POLICY
BRIEFING

GOOD GOVERNANCE AFRICA

Strategies to future-proof Zambia: Debt relief and beyond

By Vincent Obisie-Orlu

July 2023

Strategies to future-proof Zambia: Debt relief and beyond

By Vincent Obisie-Orlu

Executive summary

Debt relief negotiations are currently taking place, with Zambia expected to be the first country to receive debt relief under the newly created G20 Common Framework. However, the process faces challenges, with China and the United States trading accusations of impeding the process. Some of Zambia's creditors have also been unwilling to agree to write off some of the country's debt. Positively, innovative approaches to debt relief have been proposed that would support Zambia's net-zero ambitions and promote sustainable development, such as debt for nature swaps. The integration of Zambia into the European Union's Critical Minerals framework could further support and assist Zambia in attaining a deal.

Without a deal, Zambia risks being plunged into further macroeconomic uncertainty at a time when the country needs investment to capitalise on opportunities presented by political stability and structurally higher prices for copper and other critical minerals with which Zambi a is endowed.

Recommendations

- The Zambian government needs to implement measures that reduce the negative impacts of austerity on the poor and unemployed. Failure to do so could result in negative political consequences.
- G20 countries developing critical minerals strategies should seek debt relief for Zambia to increase the supply of critical minerals such as copper for the global energy transition and their own needs.
- The Zambian government needs to promote the conditions for up and mid-stream development. Mining can serve as a flywheel for industrialisation opportunities along global value chains, but this requires the right policy approach.
- The Zambian government needs to consider the different opportunities that could develop through debt for nature swaps. These include mine rehabilitation and restoration, climate smart agriculture and ecosystem preservation.

Introduction

Since the election of President Hakainde Hichilema in 2021, much hope has been placed on a swift process for the country to reach a deal on debt restructuring that would restore it to macroeconomic stability. The Hichilema administration has done what it can to implement the necessary measures and programme. However, achieving a deal on debt relief and debt restructuring has taken longer than the Zambian government had expected.

This policy briefing considers how best to 'future-proof' Zambia, considering its debt difficulties. It explores the current situation and asks what is necessary to create a high performing, macroeconomically stable Zambia that could emerge from the debt relief and debt restructuring negotiations.

Overview of Zambia's political economy and debt issue

Prior to Zambia's default on its Eurobond[1] repayment in November 2020, the International Monetary Fund (IMF) flagged the country as being unsustainable in its July 2019 Debt Sustainability Assessment (DSA).[2] The COVID-19 pandemic and the pressures it placed on the country exacerbated these challenges, culminating in the country's default at the end of 2020.[3] In February 2021, the Zambian government requested debt relief under the G20's Common Framework (CF)[4] following the November 2020 default.[5]

In October 2021, Zambia's government revealed that the country owed approximately $27 billion in public debt, with almost $17 billion being external debt and $10 billion owed to local lenders.[6] According to the IMF-Zambia DSA conducted as part of the extended credit facility request, at the end of 2021 estimates of Zambia's total debt including public and publicly guaranteed debt amounted to almost $34 billion.[7]

Zambia's debt situation is the legacy result of corruption, poor management of public resources, and heavy borrowing under previous administrations.[8] This, combined with what the IMF describes as "rapid debt accumulation on the backdrop of deteriorating economic fundamentals", led to the unsustainable debt levels the country now confronts.[9]

1 A Eurobond is an international debt agreement that is denominated in a currency different to that of the country issuing it.

2 Estevão, M., Robinson, D. and Sommer, M. (2019). Zambia: Joint Bank-Fund Debt Sustainability Analysis INTERNATIONAL DEVELOPMENT ASSOCIATION INTERNATIONAL MONETARY FUND ZAMBIA Joint World Bank-IMF Debt Sustainability Analysis. [online] International Monetary Fund. IMF. Available at: https://documents1.worldbank.org/curated/en/548351570791173632/pdf/Zambia-Joint-World-Bank-IMF-Debt-Sustainability-Analysis-August-2019.pdf.

3 International Monetary Fund (2022b). ZAMBIA REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY-PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA. [online] International Monetary Fund. IMF. Available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZMBEA2022001.ashx.

4 World Bank (2022). World Bank Releases $100 Million for Zambia Amid Substantial Delays in Debt Restructuring. [online] World Bank. Available at: https://www.worldbank.org/en/news/press-release/2022/12/20/world-bank-releases-100-million-for-zambia-amid-substantial-delays-in-debt-restructuring.

5 Economist Intelligence Unit. "Zambia | EIU." Zambia - the EIU View – Public Finances, The Economist Intelligence Unit, 19 June 2022, www.viewpoint.eiu.com/analysis/geography/XN/ZM/essential

6 EIU 2023

7 International Monetary Fund (2022b). ZAMBIA REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY-PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA. [online] International Monetary Fund. IMF. Available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZMBEA2022001.ashx.

8 Chen, Y., Raga, S., Calabrese, L. and Mustapha, S. (2021). Four lessons from Zambia's emerging debt default. [online] ODI: Think change. Available at: https://odi.org/en/insights/four-lessons-from-zambias-emerging-debt-default/

9 International Monetary Fund (2022b). ZAMBIA REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY-PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA. [online] International Monetary Fund. IMF. Available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZMBEA2022001.ashx.

Debt obligations and debt forecasts

Between 2012 and 2015, Zambia issued $3 billion worth of Eurobonds to finance infrastructure development.[10]

- A $750 million Eurobond in 2012.
- A $1 billion Eurobond in 2014.
- A $1.25 billion Eurobond in 2015.

Zambia was due to pay its $750 million Eurobond in September 2022. However, the country defaulted on this payment due to a lack of progress on debt restructuring.[11][12] It is due to repay its $1 billion Eurobond in April 2024, and its $1.25 billion Eurobond over three instalments in 2025, 2026 and 2027.[13]

The G20 Common Framework and its challenges

The G20 Common Framework (CF) aims to facilitate a coordinated and collaborative approach to debt treatment for eligible low-income countries, particularly those facing high levels of debt distress, and to help ensure that the benefits of debt relief are used to support sustainable and inclusive growth.[14] The CF is based on four key principles – debt sustainability, transparency and disclosure, creditor coordination and collaboration, and debtor country ownership and participation.[15]

For funds to be distributed, an Official Creditors Committee (OCC) consisting of the country's bilateral lenders must be convened. The OCC is then required to develop a Memorandum of Understanding (MOU) setting out key parameters of the debt restructuring, including:[16]

- Changes in nominal debt service over the IMF programme period.
- The extension of the duration of Zambia's debt.

Zambia and the Common Framework

Disagreements between members of Zambia's OCC over the way in which debt relief will take place have slowed progress in reaching the necessary debt relief.[17] The slow pace of debt relief from the CF has led to suggestions that it may have been better for the country to have pursued debt relief from its creditors on an individual basis. Creditors are aware of the power of 'first mover advantage' – the first creditor to negotiate with Zambia would likely have the best terms while everyone else gets successively less favourable terms. However, creditors also worry that the relief they provide would be used to pay off other creditors and therefore be detrimental to their interests. This is demonstrated by the importance of China being in the OCC, as other creditors worried that China might negotiate a deal for itself that could result in unequal burden sharing.[18]

The slow pace of progress towards debt relief has been a source of frustration to Zambians, the Zambian Ministry of Finance, President Hichilema, the IMF, and the World Bank. Moreover, the unwillingness of private-sector creditors to agree to participate in debt restructuring, and concerns that China may restructure Zambia's debt unfavourably, further limit Zambia's ability to return to macroeconomic stability.

IMF's Zambia Extended Credit Facility (ECF) programme

The IMF and Zambian government agreed on a 38 month, $1.3 billion, extended credit facility at the end of August 2022 following the OCC pledging to negotiate a debt restructuring deal for the country.[19]

The ECF is based on the Zambian government's reform plans and is focused on restoring macroeconomic stability, in addition to creating an enabling environment for a more inclusive, resilient, and higher performing Zambia.

10 Roy, Sudip. "Zambia Launches US$1bn 10-Year Eurobond at a Yield of 8.625% -Source." Reuters, 7 Apr. 2014, www.reuters.com/article/zambia-bonds-idUSL6N0MZ3X520140407
11 Fitch Ratings (2022). Fitch Affirms Zambia's LTFC IDR at 'RD'; Affirms LTLC IDR at 'CCC', off UCO. [online] Fitchratings.com. Available at: https://www.fitchratings.com/research/sovereigns/fitch-affirms-zambia-ltfc-idr-at-rd-affirms-ltlc-idr-at-ccc-off-uco-06-12-2022
12 Reuters Staff (2022). Zambia not to pay euro bond due in September - Finance Minister. Reuters. [online] 4 Sep. Available at: https://www.reuters.com/article/zambia-debt-idUSKBN2Q50EM.
13 EIU 2023
14 International Monetary Fund (2021). Questions and Answers on Sovereign Debt Issues. [online] IMF. Available at: https://www.imf.org/en/About/FAQ/sovereign-debt.
15 Ibid
16 Tran, H. (2022). Zambia: A template for debt restructuring? [online] Atlantic Council. Available at: https://www.atlanticcouncil.org/blogs/econographics/zambia-a-template-for-debt-restructuring/.
17 Setser, B. (2023). The Common Framework and Its Discontents. [online] Council on Foreign Relations. Available at: https://www.cfr.org/blog/common-framework-and-its-discontents.
18 Tran, H. (2022). Zambia: A template for debt restructuring? [online] Atlantic Council. Available at: https://www.atlanticcouncil.org/blogs/econographics/zambia-a-template-for-debt-restructuring/.
19 Ibid

The plan focuses on the following key areas:[20]

- Restoring sustainability through fiscal adjustment and debt restructuring.
- Creating room in the budget for much-needed social spending.
- Strengthening governance and reducing the risk of corruption, including improving public financial management.

According to the IMF, Zambia will need approximately $11 billion between 2022 and 2025 to increase its reserve levels and finance its balance of payments. Moreover, to reduce the risk of a debt default for Zambia from severe to moderate, the country will need debt relief measures to reduce debt servicing costs to 14% of their current levels by 2025 and maintain that average level until 2031. Based on this, the IMF believes that there is a possibility that additional debt relief will be needed between 2026 and 2031.[21]

The World Bank

Between November and December 2022, Zambia received disbursements of $275 million as part of the Zambia Macroeconomic Stability, Growth and Competitiveness Development Policy Financing (DFI). The DFI seeks to support the Zambian government's policy and institutional reforms with a focus on the following:[22]

- Restoring fiscal and long-term debt sustainability.
- Increasing farmer productivity and access to agricultural markets.
- Ensure sustainable access to energy.
- Enhance access to finance and private sector development.

Over the course of 2022, the World Bank disbursed $740 million to support implementation of necessary fiscal reforms needed for a debt relief deal.[23] The Zambian government and IMF agreed on a $1.4 billion support facility in late December 2021. This was to enable the country to maintain macroeconomic stability while a final deal on debt relief was being reached.[24] This amount was later revised down to $1.3 billion following the joint Zambian and IMF DSA. Since then, the Hichilema administration has been actively engaged in high level talks and discussions with the IMF, World Bank, officials from the United States and other partners to address the current debt crisis.

During the IMF's 2023 Spring Meetings, Zambia's Minster of Finance met with representatives from the World Bank and IMF. He highlighted Zambia's investment potential, focusing on agriculture and infrastructure development, together with the country's pursuit of a sustainable debt restructuring process.[25] US Treasury Secretary Janet Yellen maintained her country's commitment to supporting Zambia in getting a deal for debt restructuring.[26] This follows her previous meeting with President Hichilema in January 2023, which saw her call for China to provide debt relief to Zambia.[27]

In December 2022, the Zambian Finance Ministry stated the country's openness to "discuss all options" that would make plans to restructure the country's debt more acceptable to creditors. Zambia seeks $8 billion in debt relief, in addition to requesting a reduction of the current value of the country's debts to ensure debt relief provided is in line with debt sustainability targets developed with the IMF.[28] Progress made by Zambia and the lack of relief being provided to the country led to Zambia requesting the IMF

20 International Monetary Fund (2022). Frequently Asked Questions on Zambia. [online] IMF. Available at: https://www.imf.org/en/Countries/ZMB/zambia-qandas.
21 International Monetary Fund (2022b). ZAMBIA REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY-PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ZAMBIA. [online] International Monetary Fund. IMF. Available at: https://www.imf.org/-/media/Files/Publications/CR/2022/English/1ZMBEA2022001.ashx.
22 World Bank (2022). World Bank Releases $100 Million for Zambia Amid Substantial Delays in Debt Restructuring. [online] World Bank. Available at: https://www.worldbank.org/en/news/press-release/2022/12/20/world-bank-releases-100-million-for-zambia-amid-substantial-delays-in-debt-restructuring.
23 Ibid
24 Mfula, C. and Strohecker, K. (2021). IMF, Zambia reach staff level agreement for $1.4 bln support plan. Reuters. [online] 3 Dec. Available at: https://www.reuters.com/markets/rates-bonds/imf-zambia-reach-staff-level-agreement-14-bln-support-plan-2021-12-03/.
25 Africa Risk Consulting (2023). Zambia Monthly Briefing 17 April 2023. ARC.
26 Ibid
27 Duehren, A. and Steinhauser, G. (2023). Janet Yellen Pushes China on Debt Relief for Zambia. [online] WSJ. Available at: https://wsj.com/articles/janet-yellen-pushes-china-on-debt-relief-for-zambia-11674498879.
28 Hill, M. (2022). Zambia Open to All Restructuring Options to Get Creditors on Board. Bloomberg.com. [online] 22 Dec. Available at: https://www.bloomberg.com/news/articles/2022-12-22/zambia-open-to-all-restructuring-options-to-get-creditors-on-board.

to begin dispersing ECF funds without a final agreement on debt relief from the OCC, so as not to punish the country for delays outside of its control while taking all possible actions within its control.[29]

Domestically, Zambia has collaborated with the IMF to enhance transparency and accountability in public resource management as part of the ECF programme. Furthermore, Zambia repealed the Loans and Guarantees (Authorisation) Act to promote parliamentary oversight of borrowing and to enhance transparency of public debt management.[30] The Zambian government cancelled $2 billion worth of projects to help maintain and manage the country's debt stocks.[31] Moreover, the Zambian government is in the process of pursuing reforms to the country's tax administration system to boost domestic revenue mobilisation.

In an opinion piece for the Washington Post, President Hichilema stated that the slow progress on debt relief is a threat to the economy, and by extension to democracy in Zambia. He explained that without a corresponding improvement in the quality of citizens' lives, the democratic system could face challenges.

Navigating austerity

Policy reforms implemented by Zambia as part of the CF, IMF ECF and World Bank DFI have required removal of subsidies as a key aspect of efforts to boosting fiscal health. The removal of electricity, fuel and agricultural subsidies are among these proposed fiscal reforms.[32] However, reducing public spending can harm essential services and social welfare programmes, exacerbating poverty and inequality.

Already, the country is facing a shortage of mealie-meal, a staple food in the country, which has correspondingly increased the price.[33] Additionally, the elimination of fuel subsidies, combined with rising electricity costs against the backdrop of high inflation, threatens fiscal stability.

The Zambian government needs to ensure that austerity measures are structured in a manner that does not disproportionately affect the poor and unemployed.

It should ensure that structural reforms promote private sector-led growth and increase the country's investment attractiveness. This will promote broad-based economic development, boosting employment through diversification and growth of the economy. While the IMF's Zambia ECF will attempt to maintain social, healthcare and educational spending in the country, it is critical that additional reforms implemented attract sufficient investment, while simultaneously cushioning the poor and inducing growth which can enable sustainable social safety nets in the long term.

How a deal can help future-proof Zambia

Debt relief and debt restructuring are crucial for the restoration of macroeconomic stability in Zambia.[34] However, this process also provides opportunities for the development of a diversified, resilient economy that can take advantage of the current net-zero transition and face the challenges of climate change.[35]

Using debt relief/restructuring to support critical minerals frameworks

The current demand for copper stemming from the energy transition presents opportunities for Zambia as the country pursues debt relief.

First, a stable macroeconomic environment allows companies to make long-term investments to meet the growing global demand for copper.[36] Second, countries worldwide are creating strategies and frameworks to secure access to the critical minerals needed for the energy transition, copper being one of them.[37] Third, copper is Zambia's main export, constituting over 70% of the

29 Ibid
30 Ayeni, T. (2022). Zambia cancels $2bn worth of projects to help with debt. [online] The Africa Report.com. Available at: https://www.theafricareport.com/221792/zambia-cancels-2bn-worth-of-projects-to-help-with-debt/.
31 Ibid
32 World Bank (2022). World Bank Releases $100 Million for Zambia Amid Substantial Delays in Debt Restructuring. [online] World Bank. Available at: https://www.worldbank.org/en/news/press-release/2022/12/20/world-bank-releases-100-million-for-zambia-amid-substantial-delays-in-debt-restructuring.
33 Africa Risk Capacity (2023). Zambia Monthly Briefing April 2023. ARC.
34 Obisie-Orlu, V. (2022). A strategy to future-proof Zambia's mining industry. [online] Good Governance Africa. Available at: https://gga.org/strategy-to-future-proof-zambias-mining-industry/
35 Obisie-Orlu, V. (2022). Implications of COP26 for Africa's Mining Industry. [online] Good Governance Africa. Available at: https://gga.org/implications-of-cop26-for-africas-mining-industry/
36 Obisie-Orlu, V. (2022). A strategy to future-proof Zambia's mining industry. [online] Good Governance Africa. Available at: https://gga.org/strategy-to-future-proof-zambias-mining-industry/
37 Ibid

country's export revenues.[38] Potential opportunities also exist for Zambia to explore intra-mineral diversification, including tapping into cobalt, lithium and nickel value chains. The current geopolitical tensions informing the growing competition for access to critical minerals presents opportunities for long term sustainable economic development in Zambia.

By supporting the development of conditions that support sustainable investment in the country's copper mining sector and the development of down and midstream industries, Zambia's balance of payments can be boosted, creating a virtuous cycle towards macroeconomic stability. These in turn create skilled employment opportunities, in addition to using the African Continental Free Trade Area and the envisaged reduction in barriers to trade on the continent to domestically develop renewable energy technologies to meet global demand.

Debt for nature swaps

Debt for nature swaps (DNS) are financial transactions in which a portion of a developing country's debt is forgiven or restructured in exchange for commitments to invest in environmental protection and conservation.[39] These swaps incentivise climate action from developing countries with natural ecosystems that can be used for sequestration, while also potentially providing further revenue from this resource by charging other countries for their maintenance of this public good.[40]

DNS opportunities for Zambia can be used to support wildlife protection and preservation, in addition to the promotion of wildlife tourism in the country. Additionally, opportunities can also emerge around climate sustainable agricultural processes, supporting the government's efforts to address the current agricultural crisis. Moreover, connecting DNS to conditional cash transfer schemes for lower income individuals could incentivise these communities towards the preservation of land. By attaching a value that could have a tangible impact on a country's debt, as well as providing support to maintain these ecosystems, Zambia can be incentivised to view its natural ecosystem as a resource worth protecting.

Conclusion

Zambia's debt restructuring experience highlights some challenges facing the G20 Common Framework that must be evaluated and addressed to ensure that it lives up to its intended purpose. The slow progress towards a deal on debt restructuring hinders Zambia from taking advantage of the current opportunity presented by the net-zero revolution. Additionally, the Zambian experience exposes the centrality of governance and the importance of citizens seeing their lives improve as they engage in the democratic process.

Progress with Zambia's debt relief and restructuring will set the tone for the way in which debt relief under the G20 Common Framework will occur. Additionally, the current debt crisis facing the African continent and many developing countries risks destroying progress that has been made over the last 20 years.

38 Oxfam (2021). Copper for Development Report. [online] www.oxfamamerica.org. Available at: https://www.oxfamamerica.org/explore/research-publications/copper-for-development-report/.

39 African Development Bank (2022). Debt-for-Nature-Swaps: Feasibility and Policy Significance in Africa's Natural Resources Sector. [online] African Development Bank - Building today, a better Africa tomorrow. Available at: https://www.afdb.org/en/documents/debt-nature-swaps-feasib ility-and-policy-significance-africas-natural-resources-sector.

40 Georgieva, K., Chamon, M. and Thakoor, V. (2022). Swapping Debt for Climate or Nature Pledges Can Help Fund Resilience. [online] IMF. Available at: https://www.imf.org/en/Blogs/Articles/2022/12/14/swapping-debt-for-climate-or-nature-pledges-can-help-fund-resilience.

For more information on this policy briefing, contact our Good Governance Africa advisory services team.

Contact us
Tel: 011 268 0479
Email: info@gga.org
Web: www.gga.org