PRESS STATEMENT **04.02.2022**

OVER SIXTY PERCENT OF ZAMBIA'S EXTERNAL DEBT MUST BE CANCELLED OR THE NATION WILL NOT RETURN TO DEBT SUSTAINABILITY

In December, the International Monetary Fund (IMF) and the Zambia Government reached a Staff Level Agreement for a three-year Extended Credit Facility amounting to USD1.4 billion. A Staff Level Agreement was followed by Zambia's' request for a debt treatment under the G20 Common Framework.

Zambia is currently negotiating a restructuring of its debt with private and government creditors through the G20's new Common Framework. The Zambian Government is in the process of engaging with bilateral or official creditors, multilateral, and private creditors. Lenders will have to agree to some level of common consensus for the debt restructuring process for Zambia to bear fruits. However, the variation in the types, and nature of Zambia's debt attracts complexities in arriving at a unanimous decision that will see the process going forward.

However, it's our well-considered view that the debt restructuring process in Zambia may not yield much of the benefits as envisaged by the IMF and the Government of the Republic of Zambia. Whether the restructuring leads to a sustainable debt will be a key test of the Framework both for Zambia and other countries in debt crisis. It is for this reason that the CSO Debt Alliance in conjunction with the Jubilee Debt Campaign UK conducted an analysis to establish the extent of help that Zambia may require to succeed in the debt restructuring process in order to attain debt sustainability.

As the Zambian Civil Society Debt Alliance, we are of the view that both lenders and the previous Zambian government are responsible for plunging Zambia into the current debt crisis. The debt burden is increasing poverty in Zambia, preventing us from tackling and recovering from the pandemic and dealing with crises caused by rich countries such as climate change. Private lenders and other governments lent to Zambia at high interest rates and high risk. Lenders need to accept they lent recklessly and agree a large-scale debt cancellation to allow the people of Zambia to tackle multiple external crises.

In addition, Heidi Chow, Executive Director of Jubilee Debt Campaign UK, has supported calls to support the CSO Debt Alliance call for debt cancellation. According to Heidi Chow, for the past three years, Zambia's debt has been bought and sold at 30 to 70% below face value. Without large-scale debt cancellation, the wealthy owners of this debt stand to profit handsomely from the Zambian people. These high-interest loans should never have been made available in the first place. If private lenders refuse to agree to the necessary debt cancellation, the IMF and governments should support Zambia's decision to remain in default on them politically and financially.

Zambia, which defaulted on interest payments to foreign currency bondholders in November 2020, and in February 2021, has applied for debt restructuring through the G20 Common Framework. The G20 Common Framework allows G20 governments, including China, to cancel debt and to reduce it to a sustainable level, but only if private lenders agree to at least the same amount of debt cancellation.

Zambia owes 46 percent of its external debt to private lenders, 22 percent to China, 8 percent to other governments, and 18 percent to multilateral institutions. The debt to multilateral institutions is not included in the debt restructuring under the Common Framework. The average interest rate on each creditor group is:

- 6.1% external private lenders
- 3.1% China
- 4.8% other governments
- 1% multilateral

The Zambian Civil Society Debt Alliance and the Jubilee Debt Campaign UK calculated that external private lenders and other governments must cancel two-thirds of Zambia's debt. Debt cancellation on a large scale, according to the campaigners, is required to make Zambia's debt sustainable.

The IMF advises the G20 on whether a debt is sustainable or not. Zambia's debt, according to the IMF, is unsustainable. Under the IMF's Debt Sustainability Framework, debt restructuring must reduce the risk of a debt crisis while leaving room to absorb shocks. This means that Zambia's external debt payments should be around 12% of government revenue. According to the Zambian Civil Society Debt Alliance and the Jubilee Debt Campaign UK, this means that approximately two-thirds of the external debt owed to private lenders and other governments, as well as all interest payments, must be cancelled.

Based on the issues, we do therefore recommend the following:

1. We recommend that approximately two-thirds of the external debt owed to private lenders and other governments, as well as all interest payments, must be cancelled, if sustainability is to be achieved.
2. Government must speed up engaging creditors so that a committee of lenders can be formed and provide financing assurances so that the process can move forward to the IMF's Executive Board.
3. It is imperative that the agreement with the IMF is concluded, and progress is made towards securing an arrangement for a treatment under the G20 common framework.

4. Beyond the International Monetary Fund programme, government must develop a more aggressive plan to stimulate a private sector led economic growth.
5. Within the framework of the expected debt management strategy, the Government should maintain a healthy Zambia/China relationship as the Chinese remain strategic partners with whom we hold a huge debt stock.
6. The Government must adopt a consultative and participatory approach by including key stakeholders like the CSOs in addressing debt management issues such as debt audits. This should not be a preserve of government and creditors only.

In addition to the above recommended interventions, the CSO Debt Alliance wishes to reiterate the critical need for Zambia to clean its house. This is especially with regards to the debt legislative framework, institutional strengthening and systems that will ensure that the nation does not return to unsustainable debt levels. We have been here before as a nation under the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The timely and robust revision of the Loans Guarantees and Authorisation Act of 1969 and its subsequent operationalization will be critical in this regard. The huge debt burden continues to suffocate the nation’s drive to ensure that human development and shared prosperity is achieved. Significant resources have over the years been channeled to debt servicing at the expense of propelling the nation to the middle income status by 2030 as espoused in Vision 2030.

–THANK YOU-

Signed (On behalf of CSO Debt Alliance):
Fr. Alex Muyebe, S.J.
CSO Debt Alliance Chairperson

CSO Debt Alliance Members

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NGOCC	TIZ	FODEP
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