

AFRICA RISK CONSULTING

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Zambia Summary 10 December 2020

Zambia has officially requested a financing agreement with the International Monetary Fund (IMF) to help restructure its public debt and navigate its debt crisis. The coronavirus pandemic has hit Zambia's economy and health sector hard, creating serious challenges for the victors of Zambia's 2021 presidential and parliamentary elections. The Zambia Statistics Agency (ZSA) says the annual rate of inflation increased to 17.4 % in late November, up from 16% recorded in October. Zambia's state mining company, ZCCM Investments Holdings (ZCCM-IH), plans to appeal a court ruling ordering a halt to liquidation proceedings for Konkola Copper Mines (KCM).

Zambia requests financing arrangement with IMF ...

The **International Monetary Fund (IMF)** announced on 8 December that **Zambian** authorities had officially requested a financing arrangement to help the country navigate its debt crisis.¹ The news is likely to give hope to holders of Zambia's foreign debt; Zambia became **Africa's** first pandemic-era sovereign defaulter last month after it failed to pay a \$42.5m coupon on one of its **Eurobonds** (see *ARC Briefing Zambia November 2020*). President **Edgar Lungu** (2016-present) met IMF Africa department head **Abebe Selassie**, in the capital, **Lusaka**,² but the presidency did not formally disclose the contents of the meeting.

Finance minister **Bwalya Ng'andu** called on the IMF for support in November, seeking an appropriate policy instrument to deal with Zambia's public debt. Ng'andu said the IMF's involvement was crucial for credibility and impetus of the restructuring process.³ The IMF confirmed on 8 December that Lungu had formally asked for a debt financing arrangement, which it is currently processing.⁴ At the conclusion of the IMF's high-level staff visit on 9 December, Abebe Selassie issued a statement welcoming the opportunity to discuss the broad elements of Zambia's **Economic Recovery Program**, which seeks to restore macroeconomic stability, attain fiscal and debt sustainability, restore growth and safeguard social sector spending.

*"Given the deep-rooted challenges faced, policies would need to be calibrated to restore sustainability while protecting the vulnerable and creating more inclusive growth. The authorities reiterated their intention of restoring the credibility of the budget, increasing debt transparency, strengthening public financial management, as well as improving governance and preserving financial stability."*⁵

Zambian authorities had requested relief from creditors, asking the holders of their Eurobond to grant a deferral on interest payments until April 2021. The creditors rejected the request, citing a lack of engagement and transparency, particularly on debt owed to other creditors. In addition to its \$3 billion in outstanding Eurobonds, Zambia owes \$3.5 billion in bilateral debt, \$2.1 billion to multilaterals and \$2.9 billion to other commercial lenders.⁶ Debt owed to **China's Exim Bank**

¹ Reuters, 8 Dec 2020

² Lusaka Times, 8 Dec 2020

³ Bloomberg, 8 Dec 2020

⁴ Reuters, 8 Dec 2020

⁵ IMF press release, 9 Dec 2020

⁶ Money web, 9 Dec 2020

amounted to \$2.6 billion at the end of 2019, making up the majority share of the \$3 billion Zambia owes to China and Chinese entities.

While the IMF “looks forward to the presentation of the government’s home-grown economic strategy”, **United Kingdom (UK)**-based investment company **Ashmore Group** voices the scepticism of Eurobond holders towards Zambia’s commitment to macroeconomic reform. Ashmore Group research head **Jan Dehn** said:

“I need to see concrete commitments from Zambia on macroeconomic policy ... I do not trust the Zambian government, so I want to see the IMF agree with the government and define a clear and transparent adjustment programme.”⁷

Zambia’s request to its Eurobond holders for delayed debt payment for six months was not made within the framework of the **Debt Service Suspension Initiative (DSSI)**, which does not make provision for countries with private creditors. The **World Bank** estimates that the DSSI would allow Zambia to suspend debt service payments totalling \$139.2m. In relation to Zambia’s gross domestic product (GDP), the DSSI relief amounts to 0.6% and 1.2% of Zambia total external debt stock.⁸

... as Covid-19 continues to hit the economy ...

The **COVID-19** pandemic has hammered Zambia’s economy, which was already under significant strain prior to the pandemic due to low copper prices. As of 9 December, the country had recorded 18,062 cases in its population of 18.9 million. Of these, 17,295 have recovered and 364 have died.⁹ The Zambian government has avoided draconian measures to curb the spread of COVID-19 and instead relied on a combination of sporadic lockdowns and reducing public gatherings.¹⁰

The pandemic has nevertheless had a devastating impact on livelihoods. Prior to the coronavirus outbreak, 58% of the population was living below the poverty line (with income below \$1.90 per day).¹¹ The pandemic has disproportionately disrupted the informal sector, which accounts for 68% of employment in the country.¹² Rural areas and smallholder farmers have also been severely impacted, with up to 70% of the population in these areas living in poverty. Prospects for a strong recovery are slim, given Zambia’s trajectory in dealing with its large public debt. Expenditure on debt servicing and salaries has increased at the expense of investment in key economic sectors such as healthcare, agriculture and mining.

As Zambia heads into an election year, the next incumbent faces immense challenges. These include low productivity in the mining sector, slow global economic growth, debt servicing, operational risk including erratic electricity supply, and poverty. With Zambia poised to spiral further into a post-pandemic debt crisis, it needs decisive leadership, international cooperation and strict economic strategies to stabilise the country.¹³

... and annual inflation spikes to 17.4%

The **Zambia Statistics Agency (ZSA)** announced on 27 November that annual inflation had increased to 17.4% in November, up from 16% in the same period last year. Interim statistician-general **Mulenga Musepa** said the higher rate resulted from increases in food prices and non-food items. Of the total 17.4% annual inflation rate recorded in November, the food and non-alcoholic beverages group accounted for 9.0 percentage points, while non-food items accounted for 8.4 percentage points.¹⁴

⁷ Bloomberg, 8 Dec 2020

⁸ World Banks, accessed 8 Dec 2020

⁹ Africa CDC, 9 Dec 2020

¹⁰ World Bank, accessed 8 Dec 2020

¹¹ World Bank, accessed 8 Dec 2020

¹² World Bank, accessed 8 Dec 2020

¹³ Source, analyst, Zambia

¹⁴ Bloomberg, 8 Dec 2020

According to the ZSA, annual food inflation accelerated to 16.8% in November, from 14.6% a month earlier. Non-food prices rose by 18.2%, with the rise attributed to the increase in vehicle purchases. **Bank of Zambia (BoZ)** (central bank) governor **Christopher Mvunga** said inflation has exceeded the BoZ target band of 6% to 8% for 19 months and is forecast to remain above the range for the next two years. The kwacha has weakened by 33% against the **United States (US)** dollar this year, making it the worst performing currency on the continent, and making borrowing and debt servicing more expensive.

ZCCM to appeal court ruling backing Vedanta in KCM dispute

Zambia's state mining arm, **ZCCM Investments Holdings (ZCCM-IH)**, plans to appeal a court ruling in favour of UK-based mining company **Vedanta Resources**, which has sought arbitration in a dispute over its jointly owned copper mine that is facing liquidation.¹⁵ Vedanta has been in a dispute with the Zambian government since May 2019, when the government appointed a liquidator for the mine. A Zambian court on 26 November ordered a halt to the liquidation proceedings for **Konkola Copper Mines (KCM)** to allow Vedanta and ZCCM-IH, which owns 20% of the operation, an opportunity to proceed to arbitration.¹⁶ Potential buyers of KCM were waiting for a resolution in order to proceed with the acquisition.¹⁷ Mining minister **Richard Musukwa** is hoping to find a new equity investor that can offer technical and financial capacity to recapitalise the mine and operate at maximum capacity.¹⁸

Vedanta has invested over \$3 billion in Zambia since 2004 and is one of the country's largest employers (see *ARC Briefing Zambia May 2019*).¹⁹ Copper is Zambia's main export and accounts for 12% of Zambia GDP and 70% of total export value.²⁰ Critics claim the government's plans to liquidate KCM's operations amount to *de facto* nationalisation and will further dent investors' confidence in the government. Mining companies may be willing to search elsewhere for higher value sites, which will cost the government economically and at the ballot box.

Planner

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

Chronology

9 Dec 2020 **Lusaka (Zambia)** *IMF. International Monetary Fund* says **Zambian** authorities have formally requested a financing arrangement to support their reform efforts;

9 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. Commerce, trade and industry permanent secretary **Mushuma Mulenga** says the government needs to formulate interventions that will benefit micro-business as they contribute to 95% of business in the country;

9 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** expects cabinet ministers and deputy ministers who remained in office after parliament was dissolved in 2016 to pay back salaries and allowances, following a **Constitutional Court** ruling;

8 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. **Germany's** ambassador to **Zambia, Annie Wagner-Mitchell** says her government has pledged continued support for Zambia's government to develop the country;

6 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. The **Zambian Tourism Agency (ZTA)** says

¹⁵ Reuters, 27 Nov 2020

¹⁶ Reuters, 27 Nov 2020

¹⁷ Mining weekly, 27 Nov 2020

¹⁸ Mining weekly, 27 Nov 2020

¹⁹ Lusaka Times, 28 May 2019

²⁰ World Bank, accessed 11 Dec 2020

domestic travel is essential to the growth of the tourism economy in the country hard hit by the **coronavirus**;

6 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. Finance minister **Bwalya Ng'andu** moves a motion in parliament for the house to consider a supplementary budget for 2020 amounting to 6.31 billion kwacha (\$300.26m);

6 Dec 2020 **Lusaka (Zambia)** *Lusaka*. President **Edgar Lungu** calls for the development of modern border infrastructure and port facilities to support the continent's transition to a **Free Trade Area** from 1 January 2021;

6 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. **Lusaka Province** minister **Bowman Lusambo** urges the **Electoral Commission of Zambia (ECZ)** to consider extending working hours in all voter registration centres to cater for thousands of the working class in the capital city;

3 Dec 2020 **Lusaka (Zambia)** *Lusaka Times*. **Energy Regulation Board (ERB)** director general **Langiwe Lungu** assures Zambians that the country's fuel situation is stable following the fuel crisis experienced early in October;

27 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. **The Electoral Commission of Zambia (ECZ)** has recorded 2.7 million voters in its voter registration exercise and does not intend to extend the process;

27 Nov 2020 **Lusaka (Zambia)** *Lusaka Times*. **Bank of Zambia** (central bank) governor **Christopher Mvunga** refutes claims on social media that the central bank intends to ban the holding of dollar accounts in commercial banks;

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