Second Sovereign Debt News Update

By:

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News

For the first time, Kenya's debt mounts to hit over Sh1 Trillion. As a result, the country may be constrained to dedicate almost 60% of its revenue to debt servicing from July 2021. This is significant because it is more than 200% of the amount that taxpayers had to pay for debt servicing in 2017. Since some of its debt servicing would be due in July 2021, this would mean that from July, the Kenyan government would have to dedicate almost KShs 6 for every KShs10 it derives as revenue from its taxes and levies for debt servicing. This would of course leave much less for its national development plans.

Meanwhile, the International Monetary Fund has reached a Staff-Level Agreement with key members of the Kenyan government to provide UD$2.4 Billion Financing Package with a tenor of Three (3) years. It is debatable whether in the light of its current debt crisis, such financing is the appropriate step towards sustainable growth.

In Nigeria, as the country also grapples with recent increase in its debt load, the government has began making efforts to prove its credit worthiness to its creditors. Recently, the Federal Government of Nigeria earmarked the sum of USD$500 Million to the Debt Management Office for the payment of the Principal sum and total accruing interest to its Eurobond subscription which matured on the 28th of January, 2021.

In the meantime, World Bank is providing funding to low income countries through the International Development Association (IDA). After promising to provide USD$12 Billion for the financing of Covid-19 vaccines and approving deals in this regard, the IDA has also committed to providing USD$3, Billion in grants and loans to help low income countries purchase the vaccines. Since some of the African countries fall within are LDCs, the news of this funding may offer some form of relief in the light of the global fight against the Covid-19 pandemic. However, whether this funding would be provided in grants or in loans is critical to the rising chronic indebtedness in Africa.

There are discussions beyond the continent on debt cancellation for developing countries struggling with the impact of the Covid-19 pandemic. Contrary to the UK Foreign Secretary's suggestion for the reduction in overseas aid spending, members of the UK's International Development Committee reiterate UK's commitment to keep up with its global responsibilities and reputation by addressing problems of poorest countries and canceling their long-term national debts. Noting the implications of the pandemic in fueling extreme poverty and food insecurity, members of the the International Development Committee noted the need for UK to be "unabashedly proud and confident about its moral responsibility... to make the world a better place".

Finally, following the recent spotlight drawn to Africa with the appointment of a Nigerian as the Director General of the World Trade Organization, the spotlight seems to have remained with World Bank's recent appointment. Makhtar Diop, a national and former Minister of Economy and Finance of Senegal named as the Managing Director and Executive Vice President to head the International Finance Corporation. Hopefully this will counter-balance rather than continue entrenching the International Finance Corporation's role in promoting unsustainable levels and policies of private sector led financing for African development.

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