One Hundred and Eleventh Sovereign Debt News Update: Zambia Signs Debt Restructuring Deal with Official Creditors China and India

By:

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Zambia's debt restructuring journey has been quite troubling, with what many have referred to as "false celebrations" being witnessed towards the end of 2023. The Eighty Eighth Sovereign Debt News Update reported that Zambia had sealed a $6.3 billion debt restructuring deal that excluded private creditors in June 2023, with the One Hundred and First Sovereign Debt News Update highlighting that Zambia had reached a memorandum of understanding with official creditors to restructure the $6.3 billion by October 2023. However, Zambia suffered a major setback in November 2023 because as the One Hundred and Fourth Sovereign Debt News Update reported that Zambia had announced that its debt restructuring with Eurobond creditors could not be implemented at that time. Since then Zambia has signed a debt restructuring deal with China and India, the last two countries that had not signed the deal as official creditors.

This is significant because in November 2023, a revised deal to rework $3 billion of Eurobonds was rejected by Zambia's official creditors, including China. Zambia's agreement with bondholders was considered by bilateral creditors as more generous than the deal that had previously been offered to China and India. These concerns about comparability of treatment have therefore delayed thus far, with new developments coming in. According to one source, China was dampening Zambia's efforts to come out of default as Beijing wanted the investors to take deeper cuts in restructuring.

Without doubt, the Zambian government has been working tirelessly to ensure that the debt restructuring processes goes back on track. In early February of 2024, the Zambian government announced it was waiting on the creditors, noting that "*[w]e have done everything on our side to get to debt restructuring. This is why we are saying that they (creditors) ought to recognise the pain and difficulties that arise as long as this debt is not restructured*." Around the same time, Zambian officials were reported to have made a trip to Beijing the previous week to discuss debt restructuring with representatives of the Export-Import Bank (EXIM) of China and some Chinese commercial banks.

In a new development reported in the third week of February 2024, China and India have signed a debt-revamp deal with Zambia. This was announced by the Zambian President, Hakainde Hichilema, in a live address at a traditional ceremony in Chipata town. China rejected last year's deal with Zambia's bondholders because the agreement did not meet its understanding of the "principle of comparability of treatment". Speaking before the announcement of this recent deal, Peter Mumba, a policy research and development economist with the Zambia Debt Alliance, said "*[d]espite being a cornerstone of sovereign debt restructuring, the Paris Club and the G20 have not provided detailed guidance on the definition and application of "comparability of treatment*". It is therefore the lack of clarity, among other factors, which has adversely affected the efficiency of the debt restructuring processes.

It is imperative to note that while it seems that Zambia has won this battle, it is still yet to win the war. With the official creditors having been satisfied as such, attention must now be shifted towards the private creditors. The plan is to resume talks with private creditors to resolve a “terrible debt mountain” of more than USD$13bn in external debt that Zambia stopped paying in 2020. President Hakainde Hichilema admitted that with the deal now in place, Zambia will now need to turn to its private creditors. According to Finance Minister Situmbeko Musokotwane, “*[t]his concept of comparability of treatment was not properly clarified, leading to ambiguous understanding by different creditors and with progress made to clarify the term, this should pave the way for agreement on the private creditors as well*.” Sam Singh-Jami, Africa Strategist at Rand Merchant Bank, reiterated “China and India agreeing on terms means that we can get on with the private-creditor restructuring.” While Economist Lubinda Habazoka hailed the development as a much-needed relief for Zambia’s foreign debt servicing program, he also urged private lenders to follow suit and engage in debt restructuring negotiations to alleviate Zambia’s financial burden further.

Interestingly, details pertaining to figures and timeframes of the deal with China and India have not been shared as yet. Such transparency concerning the agreed upon terms and conditions of the deal would assist in confirming if the principle of comparability of treatment has truly been satisfied and assist in evading another situation of further derailment.

The AfSDJN remains concerned by both the speed and scale of Zambia’s debt restructuring as the country’s debt restructuring agenda has taken a rather protracted period than is necessary. The eventual “success” of this restructuring process thus far is largely piecemeal in character as it still excludes private creditors. Thus, in order to achieve a full cycle of a “successful debt restructuring process”, the engagement of the private creditors should take priority at this stage. Three years on, Zambia’s situation continues to serve 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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