One Hundred and First Sovereign Debt News Update: Zambia and its Official Creditor Committee Agree on a Memorandum of Understanding (MoU) on Comprehensive Debt Treatment

By:

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Through the signing of a Memorandum of Understanding (MoU), Zambia has formalized the agreement with its official creditor committee (OCC) under the G20 Common Framework, which is co-chaired by China and France, for the restructuring of $6.3 billion of debt. This development, which comes after almost three years after Zambia defaulted on a $42.5 million bond payment, was announced by the Finance Minister Situmbeko Musokotwane at press event

at the 2023 International Monetary Fund and World Bank Annual Meetings held in Marrakech, Morocco.

Zambia, whose total debt amounted to $32.8 billion at the end of 2022, defaulted on its foreign debt in 2020 at the height of the COVID-19 pandemic. As noted in the Eighty Eighth Sovereign Debt News Update, in June 2023 Zambia announced that it had reached, in principle, an agreement on a comprehensive debt treatment with its official creditors under the G20 Common Framework. However, the terms of the agreement were yet to be elaborated and formalized in a Memorandum of Understanding between Zambia and its official creditors.

According to the statement released by Zambia's Ministry of Finance and National Planning, each official creditor will now begin their internal process to sign the MoU. Following the signing of the MoU, the terms will be implemented through bilateral agreements with each member of the OCC. In addition, the Ministry of Finance and National Planning is hopeful that the formalisation of the OCC agreement will further support the progress Zambia is making in achieving a comparable agreement with its private creditors to resolve the debt overhang.

During the IMF and World Bank Annual Meetings, the IMF Managing Director, Kristalina Georgieva, congratulated Zambia for progress in implementing reforms under the IMF Enhanced Credit Facility and for steps taken in debt restructuring process. Through a draft communique, finance leaders from the Group of 20 (G20) major economies welcomed "*advanced work*" toward finalization of a memorandum of understand for Zambia's debt treatment and "*ongoing progress*" in the case of Ghana. The G20 leaders also called for a "swift conclusion" of debt talks underway for Ethiopia and Sri Lanka.

Speaking after the Annual Meetings, the Finance Minister highlighted that "*the next step is to secure a comparable agreement with our private creditors. Our government committed to resolve the mounting debt suffocating our economy and we are proud of the immense progress we have made. Once completed, debt restructuring will free up resources vital for this government to invest in our development agenda*". The Minister has gone on to advising Ghana on the trajectory to take for a more efficient debt relief process. Sharing the Zambian

experience, Musokotwane advised Ghana to have restrictive laws on debt accumulation and give more powers to the parliament. The Finance Minister also advised Ghana on how to get the support of the international community, noting that "*lenders and other people, obviously, must conclude that you're worthy of their support, and willing to take steps to assist yourself*".

A number of thinktanks and experts have shared thoughts on this recent development. According to the Center for Trade Policy and Development (CTPD), *this agreement will pave the way for increased resources to be allocated to development projects, thus benefiting the nation's economic growth*. Isaac Mwaipopo, who is the Executive Director of CTPD, emphasized the positive impact of the MOU on Zambia's quest to alleviate its debt burden and noted that the "*development will enable the government to allocate more resources to areas in need of development*". The Zambia Institute of Policy Analysis and Research (ZIPAR) has noted that MoU with the country's official creditors sets right tone for Zambia's future economic growth. In an interview commenting on the announcement, ZIPAR Executive Director, Herrick Mpuku highlighted that the signing of the MoU *offered opportunities for growth while setting a base for future economic expansion*. Dr Litana, a senior lecturer of economics at the Copperbelt University (CBU), expressed the view "that the agreement will have a positive impact on interest and foreign exchange market as a result of macroeconomic stability."

The MoU follows the report that Zambia's bondholders had come to the negotiating table to formally start debt talks with the government with the goal to restructure more than $3 billion of overseas bonds. Zambia has three outstanding dollar bonds maturing in 2022, 2024 and 2027, and trading at 51-56 cents on the dollar. On the steering committee of the creditor group that holds around 45% of Zambia's total outstanding international bonds are the following: Amia Capital, Amundi, BlueBay Asset Management, Farallon Capital Management and Greylock Capital.

While the formalization of the restructuring terms through the MoU between Zambia and its official creditors is applauded, the situation in Zambia serves as a stark reminder of the complex challenges many African nations face, and will continue to face, in the event that the current global debt and financial architecture is allowed to persist without reform. The AfSDJN calls for "*a new comprehensive, fair and effective sovereign debt restructuring mechanism*

based in the United Nations that would be binding on all creditors, including commercial creditors, and that would make it difficult for hold-out creditors to prevent sovereign debt workouts."

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