OP-ED: HIGHLIGHTS ON THE INTERNATIONAL MONETARY FUND EXTENDED CREDIT FACILITY (IMF-ECF) AGREEMENT WITH ZAMBIA

BACKGROUND

The International Monetary Fund (IMF) is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The Fund provides lending, surveillance and capacity development services to its member countries. Its resources are primarily sourced from the money that member countries pay as their capital subscription called quotas. **The IMF provides loans - including emergency loans, to member countries experiencing actual or potential balance of payments problems. Their aim is to help member countries rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while correcting underlying problems (https://www.imf.org/en/About).**

The Extended Credit Facility (EFC) is a mechanism used by the IMF to provide financial assistance to countries with prolonged Balance of Payments problems. It was created in 2010 under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of low-income countries (LICs) like Zambia (IMF, 2016).

IMF-ECF KEY HIGHLIGHTS

On 3rd December 2021, the Zambian Government and the International Monetary Fund (IMF) **reached a staff level agreement on a Special Drawing Right (SDR) amounting to 980 million or $1.4 billion for three-years (2022-2025) Extended Credit Facility (ECF). Below are some of the highlights of the IMF-ECF Agreement with the Republic of Zambia:**

- This agreement is based on the Zambia's plans to undertake bold and ambitious economic reforms.
- Sixteen countries were on IMF-ECF as at 31st December 2021.
- The ECF's lending programmes are normally for three years with an almost zero interest rate, as they are not commercial loans.
- Under the ECF, Zambia will agree to implement a set of policies that will help make the country progress towards achieving a stable and sustainable macroeconomic position in the medium term.
- The commitments, including specific conditions which are described in the country's letter of intent and the conditionality is streamlined and focused on policy actions that are critical to achieving the program's objectives, based on the country's own development strategy aimed at safeguarding the social objectives of the country.
- Once the IMF Executive Board ratifies this ECF agreement and Zambia begins to implement it, the IMF will also begin to monitor the progress of the implementation of the policies and the country's compliance to the conditions set in the agreement.
- The role of the IMF in debt restructuring is critical as its involvement in the economy will give credibility and impetus to an orderly debt restructuring process and will provide key support to Zambia in delivering financial assistance to ease the debt burden. The Fund will provide "interim finance" (SDR 980 million or $1.4 billion for three-years) which will give Zambia the fiscal space to restructure its debt, also technical commitment based on programme conditionality, reviews and the phased disbursement of financing, to reassure creditors about the domestic policy adjustment to be implemented throughout the programme horizon.
- Austerity measures are expected, careful spending and cost cutting measures such as removal of subsidies are going to be implemented.
- Without the IMF's support, countries like Zambia would have to cut back on essential health, social and investment spending, and its ability to meet its external debt obligations would be impeded.
- The IMF does not "micro-manage" the country's debt restructuring decisions, they have always refrained from being directly involved in debtor-creditor negotiations, in the belief that the decisions about what to restructure, how and by how much, ultimately rests with the sovereign debtor and its creditors. Importantly, the Fund's role remains that of a neutral facilitator drawing on its expertise and technical assistance capabilities between the debtor and its creditors, without taking sides or a position itself on the details of a restructuring.

CONCLUSION

The Zambian **Government is urged to ensure that implementation of the ECF programme is successful by adhering to the conditions of the agreement that are yet to be disclosed.** The ECF arrangement should focus on restoring macroeconomic stability and provide the foundation for an inclusive economic recovery. To achieve this objective, both the quantitative and structural benchmarks on set conditions will have to be implemented.

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