

AFRICA RISK CONSULTING

Zambia Monthly Briefing April 2021

Zambia Summary 16 April 2021

Zambia's finance ministry renews virtual talks with the International Monetary Fund (IMF) to discuss the country's sovereign debt default in a bid to establish a roadmap for debt restructuring. United States (US)-based ratings agency Fitch Ratings upgrades Zambia's long-term local-currency (LTL) Issuer Default Rating (IDR) to 'CCC' from 'CC'. The ruling Patriotic Front (PF) elects President Edgar Lungu (2015-present) as its leader ahead of the 12 August elections. Health minister Jonas Changa announces Zambia's vaccine rollout plan as the country receives its first vaccine doses from the World Health Organization (WHO)-led COVAX facility.

Zambia to resume talks with the IMF...

Finance minister **Bwalya Nga'andu** announced on 26 March that **Zambia** has renewed talks with the **International Monetary Fund (IMF)** to discuss its sovereign debt default.¹ The first round of talks with the IMF took place from 11 February to 3 March to discuss the government's request for support under the IMF's **Extended Credit Facility (ECF)**.² During the initial meeting, the Zambian authorities and IMF representatives agreed that while progress had been made, challenges remain, notably the unknown amount that Zambia owes to **China** and Chinese entities, and how Zambia plans to service its debt in a fair and transparent manner.³ Zambia's debt includes approximately \$3 billion in outstanding Eurobonds and an estimated \$3 billion owed to China and Chinese entities.⁴ The finance ministry noted in its statement on 30 March:

"The aim is to agree on an appropriate policy reform agenda to address the economic challenges that Zambia is encountering and support the country's return to sustainable macro-fiscal situation over the medium term."⁵

In November Zambia became **Africa's** first sovereign country in the **Covid-19** pandemic-era to default on debt payments after it intentionally failed to pay a \$42.5m coupon after the grace period expired on 13 November (see *ARC Briefing Zambia November 2020*).⁶ Zambia requested debt relief under the **Group of Twenty (G20)**-backed debt relief programme, the **Common Framework for Debt Treatments**, designed to assist 38 **sub-Saharan African** countries with their debt burdens.⁷ Although Zambia's economy, like that of many other countries, was hit hard by the economic downturn caused by the global Covid-19 pandemic, its debt load was unsustainable even before the pandemic hit.

The finance ministry announced on 24 March that it had met with more than 20 commercial banks and export credit agencies with loan exposure to Zambia.⁸ The purpose of the meeting was to update creditors on Zambia's macroeconomic and fiscal status and talks with the IMF and other authorities over a strategy to deal sustainably with the public debt.⁹

¹ Reuters, 30 Mar 2021

² IMF, 4 Mar 2021

³ Source, DRC analyst

⁴ Reuters, 26 Mar 2021

⁵ Reuters, 30 Mar 2021

⁶ Bloomberg, 18 Nov 2020

⁷ Bloomberg, 27 Mar 2021

⁸ Bloomberg, 27 Mar 2021

⁹ Reuters, 27 Mar 2021

United Kingdom (UK)-based Aberdeen Standard Investments, a member of the **Zambian External Bondholder Committee** consisting of holders of Zambia's defaulted Eurobonds, claims it was not privy to the phone call. Aberdeen Standard Investments' emerging market debt specialist, **Kevin Daly**, says contact was last made with the Zambian authorities three weeks previously. The omission of key Eurobond members in the high-profile talks reinforces scepticism and concern around the lack of transparency from the Zambian authorities.¹⁰ However, Zambia's appointed communication advisors, UK-based **Highgate Advisory Ltd**, said the meeting was only intended for commercial banks with loan exposure to Zambia, with the purpose of inviting them to join a committee of private commercial creditors. Highgate Advisory added that the company had created communication channels dedicated to communicating with the committee of bondholders' representatives.¹¹

Although Zambia's engagement with the IMF over servicing its debt is a step in the right direction, the IMF is likely to demand significant policy changes from the government. Any meaningful changes or programme approval are only likely to occur after the general election scheduled for 12 August (see below).

Fitch upgrades ratings

On the back of Zambia's renewed talks with the IMF and its commitment to finding a solution to service its foreign debt, **United States (US)-based rating agency Fitch Ratings** has upgraded the country's long-term local currency (LTLC) issuer default ratings (IDR) to 'CCC' from 'CC' and affirmed its long-term foreign currency (LTFC) IDR at RD.¹² Although the RD rating reflects that the government has not serviced its outstanding Eurobonds, Fitch notes that the Zambian government has continued to service foreign currency-dominated debt to multilateral financial institutions and debt on priority projects that have immediate social and economic impact.¹³ Zambia has also continued to service its local currency debt and made no indication that it plans to include domestic debt in any potential debt restructuring agreement.¹⁴

While these are positive signs, Zambia is not necessarily in the clear. Fitch states that the 'CCC' rating reflects a real possibility of a local-currency default, given weak public finance and tight domestic financing conditions.¹⁵ Fitch notes that the general government deficit widened to 12% of GDP in 2020 and forecasts a 2021 deficit of 10.3%. General government debt reached an estimated 114% of GDP at the end of 2020, versus the current 'B' median of 66%.¹⁶ The need to roll over domestic debt has increased interest rates. The government's weighted-average cost of domestic government bond issuance reached a real rate of 11.7% in February when inflation was 22%.¹⁷

Fitch notes Zambia's willingness to service and repay debt, awarding it an environmental and social governance (ESG) relevance score of 5 for creditor rights.¹⁸ Zambia also scores well in political stability and rights and rule of law, with a relevance score of 5. Zambia has a medium ranking in the 38th percentile of the **World Bank Governance Indicators (WBI)**, demonstrating continued peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a moderate level of corruption.¹⁹

Fitch outlined factors that could either collectively or individually improve Zambia's ratings and lead to a positive rating or upgrade:

- agreement with bondholders on restructuring its long-term foreign-currency debt;

¹⁰ Source, ARC Zambia analyst

¹¹ Reuters, 26 Mar 2021

¹² Fitch Ratings, 12 Apr 2021

¹³ Fitch Ratings, 12 Apr 2021

¹⁴ Fitch Ratings, 12 Apr 2021

¹⁵ Fitch Ratings, 12 Apr 2021

¹⁶ Fitch Ratings, 12 Apr 2021

¹⁷ Fitch Ratings, 12 Apr 2021

¹⁸ Fitch Ratings, 12 Apr 2021

¹⁹ Fitch Ratings, 12 Apr 2021

- completion of the restructuring process, i.e. issuing new bonds to replace the existing stock of bonds; and
- sovereign willingness and capacity to honour its new foreign-currency obligations.

Zambia's economy has been bolstered in recent months by record-high copper prices. Zambia is Africa's largest copper producer after the **Democratic Republic of the Congo (DRC)**.²⁰

Patriotic Front declares Lungu its leader

The ruling **Patriotic Front (PF)** declared President **Edgar Lungu** (2015-present) leader of the party in a virtual conference held on 17 April.²¹ Lungu was elected unopposed by all provincial executive committees, placing him as the PF presidential candidate for the 12 August general elections. Lungu noted his accomplishments to date during his five-year mandate as president:

"My promise to the Zambian people was socio-economic diversification, poverty reduction, and promotion of meaningful participation of Zambians in their economy, as entrepreneurs and workers. Countrymen and women, five years down the line what puts a smile on my face when I drive around the country is the determination by our people to work hard so that they put food on the table."²²

Lungu won the 2016 election by a narrow margin, beating **United Party for National Development (UPND)** candidate **Hakainde Hichilema** by 2.72%, with 50.35% of the vote to Hichilema's 47.63% (see *ARC Briefing Zambia August 2016*).²³ Lungu performed strongly in the PF heartlands of the **Northern Province** and **Eastern Province**, as well as in **Muchinga** and **Luapula Provinces**.²⁴ Crucially, the PF won a majority in the swing-province of **Copperbelt**, Zambia's industrial heartland.²⁵ Hichilema won in the UPND heartlands of **Southern Province** and **Western Province**, as well as **Northwestern Province**.²⁶ The crucial win for the PF was **Lusaka Province**, containing the capital **Lusaka**, where the ruling party took the majority of the seats.²⁷

The 2016 election was largely a competition between Lungu and Hichilema and their parties, netting 98% of the vote between them.²⁸ Candidates in the 2021 presidential election are likely to include **Forum for Democracy and Development (FDD)** leader **Edith Nawakwi**, who won 0.64% of the vote in 2016, and **Democratic Party** leader **Harry Kalaba**.²⁹

Zambia rolls out its vaccination campaign ...

Health minister **Jonas Chanda** announced on 25 March that his ministry plans to vaccinate all Zambians over the age of 18, accounting for roughly 46% of the 18.3 million population, against Covid-19. Zambia received its first batch of 228,000 Covid-19 vaccine doses from the **World Health Organisation (WHO)**-backed **COVAX Facility** on 12 April. The vaccine doses arrived just a day after Chanda had refuted claims on social media that Zambia did not have facilities to store the Covid-19 vaccine doses at the correct temperature.³⁰

The health ministry is expecting a third wave of Covid-19 infections. As of 16 April, Zambia had recorded 90,532 cases, 88,283 recoveries and 1,230 deaths.³¹

²⁰ Source, ZRC Zambia analyst

²¹ Lusaka Times, 11 Apr 2021

²² Lusaka Times, 17 Apr 2021

²³ ECZ website, 15 Aug 2016.

²⁴ Zambia Weekly, 14 Aug 2016.

²⁵ Zambia Weekly, 14 Aug 2016.

²⁶ Zambia Weekly, 14 Aug 2016.

²⁷ Lusaka Times, 15 Aug 2016.

²⁸ ECZ website, 15 Aug 2016.

²⁹ Zambia Reports, 12 Nov 2018; The Rainbow, 2 Nov 2020;

³⁰ Lusaka Times, 11 Apr 2021

³¹ Africa CDC, 16 Apr 2021

Planner

6-8 May 2021 **Lusaka (Zambia)** Zambia International Mining and Energy Conference (ZIMEC);
 17-18 May 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 19 May 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;
 12 Aug 2021 **(Zambia)** Presidential and legislative elections;
 16-17 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 18 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;
 15-16 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 17 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;

Chronology

16 Apr 2021 **Lusaka (Zambia)** *Lusaka Times*. The **Zambian Chamber of Mines** urges the government to take advantage of the recent ratings upgrade by **Fitch Ratings Agency** to restore the mining industry's growth.

15 Apr 2021 **Lusaka (Zambia)** *Bloomberg*. **International Monetary Fund's Africa** director, **Abebe Aemro Selassie**, says the IMF still hopes to reach a deal with **Zambia** before elections in August on an economic programme that will form the basis of the nation's planned debt restructuring;

15 Apr 2021 **Lusaka (Zambia)** *Lusaka Times*. State-owned mining investment firm **ZCCM-IH** will increase production at its **Kansenseli Gold Mine** in **Mwinilunga** after the **Zambian Environment Management Agency (ZEMA)** issued the mining licence and approvals;

15 Apr 2021 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** expresses satisfaction with the **African Continental Free Trade Area (AFCFTA)** agreement that seeks to bolster intra-Africa trade.

12 Apr 2021 **Lusaka (Zambia)** *Fitch Ratings*. **United States**-based rating agency **Fitch Ratings** has upgraded Zambia's **Long-term Local Currency (LTLC) Issuer Default Ratings (IDR)** from 'CCC' to 'CC' and has affirmed Zambia **Long-Term Foreign-Currency (LTFC) IDR** at 'RD';

8 Apr 2021 **(Southern Africa)** *eNCA*. **Southern African Development Community (SADC)** vows a "proportionate" response to jihadists who last month raided a key town in northern **Mozambique** in a sharp escalation of a three-year-old insurgency;

6 Apr 2021 **(Southern Africa)** *AFP*. Leaders of the 16-country **Southern African Development Community** are set to hold emergency talks on 8 April over an Islamic State-linked militant insurgency in northern **Mozambique**;

2 Apr 2021 **(Africa)** *Sunday Times*. **Africa CDC** director **John Nkengasong** says **Africa** has secured 400 million doses of **J&J Covid-19** vaccines, enough to vaccinate more than half its target of 750m people, as it edges towards the third wave of infections;

31 Mar 2021 **Lusaka (Zambia)** *Reuters*. Shareholders in state-owned mining investment firm **ZCCM-IH** overwhelmingly support its acquisition of a 90% stake in **Mopani Copper Mines** from **Switzerland**-based commodity company **Glencore**;

30 Mar 2021 **(Africa)** *Bloomberg*. Sources familiar with the matter say **Coca-Cola Co** is speaking with potential advisers about exit options – a sale or an IPO – for its 66.5% stake in **Coca-Cola Beverages Africa**, which is valued at about \$6 billion;

29 Mar 2021 **(Africa)** *Financial Times*. **China-Africa Research Initiative** research shows **Chinese** lending to **African** public sector borrowers fell to \$7 billion in 2019, from \$9.9 billion

in 2018 and \$28 billion in 2016, suggesting lenders became concerned about the sustainability of rising debt levels on the continent;

26 Mar 2021 **Lusaka (Zambia)** *UN News*. **Zambia** government has announced it will acquire **Covid-19** vaccines from the **United Nations Covax** facility distribution programme, targeting vaccination of 3.6million Zambians aged 18 above along with critical workers;

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