One Hundred and Third Sovereign Debt News Update: Malawi gets Approval on US$174m Extended Credit Facility from the International Monetary Fund (IMF)

By:

The African Sovereign Debt Justice Network

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On the 15th of November 2023, the International Monetary Fund (IMF) convened an Executive Board meeting to deliberate on a 48-month extended credit facility (ECF) for Malawi. The meeting followed a staff-level agreement reached in September 2023, following the successful second and final review of a 12-month program with the executive board's involvement. In a statement, the IMF announced that the Fund's Executive Board had approved a loan of about $174 million for Malawi, with an immediate disbursement of about $35 million.

The purpose of the ECF arrangement is to assist the government's commitment to addressing governance and institutional shortcomings, reestablishing macroeconomic stability, and laying the groundwork for equitable and sustainable growth. This includes enhancing resilience to shocks connected to climate change. Additionally, grant financing and capital inflows, such as trade credit and foreign direct investment, are anticipated to be stimulated by the arrangement. In November 2022, the country secured an emergency $88.3 million IMF loan, and since then, had been hoping to transition to an Extended Credit Facility loan by the end of the year 2023. In order to secure the loan, Malawi needed to get assurance letters from its "two main bilateral donors", China and India, stating that they are on board with the debt restructuring process.

In response to this development, Malawi’s Finance Minister Simplex Chithyola Banda said "*two major benefits expected are the resumption of budgetary support from our traditional donors and the easing of foreign currency supplies* ". The IMF has indeed confirmed that it is set to resume direct budgetary support to the Malawian government. The IMF had stopped providing such budgetary aid due to what it termed as “misreporting and misrepresentation of figures” by the Reserve Bank of Malawi during the Democratic Progress Party (DPP) administration under the leadership of former President Peter Mutharika.

Announcing the news in a national address monitored on the Malawi Broadcasting Corporation, Malawi’s President Chakwera highlighted a number of benefits to be drawn from the IMF program, including the unlocking of foreign direct investments. According to the President, as a result of IMF approval, several development partners had lined up a number of financial facilities, with the World Bank emerging as one of those key funders. In particular, this includes the *World Bank’s US$60 million trade finance facility to assist banks to support importation of commodities such as fertilizer, USD$217-million-dollar package in response to the fiscal reforms Malawi has implemented, and USD$250 million for the Agricultural Commercialization Project*.

However, the development has faced some criticism. According to the Centre for Democracy and Economic Development Initiatives (CDEDI), the national address “was a bragging show whereby Chakwera stoop so low to brag about the IMF's Extended Credit Facility". The CDEDI Executive Director, Sylvester Namiwa, has since called on Malawians *not to celebrate and instead get worried more especially because no country in the world ever developed using aid*.

Following the Executive Board discussion on Malawi, Ms. Gita Gopinath, First Deputy Managing Director, and Acting Chair, said "*time is of the essence for debt relief, as further delays would result in greater financing gaps, which could then only be closed at an undesirably high cost to the population*". Malawi's finance minister has been "very optimistic" that the country's $1.2 billion external debt will be restructured by the end of the year. According to an IMF July report, at the end of 2022, Malawi owed the Export-Import Bank of China $222 million and the Export-Import Bank of India $114 million. The government also owes the African Export-Import Bank $495 million and Trade & Development Bank $337 million, and both creditors have signed up to the restructuring.

Against the background of the highlighted liquidity injections, the Malawian government needs to be wary of the funds that are being continuously extended to them in the name of "*foreign direct investments*". While it is anticipated that these financial facilities "*will greatly enhance our foreign exchange reserves position and provide the macroeconomic stability needed for economic and business growth*", the AfSDJN cautions against liquidity injections that are accompanied by conditionalities that have not been made public. It is imperative that these conditionalities be explicitly defined, and that the terms and conditions be made accessible to the public.

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