

Open letter to BlackRock, Zambia's creditors and the G20

Lower income countries are facing a series of financial shocks. Food and energy import costs have soared, interest rates are rising, and the dollar has increased in value. These shocks are all serving to intensify the debt crisis faced by many countries.

Over the last decade of low global interest rates, private lenders charged high-interest loans to lower income countries. The supposed logic for charging poorer countries far higher interest rates than richer countries was the greater risk of economic shocks that could make debt repayment more difficult. That risk has now materialised, firstly through a global pandemic, and now the price shocks and interest rate increases of 2022.

In 2020, the G20's response to the pandemic was to offer a suspension of debt service. However, because it only covered loans from governments and not those of private lenders and multilateral institutions, less than a quarter of debt payments were suspended for the countries which applied for the scheme.¹ The Debt Service Suspension Initiative (DSSI) was voluntary and only covered suspension of debt repayments rather than a restructuring of debt stock.

As well as making the scheme less effective, the voluntary character of the arrangement created a moral hazard whereby private creditors benefited from the fiscal space generated by the official debt suspension in order to keep obtaining debt repayment in full. This situation prevented countries from freeing up resources to fight the health and economic crises prompted by the pandemic. In addition, it incentivised private creditors to refuse to engage in any future debt relief initiatives, and continue to lend recklessly, by making it profitable to free-ride on the concessions offered by other creditors. The G20 then created a new Common Framework for debt restructuring that provides for coordinated official debt relief and requires private creditors to participate on comparable terms. Yet, 18 months after three countries applied for the scheme at the start of 2021 (Chad, Ethiopia and Zambia) none have yet had any debt restructured.

Negotiations in Zambia are now at a crucial stage. The country's public lenders, including China, have agreed to take part in a debt restructuring, on condition that private lenders also do so on the same terms.² Of Zambia's external government debt payments between 2022 and 2028, 45% are to Western private lenders, 37% to Chinese public and private lenders, 10% to multilateral institutions and 8% to other governments.³

¹ Financial Times (2021), 'G20 plan for Covid debt relief to poor countries falls short', 12 October 2021 <https://www.ft.com/content/00b21f50-b8e2-4460-835d-98e26354f404>

² Paris Club (2022), '2ND MEETING OF THE CREDITOR COMMITTEE FOR ZAMBIA UNDER THE COMMON FRAMEWORK', 18 July 2022 <https://clubdeparis.org/en/communications/press-release/2nd-meeting-of-the-creditor-committee-for-zambia-under-the-common>

³ Debt Justice (2022), 'African governments owe three times more debt to private lenders than China', 11 July 2022 <https://debtjustice.org.uk/press-release/african-governments-owe-three-times-more-debt-to-private-lenders-than-china>

The Common Framework calls for debt relief levels that are consistent with the debtor's capacity to pay and ability to maintain essential spending needs. To achieve this purpose, the cooperation of all types of creditors is crucial. This includes BlackRock, the world's largest asset manager, which is the largest owner of Zambian bonds, holding \$220 million.⁴ Because of the high interest rates and the fact Zambia's bonds have been trading at well below face value since 2018,⁵ many bondholders stand to make huge profits at the expense of both Zambian citizens and creditor countries if paid at face value. It is therefore imperative that BlackRock and other bondholders agree to fully engage in a large-scale debt restructuring, including significant haircuts, in order to make Zambia's debt sustainable.

It is of little help if the terms of a restructuring are so onerous that Zambia would still face debt distress and be forced to negotiate another restructuring soon.

Zambia's bonds are all governed by English law.⁶ In 2010, the UK parliament passed a ground-breaking Act to enforce a previous debt relief scheme, the Heavily Indebted Poor Countries initiative, on debts governed by English law. The UK should do the same again to ensure that all private creditors comply with the terms of G20 Common Framework debt restructurings. New York - the other key jurisdiction for sovereign debts - should do the same.

At a time of global crisis, it is economically inefficient and morally wrong for high interest debts to be paid to private lenders, while governments cut back on support for their own people. The world urgently needs a strengthened scheme to deliver debt restructuring for countries and people in need.

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4. Raj Patel, Research Professor, Lyndon B Johnson School of Public Affairs, University of Texas at Austin, US
5. Cephas Lumina, Visiting Professor of Law, University of Lusaka, Advocate of the High Court of Zambia and former United Nations Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights (2008-2014)
6. Celine Tan, Professor of International Economic Law, University of Warwick, UK
7. Grieve Chelwa, Director of Research, Institute on Race, Power and Political Economy, The New School, New York, US

⁴ Inman, P (2022). 'BlackRock urged to delay debt repayments from crisis-torn Zambia', 11 April 2022 <https://www.theguardian.com/world/2022/apr/11/blackrock-urged-to-delay-debt-repayments-from-crisis-torn-zambia>

⁵ For example, the price history of Zambia's bond maturing in 2024 is available here:

https://markets.businessinsider.com/bonds/sambia-republiki-bonds_201424_regs-bond-2024-xs1056386714

⁶ Zambia Ministry of Finance (2012, 2014 and 2015), Bond prospectuses, various issues, 2012, 2014, 2015:

<https://ftalphaville-cdn.ft.com/wp-content/uploads/2016/03/Zambia2012bond.pdf>

https://www.rns-pdf.londonstockexchange.com/rns/3764E_-2014-4-8.pdf

https://www.rns-pdf.londonstockexchange.com/rns/3230U_-2015-7-28.pdf

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For further detail see:

Connelly, Patricio Ferreira Lima and Tan (2022), 'Submission of Evidence to the House of Commons International Development Committee for the inquiry into debt relief in low-income countries, examining the impact of high levels of debt on development and the tools and strategies employed to reduce the debt burden', 22 June 2022

<https://committees.parliament.uk/writtenevidence/109458/pdf/>

Connelly, Patricio Ferreira Lima and Tan (2020), 'Proposal for debt suspension legislation' The IEL Collective, Law and Finance Working Group, 3 June 2020

https://warwick.ac.uk/fac/soc/law/research/centres/globe/ielcollective/working-groups/lawfinance/debt/proposal_for_debt_suspension_legislation_-_final.pdf