

AFRICA RISK CONSULTING

Zambia Monthly Briefing October 2021

Zambia Summary 8 October 2021

Newly appointed finance minister Situmbeko Musokotwane tells parliament that Zambia's external public debt has grown uncontrollably over the past decade to almost \$15 billion. Zambia owes \$6.6 billion to Chinese public and private lenders, almost double what the previous administration reported. President Hakainde Hichilema (2021-present) names Denny Kalyalya as Bank of Zambia (central bank) governor. Mines minister Paul Kabuswe announces that his ministry will review the country's mining tax framework and engage key stakeholders. President Hichilema attends the 76th session of the United Nations General Assembly on his first trip abroad and holds several high-level bilateral and multilateral meetings. Covid-19 restrictions are lifted from 2 October in response to reduced transmission of infections in recent weeks. The United Kingdom (UK) removes Zambia from its "red list", allowing travellers who are fully vaccinated against Covid-19 to enter the UK without having to quarantine in government-approved hotels.

Debt crisis worse than thought ...

Finance minister **Situmbeko Musokotwane** has revealed that **Zambia's** debt crisis is worse than previously thought. Musokotwane told parliament on 4 October that Zambia's external public debt has grown "*uncontrollably*" over the past decade to almost \$15 billion, including money owed by state companies.¹ Zambia's debt has been in the spotlight since November when it became **Africa's** first sovereign country in the **Covid-19** pandemic-era to default on debt payments after failing to pay a \$42.5m coupon after the grace period expired on 13 November (see *ARC Briefing Zambia November 2020*). Under the **Patriotic Front (PF)** government of former president **Edgar Lungu** (2015-present), Zambia went on a spending spree amid high copper prices. Copper accounts for 70% of Zambia's export earnings, but Covid-19 took a severe toll on global commodity prices, particularly copper, forcing Zambia to default on a Eurobond repayment.²

The **United States (US)**-based **China Africa Research Initiative (CARI)** released a report on 28 September in which it estimated from loan data that Zambia owes \$6.6 billion to **Chinese** public and private lenders, almost double the \$3.4 billion reported by Lungu's administration.³ Newly elected president **Hakainde Hichilema** (2021-present) said the debt load is likely to be even higher, as the data on which CARI relied does not include penalties or interest arrears that continue to accumulate. However, Musokotwane said the CARI estimates were accurate and transparent, and in line with the new administration's estimates of Zambia's debt.⁴ Musokotwane noted:

*"Key creditors and stakeholders, including the **International Monetary Fund (IMF)** and advisers to the bondholders' ad hoc committee have received more detailed data on the makeup of the public debt under each category under non-disclosure agreements."*⁵

The higher debt figures confirm the fears expressed by Eurobond holders over the amount of debt Zambia owes to China. International bondholders claimed they would not receive fair treatment with

¹ Times of Zambia, 5 Oct 2021

² Source, analyst, Zambia

³ Lusaka Times, 28 Sep 2021

⁴ Lusaka Times, 28 Sep 2021

⁵ Lusaka Times, 28 Sep 2021

respect to debt repayments, citing a lack of transparency detrimental to their interests.⁶ CARI noted that Chinese lenders had in some instances cancelled debt owed by Zambia, amounting to \$392m.

The IMF shared key policies and reform measures with Musokotwane, acting **Bank of Zambia (BoZ)** (central bank) governor **Francis Chipimo**, as well as other senior government officials, during a virtual staff visit on 4 October. IMF team lead **Allison Holland** urged the Hichilema administration to take steps to restore economic sustainability while protecting the Zambian people and creating inclusive economic growth.⁷ Holland added:

“We welcomed the opportunity to hear an update on recent fiscal and macroeconomic developments and learn about the new authorities’ reform priorities that focus on restoring macroeconomic stability, re-establishing fiscal and debt sustainability, generating growth, and improving human development.”⁸

Kalyalya returns to helm of central bank ...

President Hichilema named **Denny Kalyalya** as Bank of Zambia governor on 27 September, returning the well-regarded economist to the job 13 months after his shock dismissal in August 2020 hit Zambia’s currency and dollar bonds.⁹ Zambia’s now former president, Edgar Lungu, dismissed Kalyalya unexpectedly on 22 August 2020, replacing him with former deputy finance minister **Christopher Mphanza Mvunga**. The dismissal raised concerns among investors who saw Kalyalya as an independent, more competent governor than his successor (see *ARC Briefing Zambia August 2020*)

Kalyalya, who previously served as a **World Bank** executive director, was appointed in February 2015 and had his contract extended in 2018 until 2023.¹⁰ However, Lungu dismissed him three days before the BoZ was forced to cut its benchmark lending rates by 125 basis points to 8.0% in an attempt to safeguard financial sector stability and protect livelihoods in the wake of the Covid-19 pandemic.¹¹ Kalyalya’s reappointment will inspire confidence among foreign investors, while the local economy has already reacted positively to the development.¹²

... amid fresh hope for mining industry...

Mines minister **Paul Kabuswe** announced on 6 October that his ministry will be reviewing Zambia’s mining tax framework and engaging key stakeholders. Kabuswe says he plans to make the relationship with the mining industry more sustainable and predictable to make Zambia a competitive investment destination but has not given details of specific changes.¹³ Under the Lungu administration, the government had strained relations with the mining community. The government’s implementation of a non-refundable sales tax in place of the **Value Added Tax (VAT)** caused mining companies to cry foul amid complaints of double taxation. Since 2019, mineral royalty payments are not recognised as deductible in calculating corporate income tax.¹⁴

Kabuswe said the ministry would also review the status of **Vedanta Resources Plc** subsidiary **Konkola Copper Mines (KCM)** and **Mopani Copper Mines** and consult with the relevant parties. Lungu’s government took on \$15 billion in debt in January to buy Mopani from **Switzerland**-based commodity trading and mining company **Glencore** (see *ARC Briefing Zambia January 2021*) and has not yet secured an investor for the mine. KCM was handed over for liquidation in May 2019, prompting a prolonged legal dispute.

⁶ Source, analyst, Zambia

⁷ IMF, 4 Oct 2021

⁸ IMF, 4 Oct 2021

⁹ Bloomberg, 27 Sep 2021

¹⁰ Lusaka Times, 27 Sep 2021

¹¹ Reuters, 22 Aug 2020

¹² Analyst, Zambia

¹³ Reuters, 6 Oct 2021

¹⁴ Mining.com, 6 Oct 2021

Hichilema's administration is eager to attract foreign investment in the mining industry and increase production output. Kabuswe noted the importance of making policies *"that will not disadvantage the investors"*:

*"We have to have stability in the economy so that the investor is happy."*¹⁵

... as Hichilema courts international dignitaries

President Hakainde Hichilema attended the 76th session of the **United Nations General Assembly** from 20-26 September in his first trip abroad as Zambia's president. Hichilema held several high-level bilateral meetings and attended meetings on **Sustainable Development Goals (SDG)**, United Nations food systems, and a global Covid-19 summit.¹⁶ Hichilema also met with US vice president **Kamala Harris** at the **White House**, as well as officials from the **World Bank** and the **IMF**.¹⁷

Hichilema's engagements with strategic partners were crucial for setting the agenda for the new administration and its message for the international community. Hichilema is eager to differentiate his administration from that of his predecessor and engage with the international community for economic transformation. At the domestic level, Hichilema has set up a slim and technocratic government, which has sent the message to the international community that he is serious about turning around the debt-strapped economy and government.¹⁸

However, Hichilema's trip was not without controversy. The highly anticipated meeting with US President **Joseph Biden** (2021-present) was cancelled when Zambia's vice president, **Mutale Nalumango**, told parliament that Zambia will not entertain gay rights.¹⁹ The snubbing of Hichilema sends a strong message to Zambia and other **African** states that the Biden administration will not tolerate discrimination against homosexuals. Zambia often describes itself as a *"Christian Nation"* that is not compatible with gay rights.²⁰

Covid-19 restrictions lifted in Zambia

Zambia has lifted Covid-19 restrictions as of 2 October in response to the reduced transmission of cases in recent weeks. Health minister **Sylvia Masebo** said on 2 October that the lower number of daily infections is behind the decision but her ministry will continue to monitor the situation.²¹ Zambia attaining coronavirus green status from the **African Centers for Disease Control and Prevention**²² formed part of their justification for lifting the restrictions. Furthermore, from the 11 October, Zambia will no longer be on the **United Kingdom (UK)** red list for travel²³

In terms of the revised guidelines, casinos and restaurants are permitted to open and there are no limits to the number of people gathering in public. However, face masks continue to be required in public and regular disinfection of public spaces will continue. The restrictions will be reviewed in November to monitor the impact of the lifting of the restrictions.²⁴

President Hichilema has urged the Zambian public to get vaccinated against Covid-19. Masebo announced that the government would re-launch its Covid-19 vaccination programme from 7 October, aiming to vaccinate 30% of the eligible population by December.²⁵ Masebo noted that to date only 3% of eligible Zambians are fully vaccinated, with 757,241 doses of Covid-19 vaccine

¹⁵ Reuters, 6 Oct 2021

¹⁶ Lusaka Times, 26 Sep 2021

¹⁷ Lusaka Times, 26 Sep 2021

¹⁸ Analyst, Zambia

¹⁹ Lusaka Times, 18 Sep 2021

²⁰ Analyst, Zambia

²¹ Lusaka Time, 2 Oct 2021

²² Lusaka Times, 3 Oct 2021

²³ BBC, 7 Oct 2021

²⁴ Lusaka Times, 3 Oct 2021

²⁵ Lusaka Times, 4 Oct 2021

administered.²⁶ The health ministry is using **British-Swedish**-manufactured **AstraZeneca**, US-based pharmaceutical **Johnson&Johnson's Janssen** and China's **Sinopharm** vaccines.²⁷

As of 7 October, Zambia has recorded 209,248 Covid-19 infections in its population of roughly 18.9 million, with 3,652 Covid-19-related deaths.²⁸

Planner

15-16 Nov 2021 **Lusaka (Zambia) Bank of Zambia MPC** meets;

17 Nov 2021 **Lusaka (Zambia) Bank of Zambia MPC** media briefing;

Chronology

7 Oct 2021 **London (United Kingdom) BBC. United Kingdom (UK)** cuts its **Covid** travel red list from 54 to seven, allowing vaccinated travellers from **Botswana, Burundi, DRC, Eritrea, Eswatini, Ethiopia, Lesotho, Malawi, Namibia, Rwanda, Sierra Leone, Somalia, South Africa, Sudan, Tanzania, Uganda, Zambia and Zimbabwe** to travel to the UK without undergoing hotel quarantine;

7 Oct 2021 **Lusaka (Zambia) The East African.** Zambia's newly elected government says it owed \$2 billion more to foreign creditors than previously thought, with more than \$6 billion owed to **China** alone;

6 Oct 2021 **Lusaka (Zambia) Nasdaq.** Finance minister **Situmbeko Musokotwane** says **Zambia** will implement policies aimed at making its debt sustainable, adding that talks with the **International Monetary Fund** have moved quickly since a new government took over in August;

6 Oct 2021 **Lusaka (Zambia) Lusaka Times.** President **Hakainde Hichilema** responds the **Auditor General's** financial report for financial year ending 2020, criticising wasteful expenditure and failure to follow procedures;

6 Oct 2021 **(Africa) South China Morning Post.** **United Kingdom**-based consultancy **Capital Economics** says recent exposé by **United States**-based researcher lab **AidData** about "hidden" **Chinese** debts of countries like **Zambia** and **Ethiopia** will complicate their ongoing debt relief talks under the **G20's** so-called **Common Framework**;

5 Oct 2021 **Cabo Delgado (Mozambique) Times Live.** Regional bloc **Southern African Development Community** agrees to extend the deployment of standby forces in **Cabo Delgado**;

4 Oct 2021 **Lusaka (Zambia) Lusaka Times.** Health minister **Sylvia Masebo** says the health ministry will re-launch the **Covid-19** vaccination programme on 7 October;

28 Sep 2021 **Lusaka (Zambia) Business Day.** **United States**-based research programme **China Africa Research Initiative** says its analysis of loan data indicates **Zambia's** debt to **Chinese** public and private lenders is \$6.6 billion, almost double the amount disclosed by the previous **Zambian** government;

27 Sep 2021 **Lusaka (Zambia) Bloomberg.** President **Hakainde Hichilema** names **Denny Kalyalya** as **Bank of Zambia** (central bank) governor, returning the well-regarded economist to the job 13 months after his shock dismissal hit **Zambia's** currency and dollar bonds;

²⁶ Lusaka Times, 3 Oct 2021

²⁷ Africa CDC, 7 Oct 2021

²⁸ Africa CDC, 7 Oct 2021

26 Sep 2021 **Lusaka (Zambia)** *Times of Zambia*. Government says it will host a technical staff visit from the **International Monetary Fund** from 27 September to 1 October;

20 Sep 2021 **Lusaka (Zambia)** *Mining Weekly*. Mines minister **Paul Kabuswe** criticises the previous administration's push to liquidate **Konkola Copper Mines**, saying "*We must never, ever, bring politics in(to) the private sector*";

19 Sep 2021 **Lusaka (Zambia)** *Lusaka Times*. A highly anticipated meeting between **United States** president **Joseph Biden** and President **Hakainde Hichilema** is cancelled after **Zambia's** vice president, **Mutale Nalumango**, tells parliament that Zambia will not entertain gay rights;

18 Sep 2021 **Lusaka (Zambia)** *Lusaka Times*. President **Hakainde Hichilema** will attend the **United Nations General Assembly (UNGA)** from 20-26 September;

14 Sep 2021 **Lusaka (Zambia)** *Mining Weekly*. Newly appointed mines minister **Paul Kabuswe** says government will ensure stability and predictability in the mining sector, and that it must root out corruption, seeking to allay fears of royalty hikes;

13 Sep 2021 **London (United Kingdom)** *Bloomberg*. Dozens of large companies send letter to prime minister **Boris Johnson** to ease restrictions on travel from **Southern Africa** that are hampering trade;

About Africa Risk Consulting:

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