public procurement and the misappropriation of emergency funds. Zambian investigative journalists broke a story in June 2020 about alleged irregularities in a \$17m procurement of health kits in 2019. The company that won the tender, **Honey Bee Pharmacy Limited**, was not even registered at the time the contract was awarded to it.³⁰ Although President Lungu initially rebutted the allegations of corruption, he fired health minister **Chitalu Chilufya** on 10 January without giving reasons.

Transparency International Zambia has called on the **Office of the Auditor General** to investigate allegations of irregularities in the handling of Covid-19 donations. Laboratory tests have shown that supplied equipment was substandard and unsafe to use:

“As revealed to the Public Accounts Committee of the Parliament in early January 2021, the Ministry of Health allegedly went ahead to distribute unsafe medical supplies to the public even if they knew that they were not safe.”³¹

Transparency International notes that Zambia’s general election presents an opportunity to put the spotlight on corruption and make it a key electoral issue.³² However, **University of Zambia** media, governance and health communication researcher **Parkie Mbozi** noted in August that the government is highly likely to use the **Public Order Act (POA)** and Covid-19 guidelines interchangeably to curtail citizens’ freedoms to assembly, specifically political gatherings:

“The POA has been the most politically abused and repressive piece of legislation. The POA now has a partner in the Covid-19 regulations and, guess what, it is a deadly combination with serious ramifications for our democracy ahead of the 2021 polls.”³³

Zambian hospitals continue to struggle with the pressure that Covid-19 has placed on the system. Zambia’s Covid-19 portal reports that as of 11 February, the country has recorded 66,598 confirmed cases, 59,989 recoveries and 914 deaths for a case fatality rate of 1.4% and recovery rate of 86.5% in its population of roughly 18.5 million people.³⁴ The government has not implemented a national lockdown; however, a negative Covid-19 test is required when entering the country and must be conducted within seven days of traveling. Failure to do so will result in a mandatory 14-day quarantine on arrival. There are no curfews in place, and intercity and interstate travel is permitted.³⁵

²⁹ Transparency International, 28 Jan 2021

³⁰ Transparency International, 28 Jan 2021

³¹ Transparency International Zambia, 28 Jan 2021

³² Transparency International Zambia, 28 Jan 2021

³³ “Covid 19 Guidelines and Public Order Act: Deadly Combination for Democratic Spaces”, Lusaka Times, 25 Aug 2020

³⁴ Zambia National Public Health Institute Covid-19 Dashboard, accessed 11 Feb 2021

³⁵ Africa News, 11 Feb 2021

Planner

6-8 May 2021 **Lusaka (Zambia)** Zambia International Mining and Energy Conference (ZIMEC);
 12 Aug 2021 **(Zambia)** Presidential and legislative elections

Chronology

8 Feb 2021 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** will deliver the **State of the Nation Address (SONA)** on 12 February to a restricted number of officials and dignitaries, in line with the health ministry **Covid-19** guidelines.

8 Feb 2021 **Lusaka (Zambia)** *Lusaka Times*. **Rwanda's** national carrier, **Rwandair**, announces that it will temporarily suspend flights to Zambia due to the spread of new **Covid-19** strains;

31 Jan 2021 **Lusaka (Zambia)** *Business Day*. Finance ministry confirms that **Zambia** skipped a \$56.1m coupon payment on 30 January on its Eurobond maturing in 2027;

28 Jan 2021 **Lusaka (Zambia)** *Zamstats*. **Zambia Statistics Agency (ZamStats)** reports the annual inflation rate, as measured by the **Consumer Price Index (CPI)**, rose to 21.5% in January from 19.2% recorded in December 2020;

27 Jan 2021 **Lusaka (Zambia)** *Lusaka Times*. **Democratic Republic of the Congo (DRC)** president **Felix Tshisekedi** says his government is committed to working with **Zambia** to actualise the **Kasomeno-Mwenda** toll road and the **Luapula** bridge project;

21 Jan 2021 **Lusaka (Zambia)** *Reuters*. Zambia's mining investment arm, **ZCCM-IH**, says it expects to find a new investor for **Mopani Copper Mines** by the end of the year, after **Switzerland**-based **Glencore** sold its majority stake;

20 Jan 2021 **Lusaka (Zambia)** *Reuters*. The **Mine Workers Union of Zambia** and **National Union of Mines and Allied Workers** welcome the government's decision to acquire 100% share of **Mopani Mine**;

15 Jan 2021 **Lusaka (Zambia)** *Lusaka Times*. **International Monetary Fund (IMF)** communications director **Gerry Rice** says the IMF is studying Zambia's recently launched **Economic Recovery Program** and considering how it could help support the programme and reform efforts, through possible financing;

14 Jan 2021 **Lusaka (Zambia)** *Lusaka Times*. The **European Union (EU)** has given the **Zambian** government a €23m (\$27.9m) grant towards the €62.5m (\$75.8m) **Increased Access to Electricity and Renewable Energy Production (IAEREP)**, under the **Rural Electrification Authority (REA)**;

13 Jan 2021 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. **Zambia Revenue Authority** commissioner general **Kingsley Chanda** says **Zambia** paid 8.5 billion kwacha (\$400m) in value-added tax refunds to mining companies last year, equal to about 3.5% of the external debt that Zambia is struggling to repay;

10 Jan 2021 **Lusaka (Zambia)** *Reuters*. State mining investment arm **ZCCM-IH** concludes talks with **Switzerland**-based **Glencore** about buying a majority stake in **Mopani Copper Mines**;

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