

AFRICA RISK CONSULTING

Zambia Monthly Briefing December 2023

Zambia Summary 11 December 2023

Zambia is dealt a significant setback in its efforts to restructure its debts as a revised deal to rework \$3 billion of Eurobonds collapses due to official creditors objections. The International Monetary Fund (IMF) executive board is at end December expected to approve the release of \$184m in financing under Zambia's 38-month Extended Credit Facility (ECF) programme. Bank of Zambia (central bank) on 20 November increases the key lending rate by the highest margin in four years to 11% from 10% as inflation hits a 20-month high of 12.9% in November. Canada's First Quantum Minerals (FQM) and local firm Mimosa Resources sign a \$200m agreement on 4 December to develop a 30,000 tonnes per annum copper mine.

Blow for Zambia as Eurobonds debt deal collapses

Zambia has been dealt a significant setback in its efforts to restructure its debts efforts with the government announcing on 20 November that a revised deal to rework \$3 billion of **Eurobonds** could not be implemented at this time due to official creditors objecting to it.¹ Zambia defaulted on its Eurobonds three years ago and after long-protracted talks reached an agreement in principle with a bondholder group on 26 October, less than two weeks after reaching a restructuring deal with official creditors on 14 October.

Zambia's **Official Creditors Committee (OCC)**, led by **China** and **France** who are owed about \$6.3 billion, together with the **International Monetary Fund (IMF)** have expressed reservations about the deal with the bondholders after indications surfaced that the bondholders would receive a third more than governments if the deal went ahead.² **United Kingdom**-headquartered **Debt Justice** and **Zambian Civil Society Debt Alliance** reported in an analysis published on 10 November that after the rework of the bonds, in a 'base case' scenario, bondholders would receive 73 cents for every \$1 loaned, compared to 55 cents for official creditors, and 97 and 79 cents respectively if Zambia's economy performs better.³

The government said in a statement on 20 November:

*"The OCC, through its co-chairs, concluded that Comparability of Treatment would not be achieved in the Base Case scenario, although it would be achieved in the Upside Case scenario."*⁴

The government is referring to a two-pronged approach that foresaw different levels of debt relief depending on the country's economic performance. The government added that the OCC told it that there was no consensus among official creditors on the magnitude of additional concessions that would be required from bondholders in the base case to comply with the Comparability of Treatment principle. The Comparability of Treatment is a principle from the **Paris Club** of creditor nations aimed at ensuring its members don't give outsized concessions compared to private lenders or others outside the group.

¹ [Financial Times](#), 20 Nov 2023

² [Reuters](#), 10 Nov 2023

³ [Debt Justice](#), 10 Nov 2023

⁴ [Bloomberg](#), 20 Nov 2023

The collapse of the deal with bondholders is a big blow for Zambia with the finance ministry saying the continued delay in debt restructuring is hampering economic growth and weighing heavily on the poorest of the population.⁵

IMF to approve \$184m Zambia financing by end of December

Zambian authorities and the IMF on 20 November reached a staff-level agreement on the second review of Zambia's 38-month **Extended Credit Facility (ECF)** programme with IMF spokesperson **Julie Kozack** noting on 7 December that Zambia is likely to receive \$184m in funding under its **Extended Credit Facility (ECF)** at the end of this month following executive board approval.⁶

IMF mission chief for Zambia **Vera Martin** and a team visited Lusaka from 25 October to 8 November to discuss progress on economic and financial policies in the context of the second review. Despite a challenging environment, the economy is showing resilience, with real GDP growth now projected at 4.3% in 2023 and 4.7% in 2024. External and domestic conditions have put pressure on the external balance and the exchange rate, raising inflation (see below).

Kozack said Zambia's performance under the program remains satisfactory with a significant fiscal effort undertaken in 2023 and that together with efforts to restructure its debts was sufficient to bring this review to the IMF board toward the end of December. The impending funds are part of a larger \$1.3 billion ECF programme initiated in August 2022, designed to enhance macroeconomic stability and debt sustainability in Zambia.⁷ The programme has set forth objectives for fiscal rectitude, poverty alleviation, corruption mitigation, and close creditor consultations to align debt restructuring with IMF standards. The programme is based on the authorities' homegrown economic reforms that aim to restore macroeconomic stability and debt sustainability and foster higher, more resilient, and more inclusive growth.

Commenting on the issue that arose between the bondholders and the OCC, Kozack said the IMF staff had assessed that the proposal that was negotiated between Zambia and the bondholders would be consistent with their debt sustainability analysis, and the programme parameters, provided that the memorandum of understanding (MoU) with the OCC would remain valid. She added:

"...The IMF-supported program determines the overall financing envelope needed to restore debt sustainability. However, it does not assess the comparability of treatment. It was the OCC, on 20 November, that assessed that the comparability of treatment was not met."⁸

The IMF's backing of Zambia in this manner is a positive, however, it remains up to the government to reach a deal with bondholders that is satisfactory for all.

Bank of Zambia raises key rate for fourth time in 2023 as inflation spikes

The **Bank of Zambia (BoZ)** (central bank) raised its benchmark lending rate to 11% from 10% on 22 November as it attempts to fight a stubbornly high inflation rate and stabilise its volatile currency.⁹ Annual inflation, which reached 12.9% in November, the highest rate in over 20 months and up from 12.6% in October, is well above the central bank's target range of between 6% and 8%.¹⁰

At a press conference after the policy decision, central bank governor **Denny Kalyalya** said that inflationary pressures were expected to intensify over the period covering the fourth quarter of 2023 to the third quarter of 2025. Inflation is expected to average 10.9% in 2023 and 11.4% in 2024.¹¹ The

⁵ [Reuters](#), 24 Nov 2023

⁶ [Diggers news](#), 11 Dec 2023

⁷ [Reuters](#), 1 Sep 2022

⁸ www.imf.org, Accessed 11 Dec 2023

⁹ [Reuters](#), 22 Nov 2023

¹⁰ [Bloomberg](#), 30 Nov 2023

¹¹ [Bloomberg](#), 30 Nov 2023

inflation spike has been in part caused by the continued tumbling of the kwacha which has depreciated 23.27% so far in 2023 on the back of reduced foreign exchange inflows.¹²

In an attempt to reduce the pressure on the currency as the market has remained starved of **United States (US)** dollars while demand for dollars has grown, the central bank last month increased its minimum statutory reserve ratio on both local and foreign currency deposits by 3% to 14.5% from 11.5%.¹³ On the kwacha, which has been hitting repeated record lows this month, Kalyalya said delays in restructuring the country's debt had affected foreign currency flows the bank was expecting, which will be exacerbated by the recent setback in efforts (see above).

Canada's FQM partners Zambian firm in \$200m copper mine project

Canada's **First Quantum Minerals (FQM)** and Zambian **mining** company, **Mimosa Resources** confirmed on 4 December that they have signed an agreement to fast-track the development of a copper project.¹⁴ FQM is already a major miner in the Zambia and Mimosa Resources is expected to lead the raising of a total investment of \$200m for the project. Under the agreement, mining at the **Fishtie Copper project in Mkushi** is expected to commence in 2026, ramping up to a maximum production of 30,000 tonnes of copper a year by the end of this decade.¹⁵

FQM and Mimosa first announced an agreement to develop Fishtie in 2012. Since then, substantial technical work has been undertaken demonstrating the deposit is economically viable, with some large initial infrastructure now in place. The agreement signed provides Mimosa with access to FQM's skills and expertise to take the project to the next stage of development and help to develop Mimosa, as a Zambian 'home-grown entity', to a world-class, modern mining operator.

Mimosa currently owns 37.5% of **Kashime Copper**, which holds the Fishtie project and the development agreement will see Mimosa's stake grow into a majority 75% share through its completion of a feasibility study and the raising of the necessary financing to take the project to technical completion.¹⁶ An additional element of this agreement is the commitment from FQM to finance and conduct exploration within the wider licence area, outside of the Fishtie project area.

In a separate development, FQM on 27 November said they have entered into a 10-year Power Supply Agreement (PSA) with power utility **Zambia Electricity Supply Corporation (ZESCO)**, in which 420 Megavolt Amperes (MVA) of renewable energy would be reportedly supplied to the mining firms. Under the terms of the PSA, ZESCO would supply over 420 MVA of renewable power to FQM's **Trident** and **Kansanshi** mine sites.¹⁷

Zambia has ambitions to triple its copper output and has reviewed its tax policy to introduce tax breaks to mining investors to increase mining exploration and output.¹⁸

What to watch for in 2024

Zambia's economy will continue to face challenges in 2024 with exchange rate volatility set to endure as low foreign exchange reserves coupled with depressed forex inflows due to low global copper prices will continue to affect the kwacha. Reworking of debt deals with the main creditors as well as the bondholders will also be the highlight of the year particularly in light of the collapse of the in principle deal that the government had struck with the private bondholders (see above). An **El Nino**-induced drought expected in southern Africa which will also threaten food security in the country as a large part of its population surviving of subsistence farming. This, coupled with a climbing cost of

¹² [Reuters](#), 6 Nov 2023

¹³ [Zambia Monitor](#), 6 Nov 2023

¹⁴ [Times of Zambia](#), 5 Dec 2023

¹⁵ [Reuters](#), 4 Dec 2023

¹⁶ [Engineeringnews](#), 4 Dec 2023

¹⁷ [Zambia Monitor](#), 28 Nov 2023

¹⁸ [Bloomberg](#), 30 Sep 2022

living, could exacerbate social unrest especially as the government is not able to provide much funding for more vulnerable sections of society.

Planner

Feb 2024 Lusaka (**Zambia**) **Bank of Zambia** Monetary Policy Committee meeting;
 5 - 8 Feb 2024 **Cape Town (South Africa)** Africa Mining Indaba
 Sep 2024 **Lusaka (Zambia)** 2025 National budget presentation

Chronology

7 Dec 2023 **Lusaka (Zambia)** *Diggers News*. **Bank of Zambia** announces that effective from January 2024, government bonds will be issued at par in the primary market for all new issuances, meaning that the bonds will be sold at their face value, that is, the cash amount to be invested will be the same as the face value amount;

7 Dec 2023 **Lusaka (Zambia)** *Lusaka Times*. **Copperbelt Energy Corporation Plc (CEC)** announces the registration of its first green bond with the **Securities and Exchange Commission** on the sidelines of **CO28**. The proceeds of the \$200m green bond will accelerate plans to generate at least 200MW of renewable energy, specifically solar energy with possible storage implementation;

4 Dec 2023 **Lusaka (Zambia)** *Times of Zambia*. Former ruling party **Patriotic Front (PF)** notifies national assembly speaker **Nelly Mutti** about the expulsion of nine members of parliament (MPs) for gross misconduct, as the infighting in the party continues with former president **Edgar Lungu** seeking to regain control of the party;

3 Dec 2023 **Lusaka (Zambia)** *Lusaka Times*. In a groundbreaking move announced on the sidelines of the COP28 Climate Summit in Dubai, President **Hakainde Hichilema** (2021-present) announces a collaboration between the Zambian government and development partners, **United States (US)**-based **Rockefeller Foundation**, US-based **Global Energy Alliance for People** and **Austria's Sustainable Energy for All**, for setting up of 1,400 electricity mini-grids with a target to expand them to 5,000 in the next five years;

2 Dec 2023 **Lusaka (Zambia)** *Times of Zambia*. Zambia selects **United Arab Emirates**-headquartered **International Resources Holdings (IRH)** as the new strategic equity partner in **Mopani Copper Mines**. IRH, which is linked to Abu Dhabi's most valuable listed company, **International Holdings Company (IHC)**, will invest funds into Mopani to help with short-term working capital and finance the completion of the mine development;

2 Dec 2023 **Lusaka (Zambia)** *Lusaka Times*. Government orders an immediate halt to mining operations at **Seseli mine** in **Chingola**, following a devastating accident that has left over 30 illegal miners feared dead after being buried alive;

1 Dec 2023 **Lusaka (Zambia)** *Lusaka Times*. The **Energy Regulation Board (ERB)** announces it will maintain petroleum pump prices for December while also introducing a transport cost equalisation mechanism to moderate transportation costs associated with petroleum products imported by road;

30 Nov 2023 **Lusaka (Zambia)** *Times of Zambia*. **ZCCM-Investment Holdings** trading on the **United Kingdom's London Stock Exchange (LSE)** is restored after ZCCM-IH completed the required audit of financial results;

29 Nov 2023 **Lusaka (Zambia)** *Zambia Monitor*. Most commercial banks are reported to be taking a cautious stance about participating in government paper, given the liquidity outflow

expected after **Bank of Zambia** (central bank) raised its benchmark interest rate by 100 basis points (bps) to 11 % on 22 November a day after announcing a 250-bps upward adjustment to the cash reserve ratio to 17%;

29 Nov 2023 **Lusaka (Zambia)** *Times of Zambia*. Government commences a mapping exercise to ascertain the possible development of a formalised gold mining tenement in **Mpika District's Kanyebele** area;

28 Nov 2023 **London (United Kingdom)** *Lusaka Times*. London high courts hears a case against **Atlas Mara**, the company founded by former **Barclays** boss **Bob Diamond**, over allegations that it attempted to diminish the value of **Finance Bank Zambia (FBZ)**, ahead of a takeover. FBZ founder Dr **Rajan Mahtani** initiated the lawsuit, claiming that Atlas Mara breached the terms of the acquisition agreement, and is seeking damages of up to \$100m;

26 Nov 2023 **Lusaka (Zambia)** *Lusaka Times*. The government and public service unions agree on a salary increment of K550 (\$23) across the board for civil servants effective 1 January 2024. The decision comes after 10 days of negotiations involving representatives from 19 workers' unions;

23 Nov 2023 **Lusaka (Zambia)** *Lusaka Times*. The secretary to the cabinet, **Patrick Kangwa** issues a stern warning stating that government institutions failing to implement **Electronic Government Procurement (E-GPS)** by the end of this year will be barred from conducting procurement meetings in the coming year;

22 Nov 2023 **Lusaka (Zambia)** *Zambia Monitor*. The **Food Reserve Agency (FRA)** pays a total of K1.94 billion (\$80.9m) to farmers who supplied their crops during this year's crop marketing season that closed on 31 October;

20 Nov 2023 **Lusaka (Zambia)** *Times of Zambia*. Government orders six gold processing plants in **Mumbwa District** to cease operations as they have no written approval from the **Zambia Environmental Management Agency (ZEMA)**;

20 Nov 2023 **Lusaka (Zambia)** *Lusaka Times*. President **Hakainde Hichilema** embarks on a state visit to **Rome (Italy)** at the invitation of his Italian counterpart **Sergio Mattarella** to discuss pertinent issues at bilateral and multilateral levels;

19 Nov 2023 **Lusaka (Zambia)** *Lusaka Times*. **Zambia Electricity Supply Corporation (ZESCO)** announces an initiative to invest in alternative energy sources, with an \$89m solar project taking centre stage. In addition to solar, ZESCO is actively exploring nuclear and geothermal sources as part of its long-term energy strategy;

18 Nov 2023 **Lusaka (Zambia)** *Lusaka Times*. The **African Development Bank (AfDB)** signs memorandum of understanding (MoU), joining global partners to mobilise resources for the **Lobito Corridor** and the **Zambia-Lobito** rail line in southern and central Africa. Other signatories included the **United States**, the **European Commission**, the **Africa Finance Corporation (AFC)**, and the host governments of Zambia, **Angola** and the **Democratic Republic of the Congo (DRC)**.

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