

## **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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> Because of the high interest rates and the fact Zambia's bonds have been trading at well below face value since 2018,<sup>5</sup> 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.<sup>6</sup> 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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**For further detail see:**

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