Sovereign Debt News Update No. 181: Zambia’s Debt-for-Energy Buyback: Initial Bondholder Pushback Over $1.36 Billion 2053 Notes and a $65 million Sweet Deal

By:

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Zambia has taken a significant step in its post-default debt restructuring journey by launching a tender offer to repurchase US$1.36 billion of its restructured 2053 Eurobond through a debt-for-energy swap backed by a US$600 million concessional loan from the African Development Bank (AfDB). The transaction, announced at the end of May 2026, has been presented by the Zambian government as an innovative financing mechanism that will reduce future debt service obligations, strengthen energy infrastructure, and mark the successful conclusion of the country’s sovereign debt restructuring process. According to the Ministry of Finance and National Planning, the operation is expected to improve debt sustainability while creating fiscal space for

investment in the country’s electricity sector, which has faced considerable strain in recent years due to climate-related shocks and power shortages.

This update examines the structure and rationale of the buyback, and the associated debt-for-energy framework supported by the African Development Bank. It further analyses emerging creditor pushback, including concerns over valuation, contractual protections such as the clean-up call provision, and the “successful transaction” after a $US65 million deal.

Zambia’s Landmark Buyback Operation

On the 29th of May 2026, Zambia launched a tender offer to repurchase its US$1.36 billion Fixed Rate Step-Up Amortising Notes due in 2053. The bond was one of the instruments issued under the country's Eurobond restructuring agreement concluded with private creditors in 2024. According to the Financial Post, the notes carry a step-up clause, specifying that coupons rise to 7.5% from 0.5% if Zambia meets an International Monetary Fund debt-sustainability metric for two consecutive periods (the first of which it is expected to hit in June 2026).Buying back the securities before the step-up trigger could help reduce the government’s future payments. Before the tender offer, Zambia was due to make a US$2.5 million coupon payment in June 2026.

Through the tender offer, the government proposed to purchase the bonds at US$780 per US$1,000 principal amount for investors who tendered by 5 June 2026 and US$740 per US$1,000 for those participating after that date. The operation was designed to encourage early participation while providing Zambia with an opportunity to retire a substantial portion of its outstanding commercial debt before future payment obligations increase. If participation in the buyback reaches 75%, Zambia would be able to invoke the clean-up call provision contained in the original terms of the Notes, enabling it to redeem the remaining outstanding debt through the tender process.

According to a statement issued by Zambia's Ministry of Finance and National Planning, the initiative is anchored in a transformative 15-year National Grid Resilience Programme aimed at strengthening the country's electricity distribution network and expanding access to reliable and affordable power. The programme will be coordinated by GreenCo Power Services and implemented through a newly established entity governed by a board

comprising private sector representatives alongside government officials. The Zambian authorities described the transaction as part of a broader strategy to optimise public debt management and reduce future financing costs. According to the Ministry of Finance and National Planning, the buyback would *lower debt service obligations over the life of the bond and create fiscal space for investments that support economic growth and resilience*. The government argued that the transaction demonstrates the benefits of proactive debt management following the completion of the restructuring process and reflects growing confidence among development partners in Zambia's economic recovery programme.

Bondholder Pushback

The transaction initially generated resistance from a group of bondholders who argued that the terms of the buyback are unfavourable and could deprive investors of future gains under the restructuring agreement. In a statement issued through their legal advisers, Cleary Gottlieb Steen & Hamilton, the ad hoc creditor group warned that the terms of the US$1.36 billion offer could disadvantage investors by limiting their ability to benefit from future upside embedded in the restructuring agreement. In particular, they pointed to the risk that if 75% of the bonds are tendered, the clean-up call provision would be triggered, enabling Zambia to redeem the remaining notes in full and effectively remove holdout investors from any future gains, including those linked to the anticipated coupon step-up mechanism.

Some investors, including Degroof Petercam Asset Management fund manager Hugo Verdiere, indicated that they would not participate in the buyback, arguing that the bonds are undervalued and that their fair value is significantly higher than the government's offer. He further suggested that the very existence of the tender implied the authorities themselves may expect the bonds to appreciate, particularly if the step-up trigger is reached, which would shorten amortisation from 2053 to 2035 and increase the bonds' value. While acknowledging uncertainty over timing, he argued that the probability of the trigger being met is high and expressed scepticism that Zambia would reach the 75% participation threshold required to activate the clean-up mechanism.

The Debt-for-Energy Swap and the African Development Bank's Role

A distinctive feature of the transaction is its financing structure. Zambia secured a US$600 million concessional loan from the African Development Bank to support the repurchase of the 2053 bond, while the remaining financing is expected to come from government resources. The arrangement has been described as a "*debt-for-energy conversion*", linking debt reduction directly to investments in the country's electricity infrastructure. According to Zambian authorities, future savings generated through the buyback will be directed towards strengthening the national power grid and improving energy security, as authorities expect to redirect about $275 million in savings toward electricity infrastructure.

The operation is particularly significant because it is reportedly the first debt-for-energy transaction supported by the AfDB and is intended to serve as a model for future initiatives across the continent. In a context where many African countries continue to face high debt burdens alongside substantial infrastructure financing needs, the transaction is being closely watched as a potential example of how debt operations can be linked to long-term development outcomes.

Analysis

The buyback comes nearly six years after Zambia became the first African country to default during the COVID-19 pandemic in November 2020. Since then, the country has undergone one of the most closely watched sovereign debt restructuring processes, involving negotiations with bilateral creditors, multilateral institutions, commercial lenders, and bondholders under the G20 Common Framework. The completion of the Eurobond restructuring in 2024 was widely viewed as a major breakthrough, but the latest buyback initiative demonstrates that debt restructuring does not necessarily end when agreements are signed. Instead, governments continue to seek opportunities to improve debt profiles, reduce long-term repayment obligations, and align debt management with broader development priorities.

The emerging pushback from the bondholders highlighted ongoing tensions between sovereign debtors seeking to reduce future liabilities and investors seeking to preserve the value of their claims. The dispute also raised broader questions about the operation of innovative debt instruments, sovereign debt

buybacks, and the long-term implications of post-restructuring debt management strategies for both borrowers and creditors. Questions concerning investor participation, valuation methodologies, and the treatment of minority bondholders may become increasingly important as debt-for-energy transactions become more common across developing economies. Additionally, the resistance from some bondholders also demonstrated that innovative debt instruments can generate new legal and financial complexities. Moving forward, future transactions of this nature will likely be examined closely by both sovereign borrowers and private investors seeking to understand how contractual provisions operate in practice.

The buyback announcement was, however, received positively by financial markets. Zambia's 2053 bond rose sharply following the launch of the tender offer, reflecting investor expectations that the buyback would improve the country's debt outlook and reduce future repayment risks. Bloomberg reported that Zambia's bonds jumped after the government initiated the tender process, with the price of the 2053 bond rising by more than 4.5 cents to about 77.9 cents on the dollar in secondary market trading.

Interestingly, on the 4th of June, Morgan Stanley said they expected Zambia to revise its bond buyback offer higher in a bid to break an impasse with a group of bondholders resisting an initial price tabled earlier. According to Morgan Stanley, the proposed revisions were aimed at resolving the standoff with bondholders rejecting the initial terms.

True to this, by the 9th of June, Zambia had reportedly secured sufficient support from bondholders to proceed with the full repurchase of its US$1.36 billion Eurobond due in 2053, marking a further milestone in the country's post-restructuring efforts to strengthen public finances. According to Bloomberg reporting, Zambia had to "sweeten" the deal by offering an extra $65 million to pull in a group of holdout creditors that resisted the initial deal. Participation in the tender offer surpassed the critical 75% threshold required for the government to complete the buyback and potentially bind remaining holders into the transaction. Under the revised terms, participating bondholders are expected to receive approximately 84.35 cents on the dollar, with the final price adjusting downward as overall acceptance levels increase toward full take-up.

Conclusion

Zambia’s case continues to highlight the complexities of sovereign debt negotiations. Zambia's decision to launch a US$1.36 billion buyback of its 2053 Eurobond marks a significant new chapter in the country's post-default recovery process. Supported by a US$600 million African Development Bank loan and structured as a debt-for-energy swap, the initiative seeks to reduce future debt service obligations while directing savings toward investments in the national power sector. The operation reflects the government's efforts to consolidate the gains achieved through years of debt restructuring negotiations and to strengthen the country's long-term fiscal position.

Yet, the transaction has also exposed continuing tensions between sovereign debtors and private creditors. For Zambia, the buyback offers an opportunity to reduce future liabilities before a potentially costly coupon step-up takes effect. For some investors, however, the transaction risks eliminating the future upside that formed part of the restructuring agreement reached only two years earlier.

More broadly, the Zambian case offers important lessons for African countries pursuing innovative approaches to debt management. As governments increasingly explore debt swap transactions in their various forms, the challenge will be to ensure that these mechanisms simultaneously support debt sustainability, development objectives, and creditor confidence. Whether Zambia's buyback ultimately becomes a model for future sovereign debt operations or a cautionary example of post-restructuring tensions will depend largely on the outcome of the current tender process and the country's ability to balance fiscal priorities with investor expectations.

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