

AFRICA RISK CONSULTING

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Zambia Summary 23 November 2020

Zambia becomes the first African country in the Covid-19 pandemic-era to default on foreign debt as the government withholds a \$42.5m payment on its Eurobond debt. Mining minister Richard Musukwa says the government does not expect creditors will seize Zambia's mining assets as part of its debt restructuring. The Bank of Zambia (central bank) leaves the lending rate unchanged at 8.0%. Zambia expects to conclude talks over buying Switzerland-based Glencore Plc's stake in Mopani Copper Mines Plc. Zambia's copper output from January to August increases by 9.45% compared to the same period in 2019.

Zambia defaults on Eurobond coupon payment ...

Zambia became **Africa's** first sovereign county 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.¹ The holders of **Zambian Eurobonds** had on 3 November rejected a government request to defer interest payments until April 2021. **Bank of Zambia** governor **Christopher Mvunga** said Zambia could have paid a coupon on one of its dollar bonds but chose not to, "due to the need to treat all creditors equally".² The bondholders' committee, whose 15 members represent in aggregate more than 40% of Zambia's \$3 billion in outstanding Eurobonds, said the **Zambian authorities'** decision was both "unnecessary" and "unfortunate".

Mvunga said Zambia is in a difficult position:

*"The issue of paying bondholders alone is a fundamental issue to the other creditors. If I pay, the moment I pay, the other creditors are going to put dynamite under my legs and blow off my legs. I'm gone. I can't walk any more. If I don't pay the bondholders, my legs will remain intact, but I'll probably have a shot in the arm, and I'll be bleeding in the arm."*³

Some analyst describe Mvunga's comments as disingenuous, saying he is using the Eurobond holders' request for further transparency on Zambia's other external debts, particularly those owed to **China**, to justify Zambia's failure to pay them.⁴ To date, the **Zambian government** has not held direct discussions with its bondholders⁵ over how it plans to tackle the debt, if they agree a plan for a standstill.⁶

Finance minister **Bwalya Ng'andu**, briefing parliament on 18 November, said the decision to withhold payment had brought more of the debt holders to the table and improved the atmosphere for negotiating.⁷ Ng'andu acknowledged the risk implications of the decision and committed to working with Eurobond holders to come to an amicable solution:

¹ Bloomberg, 18 Nov 2020

² Reuters, 18 Nov 2020

³ Reuters, 13 Nov 2020

⁴ Analyst, DRC

⁵ Bloomberg 18 Nov 2020

⁶ Source, analyst, DRC

⁷ Reuters, 20 Nov 2020

“While government regrets that the bondholders did not approve the requests made by Zambia in good faith, we remain committed to finding a consensual and collaborative resolution to debt sustainability issues.”⁸

Mining minister **Richard Musukwa**, in a news conference on 19 November, said Zambia is seeking a compromise solution with its bondholders and the government does expect that its creditors will seize mining assets.⁹ Musukwa said Zambia has no plans to sell shares in mining companies to raise cash to finance part of the debt:

“We don’t expect Zambia’s assets to be auctioned or taken away ... We are very positive that we will get a win-win situation between the bondholders and the government.”¹⁰

Ng’andu has called on the **International Monetary Fund (IMF)** for support as he tries to convince commercial lenders to accept an interest-payment holiday while Zambia restructures as much as \$12 billion in external debt.¹¹ Zambia is set to benefit from **The Group of Twenty (G20)** historical initiative for 38 **sub-Saharan African** countries, the **Common Framework for Debt Treatments**, to halt payments to official bilateral creditors this year and extend debt relief to mid-2021.¹²

The non-payment of the interest coupon has triggered cross-default provisions in all the outstanding dollar bonds.¹³ Zambia’s \$1 billion Eurobonds, due 2024, fell 1.7% to 45.1 cents on the dollar on 16 November. Reacting to the developments, **United States (US)**-based ratings agency **Fitch** downgraded Zambia’s long-term foreign currency rating to “*restricted default*” on 18 November, citing non-payment of the coupon payment.

Zambia faces the prospect of lengthy and complex negotiations with creditors, and the scale and terms of its Chinese debt will complicate the process of restructuring its debt. Some analysts predict that the government may resort to printing money to buy more government bonds, ushering in a “*Zimbabwean*” trajectory that would raise inflation and trigger a plunge in the value of the kwacha.¹⁴

In the longer term, Western lenders may be more reluctant to invest in countries where China is already a major creditor. Zambia needs an urgent plan that will reduce debt, reform taxation to ensure the primary fiscal balance improves, cut spending, shed debt from parastatal balance sheets as a move towards complete privatisation, and make the mining sector more attractive to foreign long-term investment.¹⁵

Central bank leaves lending rate unchanged at 8.0%

After its monetary policy committee meeting on 16-17 November, the **Bank of Zambia (BoZ)** (central bank) said it had decided to leave its main lending rate unchanged at 8.0%.¹⁶ At a press conference announcing the decision, BoZ governor **Christopher Mvunga** stressed the importance of Zambia returning to fiscal fitness and successfully navigating debt restructuring following the foreign debt default.¹⁷ The central bank expects the economy to contract by 4.2% in 2020, followed by moderate economic growth over the next two years, likely remaining above growth targets.¹⁸

The BoZ faces a fine balancing act between boosting the economy by attracting inflows of capital and supporting the ailing kwacha. The BoZ noted that the currency has weakened 32% against the US dollar this year, particularly after news of the debt default.¹⁹ Mvunga said the central bank maintained

⁸ Business Day, 18 Nov 2020

⁹ Bloomberg, 18 Nov 2020

¹⁰ Bloomberg, 18 Nov 2020

¹¹ Financial Times, 18 Nov 2020

¹² Reuters, 22 Nov 2020

¹³ Bloomberg, 13 Nov 2020

¹⁴ Source, ARC Zambia analyst

¹⁵ Analyst, Africa Report

¹⁶ BoZ.zm, 18 Nov 2020

¹⁷ Reuters, 18 Nov 2020

¹⁸ Lusaka Times, 18 Nov 2020

¹⁹ BoZ.zm, 18 Nov 2020

the policy rate at 8.0% to moderate risks to financial stability and support growth, lives and livelihoods.²⁰ Mvunga added that the decision allows for monetary policy measures taken earlier in the year to take full effect, despite inflation being projected to persist above the 6-8% target range:

“The Committee noted that financial stability remains fragile despite signs of marginal improvement in economic activity in the third quarter following the partial relaxation of Covid-19 restrictions.”²¹

Zambia to conclude deal with Glencore over Mopani mine

Zambia is expected to conclude talks soon with **Switzerland**-based **Glencore Plc** over buying its stake in **Mopani Copper Mines Plc**.²² Analysts view the move as political manoeuvring by President **Edgar Lungu** (2015-present) ahead of the upcoming elections in 2021 and an attempt to safeguard jobs.²³ Permanent secretary in the mining ministry **Barnaby Mulenga** declined to disclose the size of the stake that state-owned **ZCCM Investment Holdings Plc (ZCCM-IH)** is trying to acquire. ZCCM-IH currently owns 10% of Mopani, with Glencore holding 73.1% and **Canada**-based first **Quantum Minerals Ltd** 16.9%.²⁴

Zambia seeks to increase its holding following clashes with Glencore earlier this year over the company’s plan to mothball Mopani’s operations (see *ARC Briefing Zambia April 2020*). Currently, it is unclear how the cash-strapped government is planning to acquire the stake.²⁵ Glencore values Mopani’s operations at \$704m, despite impairments of \$1.14 billion at Mopani leading to Glencore posting a loss in the first half of the financial year.²⁶ Mulenga, however, sees no difficulty in ZCCM-IH acquiring the stake in Glencore:

“The resource attracts money, so the issue of financing is the least of the worries for the Zambian government.”²⁷

The tension between Mopani’s stakeholders began in April when Glencore announced plans to place the operations under care and maintenance for 90 days. Glencore’s move to shutter one of the largest mining operations in the country angered the government, which threatened to revoke its mining licences and temporarily block its chief executive officer, **Nathan Bullock**, from leaving the country. Glencore reacted by putting its 73.1% stake in the operation on the table, hoping to reach a deal with the authorities.²⁸

Other copper mines have halted \$2 billion of planned investment following disputes over the royalty tax. 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.²⁹ Zambia produced 646,111 tonnes of copper between January and September this year, up from 590,321 tonnes in the same period in 2019, attributing the 9.45% rise to increased mine output. Production for 2020 is expected to reach 820,00 tonnes, driven by the increase in copper prices.³⁰

²⁰ Lusaka Times, 18 Nov 2020

²¹ Lusaka Times, 17 Nov 2020

²² Mining weekly, 17 Nov 2020

²³ Money Web, 17 Nov 2020

²⁴ Ming mx, 18 Nov 2020

²⁵ Energy Analyst, Zambia

²⁶ Mining weekly, 17 Nov 2020

²⁷ Bloomberg, 18 Nov 2020

²⁸ Africa Report, 20 Nov 2020

²⁹ World Bank, accessed 22 Nov 2020

³⁰ Reuters, 18 Nov 2020

Planner

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

Chronology

22 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. Energy minister **Mathew Nkhuwa** warns Zambians they should not expect any significant change in planned power outages, once the 150 megawatts from the newly constructed **Kafue Gorge Lower** hydroelectric dam is added to the national grid;

22 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. **Bank of Zambia (BoZ)** (central bank) governor **Christopher Mvunga** refutes social media reports that the central bank plans to expropriate dollars in an attempt to lower the exchange rate;

18 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. The **Electoral Commission of Zambia (ECZ)** captures over 1 million voters in a week of voter registration, despite wide challenges;

17 Nov 2020 **Lusaka (Zambia)** *BBC*. The **Export Import Bank of China (EXIM China)** allows Zambia to defer interest payments on its sovereign debt loans, suspending Zambia's interest and principal payments on sovereign loans;

9 Nov 2020 **Lusaka (Zambia)** *BBC*. The **Electoral Commission of Zambia (ECZ)** launches voter registration, appealing to Zambians not to become disenfranchised in the 2021 General Elections for failing to vote;

8 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** congratulates **United States (US)** president-elect **Joseph Biden** following presidential elections held in the US on 3 November;

3 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. **AngloAmerican** CEO **Mark Cutifani** says the company was not responsible for lead poisoning at **Kabwe** mine nearly 50 years ago;

30 Oct 2020 **Lusaka (Zambia)** *Lusaka Times*. **Bank of Zambia** (central bank) embarks on disbursement of **Covid-19** fund to business entities impacted by the pandemic;

30 Oct 2020 **Lusaka (Zambia)** *Lusaka Times*. Ruling party **Patriotic Front** fails to push through constitutional amendments, known as **Bill 10**, which would have increased the president's power in the electoral system;

29 Oct 2020 **Lusaka (Zambia)** *Lusaka Times*. The **World Bank** sanctions **China Electric Design and Research Institute CO Ltd (CEDRI)** over corruption in Zambia's **Lusaka Transmission and Distribution Rehabilitation Project**;

29 Oct 2020 **Lusaka (Zambia)** *Lusaka Times*. Zambia's finance ministry says Zambia has reached a deal to defer debt repayments that were due in October on a loan from the **China Development Bank (CDB)**; Zambia owed CDB about \$391m at the end of 2019, roughly 10% of the total \$3 billion it owes Chinese entities;

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