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Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework

David A. Grigorian and Aditya Bhayana

Abstract

Having its public debt written off as part of the Heavily Indebted Poor Countries initiative in 2005, Zambia welcomed significant investment in the late 2000s, particularly from Chinese state-owned banks, to propel economic development and diversify its economy beyond natural resources. While these investments have contributed to economic development, they have also raised debt levels and interest payments that eventually triggered a sovereign default in December 2020. What followed—Zambia’s 2020–24 sovereign debt restructuring under the G20 Common Framework—was an epic story of protracted and back-and-forth negotiations among various stakeholders that kept the Zambian economy in standstill for over 3.5 years. It also highlighted the weaknesses of the Common Framework, which are by now largely acknowledged by the development community. This paper details Zambia’s experience with restructuring its sovereign debt and highlights areas where reform of the Common Framework could be pursued to benefit low-income countries in debt distress in the future.

Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework

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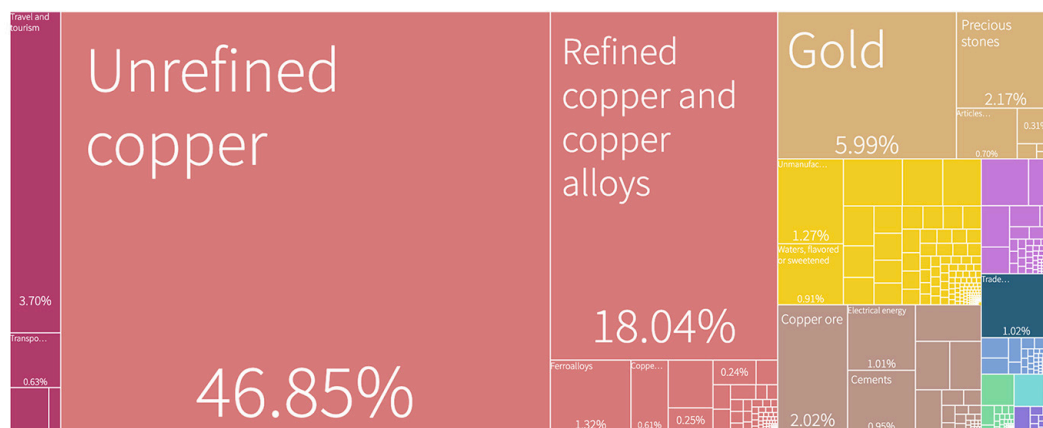
CF	Common Framework
CoT	Comparability of Treatment
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECF	Extended Credit Facility
GSDR	Global Sovereign Debt Roundtable
IMF	International Monetary Fund
IDA	International Development Association
MDB	Multilateral Development Bank
NRH	Non-Resident Holders
OCC	Official Creditors' Committee
SAP	Structural Adjustment Programs
SC	Steering Committee of Bondholders
SDR	Special Drawing Rights
WB	World Bank
ZMW	Zambian Kwacha

Context and background

Mosi-oa-Tunya (Smoke that thunders) is the indigenous name for the looming mist created by Victoria Falls, one of the world's largest waterfalls that forms the border between Zambia and Zimbabwe. Today, *Mosi-oa-Tunya* serves us a perfect metaphor for the smoke of uncertainties looming over Zambia's pursuit of debt sustainability and discussions with its creditors under the G20 Common Framework (CF). Once a poster child for the CF, Zambia continues to feel the reverberations of the smoke of mounting debt and the thunder of creditor demands, struggling to put its economy back on the path to recovery.

Zambia's economic history has been about a heavy dependence on natural resources (such as, unrefined and refined copper and copper alloys; see Figure 1), external economic shocks, and unsuccessful attempts to deliver a sustained economic growth. Copper mining has been a crucial economic driver in the last 100 years, with 1960s marked with Zambia experiencing a copper boom. As part of the economic reforms between 1990s and 2000s, Zambia privatized its copper mines to improve efficiency, attract foreign capital, and revive its struggling mining sector. It continued to grapple with the volatility of copper prices on the global market, endangering the country's balance of payments and fiscal position.

FIGURE 1. Composition of Zambia's exports (2021)



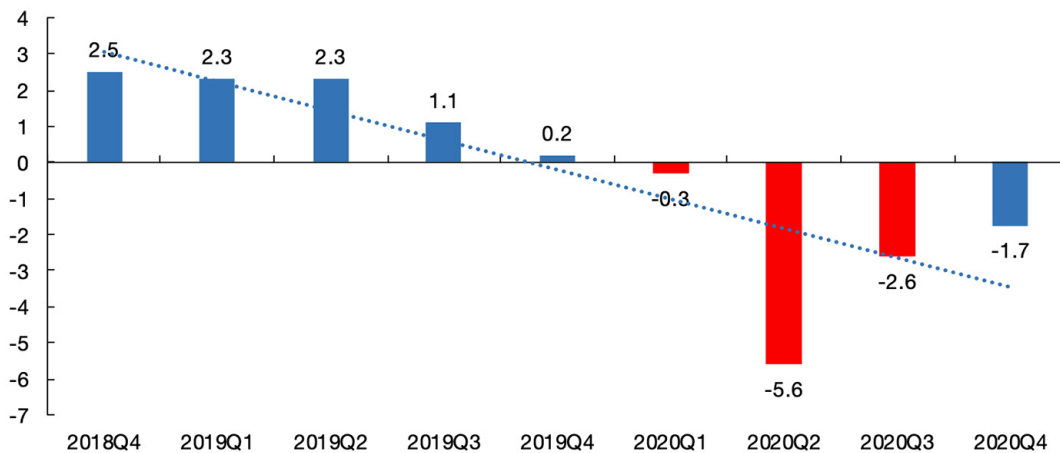
Source: Harvard Atlas of Economic Complexity.

Most of Zambia's public debt was written off as part of the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives in 2005 (IMF, 2006). To propel economic development and diversify beyond natural resources—Zambia, a landlocked country of 20 million—welcomed significant investment in the late 2000s, particularly from Chinese state-owned banks, to build dams, railways, and roads. While these investments have contributed to economic development, they have also raised debt levels and interest payments. The latter forced the government to allocate declining shares of the budget envelope to health, education, and subsidies to farmers (UNICEF, 2022, and IMF, 2023a).

In 2010, Zambia sought assistance from the International Monetary Fund (IMF) to address economic imbalances, which triggered structural reforms and austerity measures (IMF, 2010). Discussions were also held on debt sustainability. While multilateral and most official bilateral lenders followed the practice of disclosing their claims on Zambia, China initially refused to play by those rules and barred Zambia from sharing with non-Chinese lenders the terms of Chinese loans.

The COVID-19 pandemic worsened the already precarious macroeconomic conditions. Following the outbreak, inflation accelerated, reaching 19.2 percent in the final quarter of 2020. Kwacha, the Zambian currency, depreciated sharply, trading at ZMW21.1/US\$ at the end of 2020, compared to ZMW12.9/US\$ a year earlier, a 64 percent depreciation. The balance of payments deteriorated in 2020, caused by a combination of declining global demand for copper, decreasing copper prices, and supply chain disruptions, all negatively affecting Zambia's main sectors, mining, agriculture, and tourism (Geda, 2021). Figure 2 depicts the dynamics of Zambia's GDP during that period.

FIGURE 2. Impact of COVID-19 on Zambia's GDP growth (2018–20)



Source: Geda (2021).

The result of Zambia's currency depreciation was felt through increased external debt stock and debt servicing costs, higher import bill, and widening current account deficit. As a result of government's use of foreign exchange reserves to finance essential imports and external debt payments, Bank of Zambia's foreign exchange reserves declined to a level just above 2 months of imports in October 2020 (IMF, 2022a).

Despite falling tax revenues, the government continued its pursuit of capital expenditures, which resulted in fiscal deficit widening from 7.7 percent of GDP in 2017 to 14 percent of GDP in 2020.¹

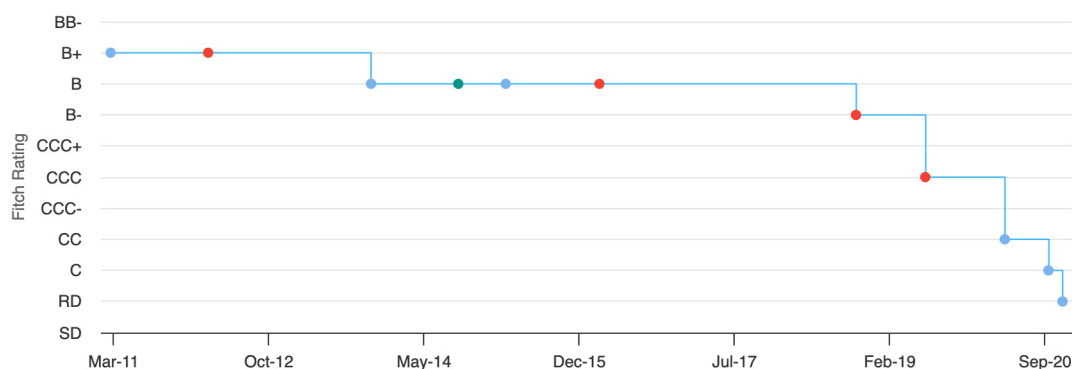
1 Ministry of Finance and National Planning. "Monthly Economic Indicators." https://www.mofnp.gov.zm/?page_id=3226.

These deficits, financed by both external and local borrowing, caused Zambia's public and publicly guaranteed debt to reach 104 percent of GDP in 2020.²

Amid these developments, in 2020, Zambia requested to have its debt payments frozen under the G20 Debt Service Suspension Initiative (DSSI) due to COVID-19.³ While Zambia's official creditors granted US\$7 million rescheduling in August, 2020, in October 2020, a committee representing 14 U.S.- and Europe-based private financial institutions (which held in aggregate about 40 percent of Zambia's outstanding Eurobonds) rejected a government request to grant interest payments delay until April 2021.⁴

With little foreign exchange reserves left, Zambia failed to make coupon payment on a dollar bond in November 2020, triggering Africa's first pandemic-era sovereign default and locking itself out of future borrowing. This also set off a vicious cycle of spending cuts and deepening poverty.

FIGURE 3. Zambia's historical ratings by Fitch Ratings



Source: World Government Bonds, Zambia Credit Rating.

Rating actions were predictable and swift. Fitch Ratings downgraded long term issuer default rating from C (Near Default) on September 24, 2020, and to RD (Restricted Default) on November 18, 2020 (Figure 3).⁵ Similarly, S & P Global downgraded Zambia to CCC- with a negative outlook (indicating substantial risk under Speculative Grade) on September 26, 2020, and to SD (Selected Default) on October 22, 2020.⁶ On February 1, 2021, Zambia officially requested to restructure its debt under the CF.

2 "From Debt Resolution to Growth: The Road Ahead for Africa. African Economic Outlook 2021." Côte d'Ivoire: African Development Bank Group, 2021.

3 "Zambia: Debt Treatment," Club de Paris, <https://clubdeparis.org/en/traitements/zambia-10-08-2020/en>.

4 "Zambia: Holders of Zambian Eurobonds Reject Government Request to Delay Interest Payments." October 1, 2020. <https://www.lusakatimes.com/2020/10/01/holders-of-zambian-eurobonds-reject-government-request-to-delay-interest-payments/>.

5 "Zambia Credit Ratings," Fitch Rating, <https://www.fitchratings.com/zambia-90269061>.

6 "Zambia Credit Rating," World Government Bonds, <https://www.worldgovernmentbonds.com/credit-rating/zambia/>.

Debt burden and the Common Framework process

In a statement issued on February 5, 2021, then-Finance Minister Bwalya Ng'andu stated:

“Zambia is committed to transparency and equal treatment of all creditors in the restructuring process. Our application to benefit from the G20 Common Framework will reassure all creditors of our commitment to such treatment.”⁷

By end-2022, Zambia's stock of external arrears reached 11.5 percent of GDP and continued accumulating in 2023 in the absence of a debt restructuring agreement (IMF, 2023b). The World Bank-IMF Debt Sustainability Framework for Low Income Countries (LICs) categorised Zambia's overall debt carrying capacity as “weak” and debt level as “unsustainable.”⁸

Table 1 outlines the composition of Zambia's sovereign debt as of end-2022, which stood at US\$33.3 billion. This included US\$18.32 billion in external debt (defined on residency basis), which comprised of US\$3.56 billion held by multilateral creditors, \$6.32 billion held by bilateral creditors, and US\$8.4 billion held by private creditors. Total debt also included US\$15.0 billion of domestically held local-law debt, comprising US\$2.2 billion of T-bills, US\$9.4 billion of bonds, and US\$3.4 billion of domestic arrears.

7 “Zambia: Holders of Zambian Eurobonds Reject Government Request to Delay Interest Payments.” October 1, 2020. <https://www.lusakatimes.com/2020/10/01/holders-of-zambian-eurobonds-reject-government-request-to-delay-interest-payments/>.

8 DSF classifies countries into one of three debt-carrying capacity categories (strong, medium, and weak). Corresponding to these categories, DSF establishes three indicative thresholds and a benchmark for each of five debt burden indicators (assessed in terms of GDP, exports, and revenues). DSAs include an assessment of the risk of external and overall debt distress based on four categories: low risk (when there are no breaches of thresholds); moderate risk (when thresholds are breached in risk scenarios); high risk (when thresholds are breached in the baseline scenario); and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

TABLE 1. Composition of Zambia’s sovereign debt (residency based, end-2022)¹

	Debt Stock (in Million US\$)	Debt Stock (Percent of Total)
Total public debt	33,349	100.0
External debt	18,324	54.9
Multilateral creditors²	3,563	10.7
IMF	186	0.6
World Bank	2,078	6.2
AfDB	886	2.7
Other	413	1.2
Bilateral creditors³	6,315	18.9
Paris Club, of which	1,474	4.4
Israel	473	1.4
UK	238	0.7
Non-Paris Club, of which	4,842	14.5
China	4,137	12.4
India	331	1.0
Eurobonds	3,517	10.5
Commercial creditors	3,235	9.7
Domestic-law debt held by non-residents	1,694	5.1
Domestic debt	15,025	45.1
T-Bills	2,211	6.6
Bonds	9,403	28.2
Domestic budget arrears	3,412	10.2

Notes: ¹Values include arrears on principal and interest. It does not include any penalty fees or interest on the arrears.

²Includes direct debt to central government, SOE guaranteed debt and non-guaranteed debt of ZESCO. ³Includes loans to central government and loans backed by guarantee from an official export-credit agencies, except Sinosure backed commercial claims.

Source: Zambian authorities; IMF (2023a), and IMF (2023b).

Discussions with official creditors

On February 1, 2021, Zambia formally requested a CF treatment to address its debt overhang.⁹ In parallel, negotiations began with the IMF for an Extended Credit Facility (ECF) Arrangement, a staff-level agreement on which was reached on December 6, 2021.

On June 16, 2022, well over a year after Zambia’s initial request, an official creditor committee (OCC) was formed, co-chaired by China and France, vice-chaired by South Africa, and included Belgium, Denmark, India, Israel, Italy, Japan, the Netherlands, Russia, Saudi Arabia, Sweden, Switzerland, the United Kingdom, and the United States as members. The OCC also had representatives from the

9 “Club de Paris.” June 23, 2023, <https://clubdeparis.org/en/communications/press-release/the-paris-club-welcomes-zambia-s-debt-restructuring-agreement-23-06>.

International Monetary Fund and the World Bank as observers. The delegation of Zambia was headed by Minister of Finance and National Planning Situmbeko Musokotwane.

A month later, on July 18, 2022, the OCC provided its “financing assurances” (i.e., a willingness to provide debt relief sufficient to establish debt sustainability), which paved the way for the IMF Executive Board’s approval of the ECF (for SDR 978.2 million, about US\$1.3 billion) on August 31, 2022.¹⁰ Between July 2022 and May 2023, the OCC engaged extensively with Zambian authorities and other creditors to discuss the contours and parameters of a debt restructuring that would be consistent with the parameters of the IMF program.¹¹

On June 16, 2023, the OCC agreed on the parameters of such restructuring and a week later, on June 22, 2023, presented the proposal to Zambian authorities. The latter subsequently accepted the proposal, paving the way for the first review of the ECF arrangement and the second disbursement (of approximately US\$188 million). The terms of the proposal can be summarized as follows:¹²

- The deal covered \$6.3 billion in outstanding debt to bilateral creditors, delivering an NPV reduction of nearly 40 percent (using a 5 percent discount factor).¹³
- This was achieved through a combination of a significant maturity extension (on average by more than 12 years) and a reduction in interest rates.
- Interest rates were set at only 1.0 percent during the next 14 years and were not to exceed 2.5 percent thereafter under the baseline scenario.
- Principal repayments were to begin in 2026, at 0.5 percent or about US\$30 million yearly, until 2035.
- The maturity extensions were expected to generate US\$5.0 billion in debt service savings between 2023 and 2031.
- Zambia would pay official creditors US\$750 million in the next decade, compared to close to \$6.0 billion that was due per the original contractual arrangements.
- The proposal included an adjustment mechanism that provided for an accelerated repayment schedule (final maturity to be reduced by 5 years) and higher interest rates (up to 4 percent), if Zambia’s debt carrying capacity is upgraded to a “medium”.

10 “Second Meeting of the Creditor Committee for Zambia under the Common Framework for Debt Treatments beyond the DSSI.” Direction générale du Trésor, August 1, 2022. <https://www.tresor.economie.gouv.fr/Articles/2022/08/01/second-meeting-of-the-creditor-committee-for-zambia-under-the-common-framework-for-debt-treatments-beyond-the-dssi>.

11 Muwezwa, Wazani. “The Debt Restructuring Process and the IMF Supported Programme.” *Ministry of Finance and National Planning*, June 19, 2022. <https://www.mofnp.gov.zm/?p=5449>.

12 “Question And Answer On: Zambia Reaches Agreement with Official Creditors on Debt Treatment Under the G20 Common Framework—Ministry of Finance and National Planning.” <https://www.mofnp.gov.zm/?p=7468>.

13 During the negotiations, US\$1.7 billion (loans made by China) of the initially identified debt stock of US\$8 billion were classified as commercial and therefore taken out of the scope of the OCC proposal.

- The deal applied uniformly to all official creditors and no state asset was pledged as part of the agreement.
- A loan for the *Kafue Gorge Lower hydropower plant* was to be included in the restructuring, although China initially requested for it to be ring-fenced.
- Domestic (local law) debt was to be excluded from any treatment “to preserve financial stability and ensure a well-functioning domestic debt market.”¹⁴

“It was like a mission impossible, it wasn’t a straight line. It was zig-zag, sideways, forward, backwards, down, up. But we kept our eyes on the ball.” Zambian President Hakainde Hichilema shared to a cheering crowd of hundreds at the airport on his return from capital. IMF Managing Director Kristalina Georgieva welcomed the deal by describing it as “deep debt relief.”¹⁵

However, some observers noted that while making significant savings in debt payments in the 2020s and early 2030s, it offered no mechanism for containing debt payments if Zambia is hit by further shocks and its revenue does not grow at the proposed rates in the future.¹⁶ Similarly, if the IMF and World Bank re-classify Zambia’s debt carrying capacity to “medium” level (from the pre-restructuring level of “weak”), then the payment to bilateral creditors would increase significantly, thereby sizably reducing the cash flow relief offered under the deal.

Between August and October 2023, the countries included in the OCC engaged bilaterally with the Zambian authorities to formalize debt restructuring agreements with the assurance that Zambia will continue to engage with its private creditors to find an agreement on terms at least as favorable as the one reached with the official creditors, in line with the Comparability of Treatment (CoT) principle.¹⁷ However, the jubilation with the OCC agreement was short lived.

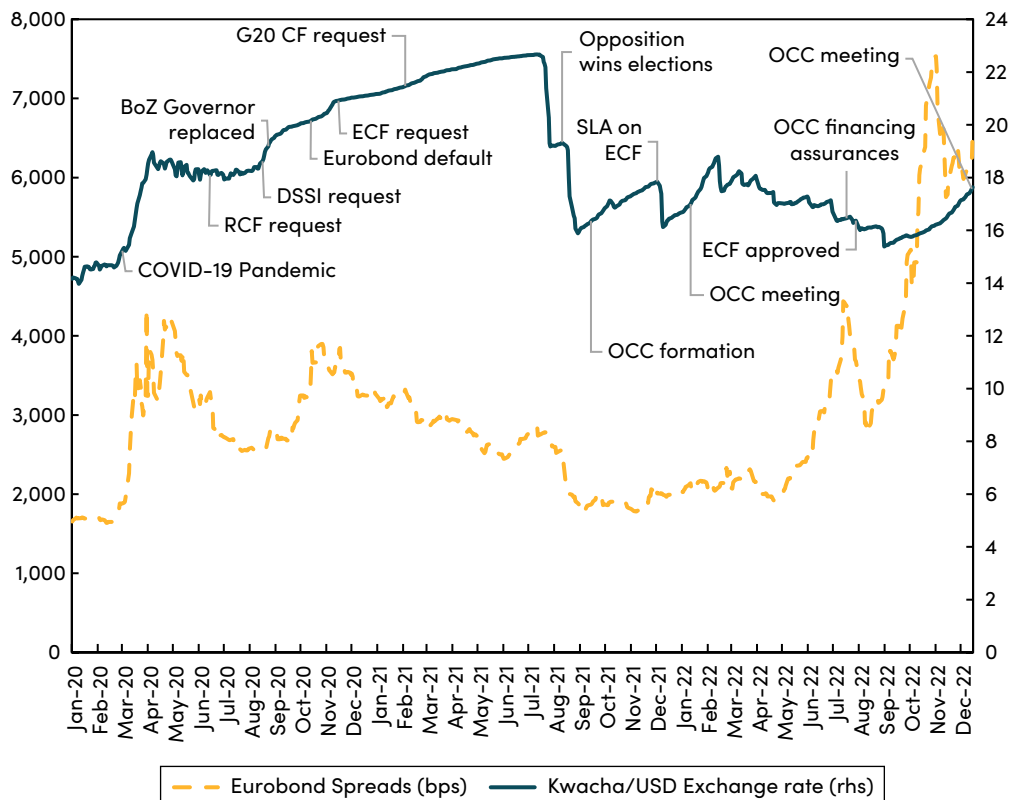
14 Republic of Zambia, Parliament Publications. https://www.parliament.gov.zm/sites/default/files/images/publication_docs/Ministerial%20Statements%20-%20Debt%20Restructuring.pdf.

15 “Zambia: IMF Chief Applauds Zambia’s Debt Deal.” June 23, 2023. <https://www.lusakatimes.com/2023/06/23/imf-chief-applauds-zambias-debt-deal/>.

16 “Zambia’s debt relief deal with bilateral creditors, initial analysis,” Debt Justice, https://debtjustice.org.uk/wp-content/uploads/2023/07/Analysis-of-bilateral-restructuring_07.23.pdf.

17 A long-standing Paris Club principle, the CoT requires the debtor to seek at least as much relief from other creditors as that provided by the members of the Paris Club. See Hinz (2022) for an extensive discussion on this.

FIGURE 4. Evolution of exchange rates, spreads in reaction to key events in Zambia



Source: Saab (2023).

Discussions with private creditors

Following the agreement with the OCC, in June 2023, Zambia began engaging with the private creditors to restructure US\$6.5 billion of debt owed to bondholders, Western banks, and Chinese private lenders.

The bondholders formed a Steering Committee (SC) to engage with representatives of the Zambian government and the OCC. The members of the SC included asset managers (acting either directly or on behalf of funds or other accounts they manage) Amia Capital LLP; Amundi (UK) Limited; RBC BlueBay Asset Management; Farallon Capital Management, LLC; Greylock Capital Management, LLC. This steering committee was advised by Newstate Partners and Weil Gotshal & Manges (London) LLP.

On October 26, 2023, Zambia announced that it reached an agreement in principle with the SC on comparable debt treatment on restructuring of (i) 5.375 percent coupon bonds due 2022 in the amount of \$750 million, (ii) 8.5 percent coupon bonds due 2024 in the amount of US\$1 billion, and (iii) 8.97 percent coupon amortizing bonds due 2027 in the amount of US\$1.25 billion. The announcement led to a sharp rally in Zambia's three outstanding bonds.

The proposal meant to provide cash flow (via reduced coupon payments) and outstanding debt relief (via principal haircut) to support the restoration of macroeconomic stability and debt sustainability of Zambia under the ECF. The proposal also provided for faster repayment terms and higher coupons on one of the two new Eurobonds to be paid in the event that: (i) Zambia's debt carrying capacity improved or (ii) if Zambia exceeds current IMF projections of exports (of goods and services) and tax revenue.¹⁸ An SC spokesperson stated that “[t]his proposal represents an innovative and sustainable solution which we hope will set a positive precedent for future sovereign debt restructurings under the Common Framework.”¹⁹

However, while welcomed by the Zambian authorities, the IMF, and the World Bank, the proposal was turned down by the OCC. Apparently, the OCC concluded that CoT would not be achieved in the Base Case scenario, although would be achieved in the Upside Case scenario, referring to a two-pronged approach that foresaw different levels of debt relief depending on the country's economic performance.²⁰ 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 CoT principle.²¹ Thus, the problem was in the definition of the CoT.

Furthermore, it appeared that the proposal would breach the Debt Sustainability Analysis (DSA) targets. The debt service-to-revenue ratio would reach 16.7 percent in 2025, 2.7 percentage points higher than the 14 percent target, while the present value of the debt stock-to-exports ratio would be marginally breached (by 1 percentage point), at 85 percent in 2027.²² Finally, the 33 percent NPV reduction under the bondholders' proposal felt short of 40 percent reduction offered by the OCC.²³ Some commentators also pointed out the relatively high frontloaded payments (in the form of amortization and cash bonus) to bondholders during the duration of the IMF program.²⁴

In November, the SC submitted a revised proposal to the OCC, which according to IMF was compatible with the ECF parameters and DSA targets. However, the OCC members disagreed by concluding that the revised proposal was not comparable with the debt treatment granted by the OCC. Complicating matters further, the OCC Co-Chairs also advised that there was no consensus among OCC members

18 This state-contingent approach was in line with the agreement Zambia reached with the OCC.

19 The Zambia External Bondholder Steering Committee. “Le Comité Directeur Des Détenteurs d’obligations Externes de La Zambie Conclut Un Accord de Principe Avec La Zambie Sur La Restructuration de La Dette.” October 27, 2023. <https://www.prnewswire.com/news-releases/le-comite-directeur-des-detenteurs-dobligations-externes-de-la-zambie-conclut-un-accord-de-principe-avec-la-zambie-sur-la-restructuration-de-la-dette-301969931.html>.

20 The OCC stated that despite providing the NPV concessions consistent with the deal agreed between the Zambia and the OCC, this offer was not in compliance with the CoT in the Base Case scenario due to a shorter extension of the duration and lower contribution to the closing of the balance of payment financing gap during the ECF program period.

21 “Zambia Dealt Major Setback as Official Creditors Object to Bond Deal.” <https://money.usnews.com/investing/news/articles/2023-11-20/zambia-dealt-major-setback-as-official-creditors-object-to-bond-deal>.

22 “Update on Agreement-In-Principle with Bondholders,” November 20, 2023, London Stock Exchange. <https://www.londonstockexchange.com/news-article/32BT/update-on-agreement-in-principle-with-bondholders/16216314>.

23 “Zambia: IMF Questions Bond Revamp Deal—Bloomberg.” <https://www.bloomberg.com/news/articles/2023-11-10/zambia-says-imf-has-questions-on-its-3-billion-bond-revamp-deal>.

24 Brad Setser, October 27, 2023. https://x.com/Brad_Setser/status/1717917477508628751.

as to the magnitude of additional NPV concessions that would be required from bondholders in the Base Case to comply with the CoT principle. Table 2 below offers a stylized comparison of the OCC and SC offers under both scenarios.

TABLE 2. Comparison of the revised SC and the OCC proposals

Debt Relief Indicator	Weak Case		Medium Case	
	OCC	Bondholders	OCC	Bondholders
Nominal haircut (percent) ¹	0	16	0	16
Duration extension (years)	12	8	6	6
Contribution to the financing of the IMF program (2023–25) (percent)	95	80	95	80
Overall debt relief				
(PV/PV@5%) ²	39	41	13	18
(PV/PV@5%) with consent fee	39	40	13	17

Notes: ¹Nominal haircut calculated on contractual claims. ²OCC methodology comparing the PV of post-restructured debt to pre-restructured debt evaluated at 5 percent discount rate. If debt relief is shown to one decimal place the difference in the medium case rounds up to 6 percent, 5 percent including consent fee.

Source: The Zambia External Bondholder Steering Committee.

As shown in Table 2, the revised proposal provided more debt relief on PV basis than that of the OCC, including a nominal (face value) haircut, which was not the case in the OCC proposal. The differences added up to a NPV effort higher than the OCC by 2 percentage points in the Base Case and 5 percentage points in the Medium Case.²⁵

In a press release, the SC expressed its frustration with the outcome and the current process, which relies heavily on the OCC’s assessment of comparability in circumstances where in a lack of transparency prohibited discussion or independent assessment of comparability by bondholders. The SC felt that the OCC was demanding debt relief from commercial creditors that is materially higher than either the government or the IMF deem necessary to restore debt sustainability. In doing so, the SC claimed that the OCC was creating inter-creditor equity issues, thus undermining the CoT principle embedded in the CF.²⁶

The Centre for Trade Policy and Development, a non-profit think tank in Zambia, highlighted that “*despite* 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.”²⁷ Therefore, it was the lack of clarity, among other factors, which adversely affected the efficiency

25 This does not account for the consent fee, the final payable amount of which would only be known upon the completion of the exchange.

26 The Zambia External Bondholder Steering Committee, “Zambia External Bondholder Steering Committee Statement Regarding OCC Stance on Comparability of Treatment.” November 20, 2023. <https://www.prnewswire.com/news-releases/zambia-external-bondholder-steering-committee-statement-regarding-occ-stance-on-comparability-of-treatment-301993342.html>.

27 Center for Trade Policy and Development. June 2023. <https://ctpd.org.zm/wp-content/uploads/2024/02/P6-1.pdf>.

of the debt restructuring process. Finance minister Nkulukusa forewarned (in January 2024) that “[b]efore we go to the (bondholder) steering committee, we have to agree on what we mean by comparability of treatment”.

In January and February 2024, the Zambian authorities went back to the drawing board. They travelled to India and China to assuage the OCC’s viewpoint of non-adherence of the principle of the CoT.²⁸ Revised agreements were signed with both India and China in late February.

The refusal by the OCC to accept the revised proposal submitted by the SC had an impact on Zambia’s financial markets. The US\$1.25 billion notes due 2027 fell by 5 percent to trade at 59.6 cents on the dollar, the most in more than a year. The Kwacha fell 0.4 percent to a record low of ZMW23.275/US\$.²⁹

Sensing the deadlock, Zambia’s President Hakainde Hichilema spoke with French President Emmanuel Macron during the COP28 climate summit in Dubai in December 2023, where he reportedly said:

“Some official creditors felt that the private creditors were not yet at par with them. 98 percent of official creditors were on board a memorandum of understanding on debt restructuring. And then there are investors saying is this (the debt restructuring) going to happen? The delays are giving a push on inflation.”³⁰

Agreement between Zambia and bondholders

On March 25, 2024, the Ministry of Finance of Zambia announced that, following discussions during March 18–25, 2024, it has reached an agreement with the SC members representing the larger creditor committee of bondholders on the key commercial terms of a proposed restructuring transaction relating to bonds maturing in 2022, 2024 and 2027.^{31,32} The structure of the agreement remained unchanged compared to the “agreement in principle” reached on November 20, 2023, with revised terms outlined in Table 3 below for both the Base Case and Upside Case scenarios.³³

28 In China, they also met with the representatives of Eximbank and commercial banks.

29 “Zambia’s Bonds Plunge as China-Led Lenders Foil Revamp Deal,” Bloomberg, November 20, 2023. <https://www.bloomberg.com/news/articles/2023-11-20/zambia-s-official-creditors-reject-revised-bond-restructure-deal>.

30 “Zambia Lobbying for Creditors to Meet as Restructuring Drags,” Reuters, December 22, 2023. <https://www.reuters.com/world/africa/zambias-official-private-creditors-meeting-over-restructuring-proposal-president-2023-12-22/>.

31 “Zambia Agrees Deal with Bondholders, Win for G20 Common Framework,” Bloomberg, March 25, 2024. <https://www.bloomberg.com/news/articles/2024-03-25/zambia-agrees-deal-with-bondholders-key-win-in-years-long-saga>.

32 Zunduna, Mukuni. “Government of the Republic of Zambia Reaches Agreement on Debt Restructuring Terms with the Steering Committee of the Ad Hoc Creditor Committee of Holders of Zambia’s Eurobonds.” *Ministry of Finance and National Planning*, March 25, 2024. <https://www.mofnp.gov.zm/?p=7786>.

33 “Statement Re Restructuring of Eurobonds.” <https://www.londonstockexchange.com/news-article/32BT/statement-re-restructuring-of-eurobonds/about:blank>. Interestingly, the Ad Hoc Committee of the bondholders (represented by the SC) owned or controlled 33 percent of the outstanding bonds, while the members of the SC themselves owned or controlled about 16 percent of the bonds.

TABLE 3. Key commercial terms of a proposed restructuring transaction from agreement between Zambia and SC (March 2024)

Financial Features ¹		Base Case		Upside Case	
Outstanding claims as of Mar 31, 2024		USD 3.890 bn			
New Bonds	New Bonds	Bond A	Bond B	Bond A	Bond B
	New Face Value	\$1.70 billion	\$1.35 billion	\$1.70 billion	\$1.35 billion
Amortization Profile	First amortization year	2024	2051	2024	2032
	First maturity year	2033	2063	2033	2035
	Amortization Profile	\$75 million down payment	3 equal instalments in Dec-51, Dec-52, and Dec-53 (\$450 million per instalment)	\$75 million down payment	4 equal instalments from Jun-32 to Jun-35 (\$337.5 million per instalment)
		11% in Jun-24		11% in Jun-24	
		~4.65% in Dec-24		~4.65% in Dec-24	
		~9.24% in Jun-25		~9.24% in Jun-25	
		17% in Jun-26		17% in Jun-26	
		17% in Jun-27		17% in Jun-27	
		7.5% in Jun-28		7.5% in Jun-28	
		0.5% in Jun-29		0.5% in Jun-29	
	0.5% in Jun-30		0.5% in Jun-30		
	0.5% in Jun-31		0.5% in Jun-31		
	Two equal instalments of remainder in Jun-32 and Jun-33		Two equal instalments of remainder in Jun-32 and Jun-33		
Coupon Structure		5.75% p.a accruing from reference date until June-31	0.50% p.a. accruing from reference date until maturity	5.75% p.a accruing from reference date until June-31	0.50% p.a. accruing from reference date until trigger date ²
		7.50% p.a. accruing from Jun-31 until maturity	Payment dates each 30-Jun and 31-Dec	7.50% p.a. accruing from Jun-31 until maturity	7.50% p.a. accruing from trigger date until Jun-3, o/w 6.00% PIK accruing over the same period
		Payment dates each 30-Jun and 31-Dec		Payment dates each 30-Jun and 31-Dec	7.50% p.a. accruing from Jun-311 until maturity Payment dates each 30-Jun and 31-Dec

Notes: ¹In addition, the execution of the transaction would involve the introduction of a consent fee of 1.5 percent of the original face value amount of bonds (US\$3bn) to incentivize participation to the exchange offer. ²“Trigger date” means the commencement date for the terms relevant to the Upside Case to take effect.

Source: Zambian authorities.

Subsequently, the Government of Zambia received confirmation that the agreed terms were consistent with the OCC's assessment of CoT and with the ECF parameters. Under the agreement, bondholders would write off approximately US\$840 million of their claims and provide cash flow relief of approximately US\$2.5 billion during the IMF program period. The weighted average maturity of new securities will be 15 years and 8 years under the Base Case and the Upside Case, respectively, resulting in significant NPV concessions from the bondholders.

The agreement with the SC also included Zambia accepting certain non-financial terms of the new bonds, including: (i) a "most favored creditor" clause (that will require the government to ensure other creditors do not receive a better recovery in the restructuring in NPV terms), (ii) a loss reinstatement clause (if Zambia were to default during the ECF), and (iii) some data disclosure requirements.

The IMF welcomed the progress reached in negotiations and urged all creditors and the authorities to advance discussion toward restoring debt sustainability in Zambia (Box 1). It also praised the Zambian authorities' good faith effort toward reaching a restructuring agreement with external private creditors on comparable terms and consistent with program parameters.³⁴

BOX 1. Discussions with the IMF and MDBs

The IMF and the World Bank have been actively involved in Zambia's debt restructuring process both as third-party experts (assessing the country's debt sustainability and whether the restructuring proposals were consistent with it) but also as an usher of the process (acting as a bureaucratic clearinghouse for information and logistics).

During her visit to Zambia, which concluded on June 16, 2022, IMF's Deputy Managing Director Antoinette Sayeh welcomed the commitment of the authorities to the reform plans outlined in the context of the December 2021 staff-level agreement on an IMF-supported program.³⁵ Encouraged by the OCC's engagement, in June 2022, IMF urged creditors to provide financing assurances as soon as possible, a precondition for the IMF Executive Board's approval of Zambia's program, allowing Zambia to access resources from the IMF and other MDBs.³⁶

34 "Transcript of IMF Press Briefing." <https://www.imf.org/en/News/Articles/2024/03/07/tr030724-transcript-of-imf-press-briefing>.

35 "Statement by IMF Deputy Managing Director Antoinette M. Sayeh at the Conclusion of Her Visit to Zambia." <https://www.imf.org/en/News/Articles/2022/06/15/pr22201-statement-by-imf-dmd-sayeh-at-the-conclusion-of-her-visit-to-zambia>.

36 "IMF Urges Zambia Creditors to Give Debt Assurances to Unlock Programme," Reuters, <https://www.reuters.com/article/markets/commodities/imf-urges-zambia-creditors-to-give-debt-assurances-to-unlock-programme-idUSL1N2Y30B1/>.

In August 2022, the IMF Board approved SDR 978.2 million (about US\$1.3 billion) 38-month ECF arrangement for Zambia to help restore macroeconomic stability and foster higher, more resilient, and more inclusive growth.³⁷

Subsequently, during her visit to Zambia on January 22–24, 2023, IMF's Managing Director Kristalina Georgieva urged a swift resolution of Zambia's debt situation to complement the country's reform efforts and preserve the growth momentum.³⁸ Later in the year, in June 2023, she stated:

"I warmly welcome Minister of Finance Situmbeko Musokotwane's announcement that the Zambian authorities have reached an agreement with their official creditors on a debt treatment. This unique and innovative agreement specifies both a baseline and a contingent treatment that would be automatically triggered if the assessment of Zambia's economic performance and policies improves."³⁹

On June 22, 2023, the IMF's Executive Board completed the first review of the ECF arrangement and authorized the second disbursement (of approximately US\$188 million). Starting July 1, 2023, Zambia became eligible to receive World Bank support in the form of grants under IDA20.⁴⁰

The 48th meeting of the International Monetary and Financial Committee, which advises the IMF's Board of Governors, in October 2023 supported IMF's efforts to help countries durably address debt vulnerabilities and to strengthen and accelerate the implementation of the CF for debt treatments and welcomed the agreement reached on Zambia.⁴¹

In December 2023, the IMF's Board completed the second review of the ECF, unlocking a disbursement of SDR 139.88 million (about US\$187 million), bringing Zambia's total disbursement under the ECF to SDR 419.64 million (about US\$561 million).

37 "IMF Executive Board Approves New Extended Credit Facility (ECF) Arrangement for Zambia." <https://www.imf.org/en/News/Articles/2022/08/31/pr22297-imf-executive-board-approves-new-extended-credit-facility-arrangement-for-zambia>.

38 "Statement by IMF Managing Director Kristalina Georgieva at the Conclusion of Her Visit to Zambia." <https://www.imf.org/en/News/Articles/2023/01/24/pr2313-statement-by-imf-managing-director-kristalina-georgieva-at-conclusion-of-her-visit-to-zambia>.

39 "IMF Managing Director Welcomes Debt Treatment Agreement Reached by Zambia and Its Official Creditors under the G20 Common Framework." June 22, 2023. <https://www.imf.org/en/News/Articles/2023/06/22/pr23235-imf-welcomes-debt-treatment-agreement-reached-by-zambia>.

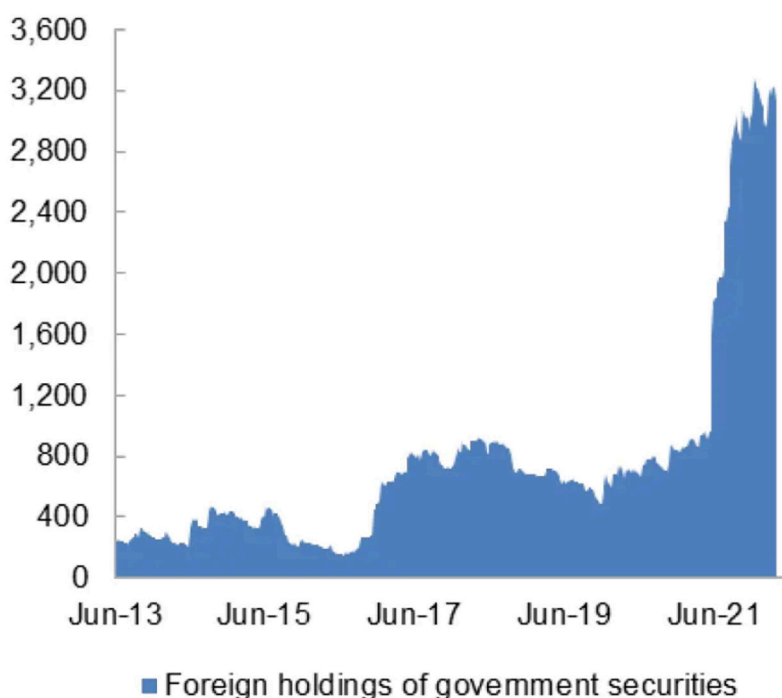
40 "World Bank Group Statement on Official Creditors' Committee Agreement on Zambia Debt Relief." June 22, 2023. <https://www.worldbank.org/en/news/statement/2023/06/22/world-bank-group-statement-on-official-creditors-committee-agreement-on-zambia-debt>.

41 "Chair's Statement: Forty-Eighth Meeting of the IMFC." October 14, 2023. <https://www.imf.org/en/News/Articles/2023/10/14/pr23353-chairs-statement-forty-eighth-meeting-of-the-imfc>.

Domestic debt and financial stability considerations

Delays in reaching an agreement with external creditors and inability to re-access the market forced Zambia to rely mainly on two sources of funding to finance budgetary gaps: the domestic debt issuance and IMF's Special Drawing Rights (SDR).⁴²

FIGURE 5. Non-resident holdings of Zambia's domestic debt



Source: IMF (2022a).

In summer of 2021, Zambia's domestic debt market experienced sizable foreign inflows. This happened on the backdrop of an improved macroeconomic outlook and the election of a new (reformist) president and resulted in the non-resident holdings (NRH) of domestic debt to increase rapidly from US\$800 million to more than US\$3 billion by June 2021 (Figure 5 and IMF, 2022a). A non-trivial 25 percent of this was held by non-residents.

Some analysts noted that the IMF's withholding of support pushed Zambia towards suboptimal borrowing decisions, such as draining their one-off SDR allocation (hence incurring a permanent liability to the IMF at a variable interest rate).⁴³ It also led to repurposing of project loans for emergency spending and—once these sources dried up—to over-reliance on domestic debt markets.

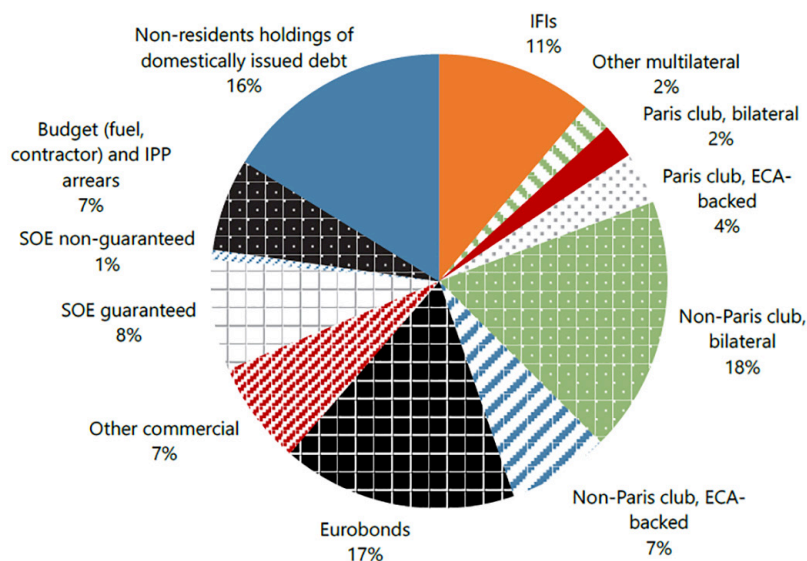
42 On August 31, 2022, Zambia received US\$1.3 billion equivalent of SDRs from the IMF. The government used an estimated 50 percent of that allocation to finance social sector spending including the social cash transfer program and pension arrears' clearance in the 2022 budget.

43 Maret, Theo, "The Cautionary Tale of Zambia's Domestic Debt." September 11, 2023. <https://www.sovdebtoddties.com/p/the-cautionary-tale-of-zambias-domestic>.

It is considered good practice for low- and middle-income country public debt management not to borrow excessively in domestic market even in the most *tranquil* of times due to inherent disadvantages (e.g., high cost of borrowing) and vulnerabilities (e.g., risk of reversals). The same considerations make borrowing too much in the domestic debt market in a *post-default* situation (when less expensive long-term concessional financing for recovery would be more suitable) even less appropriate. So, when the authorities turned to local borrowing because it was pretty much the only option, this came at a cost of higher risks and eventually of higher dependency.

This could have been the main reason why—upon the approval of the ECF in September 2022 and following the start of debt restructuring negotiations—Zambia’s authorities decided to exclude local-currency debt from the restructuring altogether: domestic financial institutions were holding too much of local-law debt, spurring concerns about financial instability in the banking sector if those holdings were to be impaired as a result of a restructuring.

FIGURE 6. Zambia’s external debt holder profile (end-2021, in percent of total external debt)



Source: IMF (2022a).

However, the decision to leave domestic-law debt from the perimeter of the debt exchange created an issue, which almost derailed the negotiations’ process. As it is commonly done for low-income countries (at least until recently), the WB-IMF’s DSA for Zambia was compiled based on residency criterion as opposed to currency or jurisdiction (i.e., issuance law) criteria. This meant that all local-currency/ law debt held by non-residents was treated as external debt in the DSA, creating a sharp discrepancy between *the scope of the DSA* (which envisioned the NRH to be restructured) and *that of the restructuring proposal* (which envisioned leaving the domestic-law debt, even if it was held by non-residents, outside of the perimeter of the debt exchange). To put this in context, as of end-2021, the NRH were estimated at US\$3.2 billion, nearly as big as the outstanding stock of Eurobonds (Figure 6).

As expected, the authorities' decision to leave out NRH from the perimeter of the exchange triggered pushback from some creditors invoking inter-creditor fairness considerations. Furthermore, this was rightfully seen by these creditors as a zero-sum game: an increase in non-restructurable debt (i.e., leaving the NRH out) meant additional debt relief had to be delivered from other sources/creditors.

From debt service perspective too this created a problem. The NRH took up approximately 50 percent of cash flows available for debt service to all external creditors over the 2022–26 period. Another 32 percent was expected to be taken up by other debt excluded from the restructuring—multilaterals agencies, payables, and SDR allocation—leaving little for official creditors and Eurobond holders, implying longer grace periods for the new (i.e., restructured) claims and bonds, other things equal.^{44,45}

As a result, during the negotiations China began insisting on including the NRH in the restructuring perimeter. Similar (albeit less vocal) demands were heard from the Eurobond holders.⁴⁶ This uncertainty and discussions around a potential restructuring of NRH then led to capital outflows from the bond market, draining foreign reserves and putting more pressure on Kwacha. The NRH shrunk to US\$2.6 billion from US\$3.2 billion over the second half of 2022 (IMF, 2023a).

The IMF also acknowledged that “Reflecting a combination of tighter global financial conditions and uncertainty around the debt restructuring process, non-resident investors withdrew from the domestic debt market in 2022—they did not reinvest proceeds of maturing holdings, engaged in some secondary market sales, and did not provide new inflows of funds to the market” (IMF, 2023b). It became clear that the lingering uncertainty began affecting Zambia's domestic currency and debt markets, putting the economy under further strain.

However, the key question to ask in retrospect is whether the fear of financial instability was justified, if the domestic-law debt were to be restructured. The authorities and their advisers appeared to have thought so. While non-resident investors held over a quarter of the stock of domestic-law government debt, the Zambian financial sector held the balance. These securities accounted for almost one third of banking sector's assets (a high ratio by any measure), making it likely that a deep restructuring of these holdings could have required public resources to recapitalize the affected institutions and caused financial instability. It could have also potentially impaired the private sector's access to finance (and therefore economy's ability to grow) and triggered capital outflows.

44 Ministry of Finance and National Planning of the Republic of Zambia, Lazard Frères, White & Case LLP. “Certain Assumptions Relating to the DSA,” November 2022. <https://www.mofnp.gov.zm/wp-content/uploads/2022/11/Certain-Assumptions-Relating-to-Zambias-DSA.pdf>.

45 “Investor Presentation,” Ministry of Finance and National Planning of the Republic of Zambia, October 2022. <https://www.mofnp.gov.zm/wp-content/uploads/2022/10/2022-10-07-October-Investor-Presentation.pdf>.

46 “China Delays Zambia Debt Deal Over Local Loans, US Official Says—Bloomberg.” January 23, 2023. https://www.bloomberg.com/news/articles/2023-01-23/china-delays-zambia-debt-deal-over-local-loans-us-official-says?in_source=embedded-checkout-banner.

Interestingly enough, foreign inflows surged again in late 2022 and early 2023, causing the NRH to climb 24 percent in one quarter (to US\$2.7 billion at end-June from US\$2.2 billion at end-March 2023), breaching expectations.⁴⁷ This forced the Bank of Zambia to announce, in June 2023, that it would limit foreign participation in domestic debt auctions to a maximum of 5 percent of annual planned issuance.⁴⁸ Ironically, this was done one day before the restructuring deal with the OCC was announced.

When the deal was reached in June 2023, the OCC went along with the decision to leave domestic debt overall out of the perimeter of the restructuring. While this may have been justified by financial stability concerns (certainly by mid-2021), it was in some ways self-inflicted and was a function of the delays in restructuring of the external debt.⁴⁹ IMF (2023b) acknowledged this (and other idiosyncrasies) delicately as follows:

“These discussions covered several important issues, including the exclusion on non-resident holders (NRH) of domestically-issued debt from the proposed debt treatment. The OCC reached an agreement on all of these issues for Zambia, taking into account its specific circumstances, but official creditors recognized that these issues deserve further discussion in other cases, as well as a more systematic approach through exchanges in relevant fora.”

A key question to ask is whether there would have still been financial instability if a plan involving milder restructuring of domestic debt was pursued. As it turns out, financial instability is not a necessary feature of domestic debt restructurings and if a restructuring is designed properly (i.e., with due accounting of the costs and benefits of a debt exchange), instability can be avoided.⁵⁰

IMF (2021) and subsequently Grigorian (2023) provide a framework for thinking about the decision on whether to undertake a domestic debt restructuring and how to approach its design. According to this approach, the decision to restructure any type of claims (e.g., external, domestic, non-financial state-owned company debt, etc.) should depend on the relative economic costs of doing so, the amount of debt relief that could be secured from each type of claims, and of the total debt relief required to reach sustainability. If a decision is made to restructure domestic debt, the approach essentially argues that domestic debt should be restructured up to a point where the gross debt relief accrued to the budget by restructuring still exceeds the costs of recapitalization of affected

47 “Debt Statistical Bulletin,” Ministry of Finance and National Planning, https://www.mofnp.gov.zm/?page_id=3495.

48 “Zambia Debt Revamp Deal May Come This Week, President Signals—Bloomberg,” June 21, 2023. <https://www.bloomberg.com/news/articles/2023-06-21/zambian-president-signals-debt-revamp-deal-may-come-this-week>.

49 In this regard, Zambia’s case resembles that of Greece, where politics-driven delays resulted in “smart money” leaving Greek debt market and a sizable chunk of those debt securities ending up on the balance sheets of the European Central Bank and local Greek banks, making it difficult (i.e., both politically and financially costly) to restructure.

50 See Grigorian and Vessereau (2024) for details of Ghana’s domestic debt restructuring.

institutions and of ringfencing financial stability.⁵¹ Both decisions (i.e., whether to restructure and how much) are complex choices requiring significant amount of data and technical analysis (see IMF, 2021, for details).

If properly internalized, the financial stability costs will lead to smaller haircuts and lower probability of domestic debt to be restructured than otherwise. However, if the total debt as well as the share of domestic debt in total are high—both are the case in Zambia—“zero restructuring” is unlikely to be optimal using the IMF (2021) metric. If so, by not restructuring domestic-law debt the authorities most likely “left money on the table” and contributed to the delays in the negotiations (by asking for too much relief from external creditors).

As to the capital outflows, restructuring of domestic-law debt could have also been accompanied by the introduction of short-term capital control measures to prevent the non-resident bondholders from liquidating their positions in Kwacha and repatriating their earnings in forex (prior to the announcement of the debt exchange).⁵²

Summary of key outcomes and next steps

The first week of June 2024 saw the international bondholders vote through their part of Zambia’s debt restructuring, making Zambia the first to complete a full-blown debt rework under the CF architecture. Although Zambia’s debt restructuring arrangement has come to a fruition, more **than three-and-a-half years** of trials and tribulations of seeking debt relief have exposed some shortcomings of the guiding mechanism of the process, the CF. “It was painful for Zambia—we fully recognize that. So, we have to improve. But we delivered.” said William Roos, the co-chair of both the Paris Club and of Zambia’s OCC at the close of the debt restructuring process in June 2024.⁵³

The jubilation of 2020 of coming up with a consensus-based document was matched with the exuberance of Zambia being the first African vulnerable country to finalize an agreement with the OCC. In June 2023, The New Financing Pact in Paris prematurely called for accelerating debt treatments and delivering on the Common Framework as we did for Zambia.⁵⁴ In August 2023, the leaders of the G20 countries had welcomed the progress made on Zambia and ‘the recent agreement between the Government of Zambia and the official creditor committee on debt treatment and

51 Grigorian (2023) shows that there is a maximum value of haircut beyond which the gross relief obtained from imposing a higher haircut on debt holders are outweighed by recapitalization and financial stability costs, rendering the marginal (and potentially even total) net debt relief negative.

52 Raising interest rates and/or devaluing Kwacha too could have made capital flight from Zambia more costly for the investors (and therefore less likely to happen), but they would have imposed higher costs on local economic agents and are therefore less desirable.

53 “Zambia’s Debt Restructuring Limpers over Line as Painful Test Case | Reuters.” June 4, 2024. <https://www.reuters.com/world/africa/zambias-debt-restructuring-limpers-over-line-painful-test-case-2024-06-04/>.

54 Chair’s summary of discussions at the Summit on a New Global Financing Pact | Summit for a New Global Financing Pact. June 22–23, 2023. <https://www.elysee.fr/admin/upload/default/0001/15/4748a23641c5b2d55a47d63d7ed2e16963c11195.pdf>.

looked forward to a swift resolution'. In October 2023, all MoUs with official creditors were in place and Zambia was seen as the country about to become a success template for debt treatment.

What transpired between October and December 2023, with the subsequent rejection of proposals finalized with the private creditors by Zambia's OCC, exposed the structural flaws of the CF and the underlying process, some of which are worth bringing up as follows:

First, Zambia's case highlights the lack of predictability and enforceability of various steps and timelines. While not a formal requirement of debt exchanges, these and related aspects of coordination come at a significant premium in cases where the number of creditors (or any parties trying to reach a negotiated deal) is high.

Second, there existed a lack of clarity on both the definition and enforceability of the CoT, which reduced the trust in the process and delayed implementation.

Third, while not specific to the CF, there was a significant asymmetry of bargaining powers between bilateral and private creditors. Here, a small number of well-organized bilateral creditors with political power (including at least a theoretical ability to influence the relevant decisions of the IMF and the World Bank) have an advantage over a larger number (and the types) of dispersed private creditors (i.e., commercial lenders, bondholders, trade creditors, etc.). While bringing China and India into the mix definitely complicates the process, it nevertheless does not reduce the bargaining power of large bilateral creditors as a group.

Fourth, and related to this, not unlike the Paris Club's own rules, the CF imposes a particular sequencing on the negotiations' process, requiring the official creditors to strike a deal first (achieved in June 2023), which then becomes the upper bound for everyone else (based on the CoT).⁵⁵ This is neither necessary nor sufficient for achieving a comprehensive deal but clearly delayed the outcome.

Fifth, these delays in the process likely resulted in changes in the composition and structure of sovereign debt, with domestic debt growing more prominent in size and importance, threatening to trigger financial instability, if restructured.

Finally, and related to this, not restructuring domestic-law debt—presumably due to either unwillingness (for political reasons) or inability (for technical reasons) to assess a range of safe restructuring options—prevented a deeper reduction of Zambia's overall sovereign debt from taking place.

55 While in sovereign debt restructuring cases of 1980s through much of the early 2000s the lead role of some official bilateral creditors (e.g., the US or the Paris Club) may have been justified by the relative size of their exposures, in cases such as Zambia's, the *de facto* (procedural) subordination of private bondholders to the official creditors is hard to justify from a normative perspective.

Over the past three-and-a-half years, Zambia’s economy and financial markets have remained hostage to a long-drawn process, unable to move forward and restore growth, a key prerequisite for debt sustainability. With a draft debt restructuring deal in place, we hope that Zambia’s return to fiscal and financial normalcy is a foregone conclusion and that the lessons learned from the process (which we build on in an accompanying paper, Grigorian, 2024), are not lost on the international community.

Timelines

TABLE 4. Timetable of relevant events related to debt restructuring

#	Period	Events
1	2010–2020	<ul style="list-style-type: none"> • <u>Chinese Investment and Infrastructure Development</u>—Zambia experiences increased investment from China in infrastructure projects. • Concerns raised about Zambia’s debt levels by and terms of these agreements by Hakainde Hichilema (then leader of Zambia’s opposition and subsequently President), IMF, World Bank, and global financial analysts • Discussions with international creditors and the implementation of austerity measures begins
2	2019	Zambia unable to repay its debts, including Eurobonds ⁵⁶
3	2020	Zambia requests to have its debt payments frozen under the G20’s DSSI due to COVID-19
4	May 2020	Zambian President Edgar Lungu’s government hires French firm Lazard to advise on restructuring Zambia’s \$11 billion foreign debt
5	2020	<p><u>COVID-19 Pandemic</u></p> <ul style="list-style-type: none"> • Reduced demand for copper • Significant disruptions in secondary (manufacturing, construction) and tertiary (wholesale and retail trade, tourism) sectors of Zambian economy
6	Nov 2020	Zambia misses \$42.5 million payment on one of its international bonds; becomes Africa’s first pandemic-era sovereign to default
7	2021	Opposition leader Hakainde Hichilema secures a landslide victory in August over Lungu in presidential elections.
8	Feb 2021	Zambia formally requests treatment of its debt from the Paris Club in application of the Common Framework for debt treatment beyond the Debt Service Suspension Initiative
9	Dec 2021	Zambia and the IMF Staff reach a Staff-Level Agreement on an Extended Credit Facility (ECF) Arrangement
10	June 2022	16 creditor governments form OCC to formally start working on restructuring the loans to Zambia
11	July 2022	OCC provides financing assurances on 18th July 2022, in the presence of the IMF and the World Bank.
12	Aug 2022	IMF Executive Board to approve a SDR 978.2 million (about US\$1.3 billion) 38-month ECF Arrangement

⁵⁶ Eurobonds are international market dollar-denominated government bonds.

TABLE 4. (Continued)

#	Period	Events
13	2022	Negotiations continue with bondholders for debt relief and restructuring deals in parallel
14	June 2023	Zambia announces OCC nations ⁵⁸ have agreed to restructure their combined \$6.3 billion worth of loans; signs MoU <i>Paris Club Press Release—HERE</i>
15	Oct 2023	Zambia strikes an “Agreement in principle” deal with investment and pension funds that hold \$3 billion worth of its sovereign bonds sold on the global capital markets ⁵⁹
16	Nov 2023	Official creditors co-led by China and France reject revised bondholder restructuring proposal—stalls revamp of \$3 billion of outstanding notes ⁶⁰ Bilateral OCC creditors veto the deal with bondholders on grounds of not providing enough debt relief
17	Nov 2023	Bondholders claim the OCC is demanding debt relief from them that is materially higher than either Zambia’s government or the IMF deem necessary <i>Bondholders’ Steering Committee—Press Release</i>
18	Dec 2023	Completion of the second review of Extended Credit Facility program by the IMF Executive Board gives Zambia access to US\$187 million additional funding; brings the total IMF financial support disbursed under the arrangement to about US\$555.7 million. <i>Official statement from Government of Zambia: HERE Press Release by IMF—HERE</i>
19	Dec 2023	Zambia government continues seeking agreements with their private creditors, including Eurobond holders, consistent with the program parameters and on comparable terms, as defined by OCC
20	Jan 2024	Secretary to Zambia’s Treasury hopes to agree new restructuring deal no later than the end of the first quarter of 2024. Zambian officials travel to China to discuss debt restructuring with representatives of the Export-Import Bank of China and some Chinese commercial banks
21	Feb 2024	Zambia’s finance minister unable to provide timeline for a debt restructuring deal with private creditors International Monetary Fund’s Africa director urges all sides to compromise.
22	Mar 2024	Government of Zambia reaches agreement on debt restructuring terms with the ad hoc creditor committee of holders of Zambia’s Eurobonds

58 Over \$4 billion of the defaulted principal is owed to the Export-Import Bank of China, underlining the importance of Beijing’s support for the deal.

59 The deal proposed consolidating the debt into two bonds with easier terms and longer payment deadlines, but also offering additional faster payments if Zambia’s economy does well.

60 “Zambia Bond-Restructure Deal Rejected by China and France—Bloomberg.” Accessed August 12, 2024. <https://www.bloomberg.com/news/articles/2023-11-20/zambia-s-official-creditors-reject-revised-bond-restructure-deal>.

TABLE 5. Timeline of historical events that have impacted Zambian economy

#	Period	Events
1	1964	Independence: Zambia gains independence from British Colonial Rule
2	1960s–1970s	<p><u>Copper dependence</u></p> <ul style="list-style-type: none"> • Zambia’s economy is heavily reliant on copper mining. • Copper prices are relatively high—contributes to increase in country’s revenue
3	1973	Arab oil embargo
4	1970–1980	<p><u>Copper nationalization</u></p> <ul style="list-style-type: none"> • President Kenneth Kaunda nationalizes copper industry • Copper prices decline and state mismanagement of copper leads to economic challenges • High levels of debt, inflation, and unemployment
5	1980–1990	Zambia enters into structural adjustment programs with IMF and the World Bank—economic reforms, liberalization, privatization, fiscal discipline follows
6	1990–2000	<p><u>Multiparty Democracy</u></p> <ul style="list-style-type: none"> • Zambia transitions to multiparty democracy in 1991 • Frederick Chiluba becomes the first democratically elected president. • Economic reforms continues • Corruption and social inequality rises
7	2000–2010	<p>Resurgence in copper prices provides boost to Zambia’s economy</p> <p>Corruption, poor infrastructure, and income inequality continues to rise in Zambia</p>
8	2008	<u>Global Financial Crisis</u> : Adverse impact of the crisis affects copper prices and reduces demand for exports in Zambia

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