Sovereign Debt News Update No. 153: The Afreximbank-Zambia Debt Dispute: A Precedent-Setting Standoff

By:

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Introduction

Following its 2020 default on its US$42.5 million Eurobond payment, Zambia became the first African country to experience a sovereign default during the COVID-19 pandemic. Since then, it has been engaged in a protracted effort to restructure its debt, notably under the G20 Common Framework. As reported in the Eighty Eighth Sovereign Debt Update, the country achieved a breakthrough agreement to secure a partial restructuring of US$6.3 billion in bilateral debt by March 2024. This unlocked a US$188 million disbursement from the International Monetary Fund (IMF), which was targeted at providing fiscal breathing room and reinforcing the country's path toward economic recovery.

In a statement shared via the Ministry of Finance's official Twitter account on Tuesday, October 28, 2025, Minister of Finance Situmbeko Musokotwane confirmed that all participating countries had formally pledged to uphold the agreed-upon terms through a memorandum of understanding. He noted that the country had moved from 44% to 57% in the formal signing of bilateral agreements and the remaining steps were procedural, primarily involving the conversion of these agreements into binding legal documents. The announcement comes against a backdrop of complex negotiations that have highlighted fundamental tensions in the international debt architecture.

A key sticking point, however, is the treatment of debt owed to the African Export-Import Bank (Afreximbank) and the Trade and Development Bank (TDB), which are both African regional finance institutions. This conversations came to a head when Afreximbank initiated arbitration proceedings against the country, according to a Bloomberg report. Notably, the Bank instituted court proceedings against South Sudan, also seeking repayment of a US$657 million facility which the country had defaulted on.

News also emerged that one-third of the investors were willing to acquire the country's obligations to Afreximbank. This development, announced by Treasury Secretary Felix Nkulukusa, represents a possible breakthrough in one of the most contentious aspects of Zambia's debt restructuring process. Afreximbank has declined to participate in the debt restructuring on the same terms as other creditors, asserting its status as a preferred creditor. This designation entitles such institutions to priority repayment and exempts them from being compelled to accept reductions or delays in their claims.

This Update explores the divergent positions in this dispute and situates the debate within the broader context of the evolving role of regional multilateral development banks in sovereign debt restructuring. It will also examine Zambia's strategy of third-party subrogation of Afreximbank's debt and assess whether it offers a viable path forward in resolving its debt crisis and furthering the relevance of African Multilateral Development Banks in the long-term.

Background: Zambia's Debt Restructuring Impasse

According to Zambia's Secretary to the Treasury, Felix Nkulukusa, the country is facing a significant roadblock: Afreximbank is reportedly pursuing arbitration

against Zambia over the ongoing debt restructuring exercise. This unprecedented move marks a critical juncture in the process. According to Reuters, the restructuring remains snagged on ‘thorny negotiations’ and is not expected to be resolved until 2026. After a challenging three-and-a-half-year process, the country’s Ministry of Finance and Planning shared that it had finally reached an Agreement-In-Principle with its key private sector creditors in June 2024. According to this address, which was shared by Finance Minister Dr. Situmbeko Musokotwane in a parliamentary session, the agreements covered bilateral, Eurobond, and commercial creditor categories. However, it is reported that it has yet to complete the process and exit default due to the outstanding restructuring of its debt with Afreximbank and the Trade and Development Bank, (TBD).

The bone of contention lies in whether regional development banks such as Afreximbank should be required to take a debt "haircut", similar to commercial creditors, or be spared a loss, like the IMF and World Bank, which possess 'preferred creditor status'. While Afreximbank and TDB only account for just under 8% of the debt earmarked for restructuring– with Afreximbank’s debt in question being less than US $50 million, the principle at stake is massive, potentially setting a precedent for other African countries seeking debt restructuring. Indeed in the words of Zambia's Secretary to the Treasury Felix Nkulukusa in an interview in London, "unfortunately, we are a guinea pig. Everything is being tested on us."

Analysis: The Conflict Over Preferred Creditor Status and Regional Impact

Afreximbank’s debt restructuring challenges go beyond Zambia. In June, the Bank resolved a loan dispute with South Sudan, after a United Kingdom court ordered the country to pay US$657 million. The ruling covered three financing agreements from 2019 and 2020, valued at $63 million, $250 million, and $400 million respectively. Ghana, facing challenges in finalizing its debt restructuring process, has extended an invitation to Afreximbank for discussions on renegotiating its outstanding obligations. Zambia has announced plans to restructure its Afreximbank loan estimated at $45 million by think tank ODI Global, citing its commercial terms as the basis for the move. In Malawi, government officials quoted in local media have expressed intentions to initiate

talks with Afreximbank aimed at easing the country's debt service burden.

The arbitration by Afreximbank puts preferred creditor status, a vital protective shield for development banks, at the heart of the debate. Multilateral development banks (MDBs) rely on this status to ensure a layer of protection that allows them to provide more affordable and riskier financing essential for development in emerging markets. Preferred Creditor Status is a widely accepted principle under which MDBs are given priority for repayment of debt in the event of a borrower experiencing financial stress. It is *de facto, and not de jure*, which means that it arises not out of contractual obligation, but as a matter of practice. If Afreximbank is forced to take a loss, its borrowing costs could rise, limiting its capacity to finance critical projects. The effect of this ongoing debacle has been reflected in the Bank's lowered credit ratings. On 4 June 2025, Fitch Ratings downgraded Afreximbank, lowering its long-term foreign currency issuer default rating from 'BBB' to 'BBB-' with a negative outlook. Fitch justified its decision by citing a perceived increase in credit risk and weak risk management policies, based on its estimate that the bank's non-performing loans (NPLs) stood at 7.1%. This estimate stems from Fitch's classification of exposures to the sovereign Governments of Ghana (2.4%), South Sudan (2.1%) and Zambia (0.2%) as NPLs. According to the rating agency's release, this 7.1% figure was significantly higher than the 2.44% ratio reported by Afreximbank in its own Q1 2025 financial performance disclosures.

However, this situation brings to light a critical question that challenges the foundations of the global financial system. What qualifies a Multilateral Development Bank (MDB) for preferred creditor status. It has been argued that TDB and Afreximbank's rates lean closer to commercial than concessional, hence they should be involved in restructuring. Further Afreximbank has moved closer to being a commercial lender because it shareholding base now includes non-sovereign shareholders. However, neither Afreximbank nor the Trade and Development Bank (TDB) publicly disclose the financial terms of their loan agreements. However, select details regarding Afreximbank's lending have surfaced through media reports. For instance, a US$750 million loan to Ghana reportedly carried an interest rate of around 9.55%, while a $500 million facility extended to Tunisia was priced at 10.28%. These rates are significantly higher than those typically offered by traditional Multilateral Development Banks (MDBs), and the loan tenures are notably shorter—seven to ten years for

Ghana, compared to the 30- to 40-year maturities associated with World Bank concessional financing. Additionally, it has been argued that Afreximbank's shareholding structure, particularly its inclusion of private shareholders positions the institution as operating largely in the capacity of a commercial lender.

Overall, the degree of loan concessionality that is needed for MDB loans to benefit from preferred creditor status is not clearly articulated by other creditors, which has contributed to the ambiguity of the situation. Nonetheless, it is essential to assess regional MDBs within the framework of their unique operational challenges and their commitment to the development of African countries before drawing comparisons with global, more established international financial institutions; entities that are, without question, more favourably positioned within the global financial landscape. The elevated cost of loans from Afreximbank and TDB is primarily driven by their own high funding expenses. Afreximbank holds a rating at the lower end of investment grade, while TDB was recently downgraded to 'BB' from 'BB+': both significantly below the AAA ratings enjoyed by the major Multilateral Development Banks (MDBs). In the context of sovereign debt restructuring and efforts to restore debt sustainability, the critical factor is the financial terms of the loan itself, rather than the MDB's margin. Ostensibly, MDBs operate without the benefit of AAA ratings or access to concessional donor funding, necessitating higher loan pricing to maintain financial viability.

However, these are not the only criteria for determining what kinds of lenders get preferred creditor status. Ebrima Faal cites key features which justifies Afreximbank as deserving of preferred creditor status. First, Afreximbank extends financing during periods of crisis such as commodity price collapses or the COVID-19 pandemic. Second, institutions like Afreximbank lend to developing countries in underserved sectors like food security and healthcare, which are typically avoided by commercial banks. These sectors often carry higher risks or yield lower returns. For example, public healthcare services tend to operate with minimal pricing, and in many developing countries, private healthcare faces limited demand due to widespread affordability constraints. Accordingly, Afreximbank has consistently maintained its lending commitments to these priorities even when other financiers have pulled back. During the 2015–2016 commodity crash, the Bank stepped in to provide critical support,

and during the COVID-19 pandemic, it extended over $750 million to Ghana and $45 million to Zambia. Its financing priorities include healthcare, food security, and trade, sectors often overlooked by commercial banks due to their perceived high risk or limited profitability.

Furthermore, it is important to situate these arguments within similar development banks. As Ojeah argues in *Preferred in Principle, Penalised in Practice: Afreximbank and the Politics of Preferred Creditor Status*, the Caribbean Development Bank, despite having multiple non-borrowing shareholders, a solid credit rating, and lending conditions on par with traditional MDBs, has not typically enjoyed the same exemptions from debt restructuring that institutions like the World Bank, African Development Bank (AfDB), or International Monetary Fund (IMF) have received. Similar observations apply to other regional lenders such as the Corporación Andina de Fomento (Development Bank of Latin America) and the New Development Bank established by the BRICS nations. These institutions, like Afreximbank, play a vital role in regional financing but often face different treatment in sovereign debt negotiations.

Hence, considering the significant challenges African countries face in accessing affordable capital, Akinkugbe posits that preserving the preferred creditor status of African Multilateral Development Banks must be a shared priority. Upholding this not only bolsters these institutions' credibility in global financial markets but also enables them to secure more favorable financing terms. This, in turn, expands their capacity to provide concessional lending, an essential tool for addressing development shortfalls across the continent. Supporting these institutions in this way directly contributes to the broader goal of African financial sovereignty envisioned in Agenda 2063.

When Finance Secretary Nkulukusa remarked that Zambia views itself as a "guinea pig", he was strongly suggesting that the country's debt restructuring served as a test case for future sovereign debt negotiations involving regional development banks. This claim rings true considering not only the number of questions raised by this situation, but also their significance. He highlighted that while negotiations with TDB began two months prior, little progress has been made with Afreximbank. This impasse is so severe that it is reportedly expected to delay the final resolution of the restructuring until 2026, coinciding

with the country's next presidential election. The ongoing deadlock is directly impeding Zambia's economic recovery, despite improving macroeconomic indicators such as projected GDP growth of 5.8% in 2025 and 6.4% in 2026, stabilizing the exchange rate from mining revenues, and slowing inflation. As such, resolving the debt restructuring issue is crucial for unlocking the investment needed for sustained growth.

The Proposed Subrogation

A CNBC Africa report stated that Zambia's Treasury Secretary Nkulukusa revealed that an unnamed third party approached Zambian authorities expressing interest in subrogating the country's debt to Afreximbank. According to him, the proposed mechanism would involve a straightforward legal transfer: Zambia would execute a deed of assignment, transferring its obligations from Afreximbank to the new creditor. This new creditor would then participate in the debt restructuring "in accordance with the comparability of treatment under the Official Creditor Committee." Sources previously informed Reuters that the Paris Club of official lenders had explicitly communicated to Zambia and Ghana the need to restructure their debts to both Afreximbank and the Eastern and Southern African Trade and Development Bank (TDB) on terms consistent with those offered to other creditors. The Zambian government has signaled its receptiveness to this approach. Reuters reports also that according to Nkulukusa, after the interested party reached out in August, officials responded positively in September, confirming they "had no problem assigning the debt to a third party."

Several critical questions remain unanswered. The identity of the interested third party is unknown, as are their motivations and financial capacity. Potential candidates might include distressed debt investors, sovereign wealth funds, or even another multilateral institution. The terms under which this third party would acquire the debt—at par, at a discount, or with some form of guarantee—have not been disclosed and will be crucial to assessing whether the arrangement genuinely satisfies comparability requirements.

Additionally, while Zambia has indicated its willingness to proceed, the arrangement requires Afreximbank's consent to assign the debt. Reuters was unable to reach Afreximbank for comment, leaving uncertainty about the

institution's receptiveness to this solution. Ultimately, its position will set a crucial precedent for the treatment of African MDBs.

On the other hand, the Paris Club's firm stance on this issue, is that both Afreximbank and the Eastern and Southern African Trade and Development Bank (TDB) must accept comparable treatment, instead of preferred creditor status. This reflects concerns about the perception of regional development institutions in Africa. If adhered to, it creates adverse incentives for future lending and undermines the collective action necessary for successful recognition of the role and status of African multilateral development institutions. One article gives a number of consequences from such a move. The authors argue that the cost of capital for the two African financial institutions will increase if they are treated like commercial creditors. According to the article, this will reduce their capacity to lend and their financing will become more expensive. Reuters previously indicated that the Paris Club conveyed this position not only to Zambia but also to Ghana, which faces similar challenges. This suggests that the resolution of Zambia's Afreximbank dispute may establish precedents that shape how future African sovereign debt crises are managed, especially when African MDBs are involved. A Reuters article posits that this trap the two countries in longer debt default. This is a particularly worrying situation and entails that the fate of these critical institutions may end up being shaped by foreign parties which are unable to fully grasp the importance of these institutions to Africa-driven development.

Conclusion: A Looming Precedent and the Call for a Regional Solution

Afreximbank’s decision to pursue arbitration against Zambia represents a pivotal challenge to the established norms of sovereign debt restructuring. In particular the treatment of regional development banks that would strip them of 'preferred creditor status' would undermine their mission to support African development. Concurrently, Zambia's urgent need for debt relief to exit default and foster economic growth is equally pressing.

This dispute is not merely a bilateral financial disagreement. It is a precedent-setting case that will likely influence how other nations facing unsustainable debt burdens, particularly in Africa, structure their future negotiations with regional lenders. The potential delay of the restructuring until 2026 creates

political uncertainty and stalls essential economic recovery. Ultimately, the resolution, whether through arbitration or an agreed-upon alternative like additional concessional lending, will necessitate an "efficient and effective way" to protect the financial integrity of institutions like Afreximbank while allowing troubled nations like Zambia to achieve necessary and sustainable debt relief.

More broadly, this episode highlights the evolving challenges of sovereign debt restructuring in a world where the creditor base has become increasingly diverse and fragmented. Traditional frameworks designed around bilateral official creditors, and commercial banks have struggled to accommodate the proliferation of multilateral development banks, regional financial institutions, and non-traditional lenders. Nevertheless, it presents an opportunity to overhaul the global financial architecture, where the unique characteristics of African MDBs have often been overlooked and their implications insufficiently addressed. This moment offers a valuable chance to acknowledge the critical role these institutions play in channeling capital toward Africa’s development and preserving the sanctity of their being *primus inter pares* among creditors.

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