Third Sovereign Debt News Update: The IMF's Agreement in Kenya and Ethiopia in Context

By:

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News

In the midst of its escalating sovereign debt stock, the Kenyan government is under domestic and international pressure to devise innovative ways to address its ballooning debt and the costs of paying for it. As a result, Kenya is set to create a special fund, referred to as a “Sinking-Fund” to settle fast-maturing loans starting July 2021, in order to mitigate future cash flow challenges that may arise from paying already due and expired loans. The payment of the debt is set to be from the Consolidated Fund. Under Article 206 of the Constitution of Kenya payments out of the Consolidated Fund require Parliamentary approval. Notably too, the Consolidated Fund, into which all money raised or received by or on behalf of the Kenyan government is paid, is the revenue source for crucial payments such as the Pension and salaries of some independent constitutional officers in accordance with the provisions of the Public Finance Management

Act. While the proactive nature of this decision is laudable, it appears that not much is said yet in respect to how the sinking fund is intended to be funded. Hopefully the sinking fund will not become a place to justify the further accrual of additional sovereign debt.

Meanwhile in Ethiopia, a Staff-Level Agreement for the first and second reviews of the credit facility and fund facility extended to the country has been reached with the international Monetary Fund. However, the agreement is still subject to the approval of the Executive Board of the International Monetary Fund and the obtaining of required financial assurances from the global partners of the International Monetary Fund (IMF). Though the facilities are aimed at cushioning the impact of the pandemic on the country’s economy, the agreement includes an obligation that policies will be made by the Ethiopian government to lay the foundation for strong and inclusive growth. It is noteworthy that the credit facility is agreed to be treated under the G20 Common Framework. The African Sovereign Debt Justice Network makes three observations here. First, it is very likely that Ethiopia will be subject to IMF austerity measures that seem necessary to free the financial resources necessary to continue paying creditors. Second, it appears that private creditors are coming out ahead in these agreements because they share none of the risks Ethiopia is assuming under the G20 Common Framework. Third, close attention should be paid to how the role of credit rating agencies is affecting decisions that African countries are making about how to deal with their debt stock.

Still on the subject of the IMF and its provision of relief in form to credit and grants to developing countries including African countries, its Executive Board has concluded a second and third review of its Credit Facility Arrangement extended to Mali. This allows the institution to disburse approximately USD$57.6 million to the country as financing for its social spending and post-pandemic recovery.

The significance of the foreign exchange dynamics in the discussions around sovereign debt is highlighted in Sudan’s recent decision. In an effort to fight impending economic crisis and to access debt relief, Sudan’s Central Bank has had to devalue its currency, announcing a new regime that unifies its official and unofficial unofficial market exchange rates. The decision was largely influenced by demands by its foreign donors including the International Monetary Fund.

The President of the World Bank, David Malpass notes that developing nations are at a risk of debt crisis as a result of the global pandemic and that the World Bank is dedicated to relieving their burdens by working with the International Monetary Fund to design plans that connect debt reductions to freeing up resources for countries to invest in their health care. He noted this at the commencement of the meeting of finance ministers and the central bankers of the G20, where discussions are ongoing in respect to the creation of $500 billion as IMF's special drawing rights to provide liquidity to developing nations that are grossly affected by the pandemic.

The African Development Bank is set to launch its 2021 African Economic Outlook virtually on Friday, 12th March, 2021. The Bank's report which is its primary tool for economic intelligence, policy dialogue and operational effectiveness is titled; "From Debt Resolution to Growth: The Road Ahead for Africa". It explores Africa's projected recovery from its worst economic recession amidst apparent setbacks including debt burdens. The African Sovereign Debt Justice Network looks forward to seeing whether the report will depart from the neo-liberal approaches that has have so far influenced the responses to the debt crisis of the Bretton Woods institutions and the G20.

In related news, South Sudan regained its voting rights in the United Nations after it cleared its $22,804 in arrears for the payment of its dues. According to a United Nations General Assembly spokesman, South Sudan has made necessary payments to reduce the arrears of its debt to the United Nations, and has therefore regained its voting rights which it lost in January 2021 for the non-payment.

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