CTPD'S MONDAY OPINION

This is a weekly column aimed at sharing CTPD's perspective and steering public debate on various issues pertaining to Trade & Investment Law, Public Finance Management, Extractives and Human Development.

TODAYS TOPIC:
Does Zambia need an IMF bailout package or not? with **Mr. Boyd Muleya**

IN THIS weeks' Monday opinion, we delve into the issue of whether Zambians needs an IMF Package or not. Does it mean that there are no other options to correct the debt situation and finance our public expenditure?

The Zambian government primarily finances it's spending through taxes and non-tax receipts. In 2021, the Government planned to achieve tax and non-tax revenue targets of 44.5 percent and 10.6 percent as a share of the National Budget respectively. Since domestic revenues are insufficient to cover expenditure, the Government ends up meeting the deficit through borrowing. In 2021, Government planned to acquire 14.6 percent in domestic financing and 30.6 percent in foreign financing.

Let me now draw your attention to an economic program without the IMF and how it may look like. The option to raise taxes or indeed introduce new ones to maximize revenue may be counter intuitive as it will adversely impact individuals and businesses. The result may be business failure, high cost of living, unemployment, and subsequently, further narrowing of the tax base.

Government may need to sale some of its assets, privatize parastatals, or sale Mukula to raise extra funds. Sale of assets and privatization may not be a popular decision by citizens, given the impact of privatization left by the Structural Adjustment Programmes (SAP) of the IMF/World Bank.

Another way would be to swiftly recover proceeds of crime and corruption; however, this exercise might take a long time and hence uncertain in supporting domestic resource mobilization.

The other option is to ensure that all parastatals are run profitably and contribute to government revenue. Unfortunately, only a few state-owned companies make profit now. And to make them all profitable and subsequently pay dividends to the Government will take some time.

The Government must stop financial leakages and generate huge savings for channeling to key sectors. This is an ongoing activity that may need a lot of structural changes especially in the public service before we can see the fruits.

An inevitable option will be for Government to embark on austerity measures - spending cuts or employment freeze. This will most certainly be unwelcomed especially among citizens, especially the youth.

Hence, without the IMF, Zambia needs to borrow from commercial external creditors. Zambia's negative credit rating outlook and Debt to GDP ratio are unattractive to cheaper loans and distasteful to any lenders out there, unless with very high interest. Therefore, Government may over borrow from the domestic market and thereby overcrowding out the private sector.

Now let us turn to some unique benefits of the IMF involvement in Zambia's economic recovery programme.

Apart from technical support, the IMF loans come with repayment flexibility when faced with repayment challenges, interest rates are very low and concessional, there is possibility of debt forgiveness, helps builds confidence in other creditors with non-concessional loans, and further gives a possibility of debt restructuring.

Restructuring will reduce the current debt service as a share of the budget to less than 40 percent. Without the IMF package, debt service will continue rising, fiscal deficit widening, reduced spending towards health, education, and social protection because of the debt trap situation we are in. The IMF supports you to spend on key sectors while servicing your debt sustainably and growing the economy.

International creditors use the involvement of the IMF into a program as assurance that risk will be reduced on their part and hence support restructuring. Creditors perceive participation of the IMF as technical collateral and ride on its oversight function that a country would implement sound macroeconomic management and hence commit to debt service.

So, what has changed between the IMF of the SAP and the IMF of the Extended Credit Facility (ECF)? Unlike in the SAP where economic policies were imposed, the current IMF engagement with Zambia is based on a mutually beneficial arrangement where Zambia must develop its own home-grown economic recovery plan.

The IMF's Capacity Development (CD) program, which includes surveillance, technical support, and training has seen significant progress. The convergence of CD, surveillance, and financing, as well as a comprehensive country-tailored methodology have changed delivery to enable implementation more consistently.

Traditional SAPs had several flaws, one of which is the disproportionate reduction in social spending. When there are government spending cuts, underprivileged communities, which are often poorly organized, are the first to suffer. In the current IMF demands, Government support toward social protection is one the preconditions for Zambia to get on the IMF package.

The questions of where we borrow from and why should drive the debate of whether we need the IMF or not. Going by Zambia's current economic predicament, any genuine recovery programme will require sacrifice, whether done by the government alone or with the IMF. While we do appreciate that the change in administration presents renewed hope in investor confidence, CTPD is of the considered view that without an IMF Program, access to finance will be expensive for Zambia and owing to the foregoing issues in this article, we think that the IMF will be key towards unlocking cheaper finance and accelerating economic recovery.

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