Fifty Second Sovereign Debt News Update: Of Unsustainable Public Debt, Pandemics, and Climate Change: The Global South's Call for an Overhaul of the Unfair and Outdated Global Financial Architecture in Light of the Present-Day Polycrisis

By:

The African Sovereign Debt Justice Network

October 9, 2022

The 77th session of the United Nations General Assembly was convened on September 13, 2022 to September 26, 2022. Even as the globe faces a

polycrisis driven by the global slowdown, the war in Ukraine, shortages of energy, fertilizer and food, rising interest rates and debt levels, and climate change, the Global South's leaders joined leaders from around the world to discuss these pressing development issues and work with the relevant global partners to find solutions to these challenges. For example, in his speech, Kenya's President H.E. William Ruto spoke extensively about the polycrisis resulting from the immense pressure exerted by conventional threats such as climate change, the global food crisis, terrorism, cybercrime and armed conflict which have been compounded by unprecedented devastating disruptions resulting from Covid-19. The President talked about how the interlocking challenges of conflicts, triple planetary crises and the global food crisis have impeded Kenya's momentum and obstructed its focus on achieving fundamental transformations towards sustainable development. In the Horn of Africa region, according to the President, severe drought and disruption of supply chains, due to the Covid-19 pandemic as well as the Russia-Ukraine conflict, have left Kenya food-insecure. As a result, the country has been constrained to repurpose its strategies to prioritize drought and famine relief, insulating education from disruption and improving social protection and healthcare systems to secure the well-being of Kenyans.

The reorganisation, however, has only been made possible by increasing the country's debt ceiling. On June 7th 2022, the National Assembly of Kenya approved Legal Notice No. 89 of 26th May, 2022 which sought to raise Kenya's debt ceiling to KES 10 trillion (approximately $85 billion) from the current KES 9 trillion. The resolution was made following a proposal tabled to Parliament by the Cabinet Secretary for the National Treasury & Planning (CS), which resolution was a stop-gap measure allowing the new government which was elected on August 9th 2022 to borrow close to KES 846 billion (approximately $7 billion) to balance the budget deficit of the budget year 2022-2023. According to the country's former Leader of Majority at the National Assembly, Kenya's present economy cannot sustain the 2022-2023 budget without increasing the current public debt limit, and therefore, the increase had to be an interim measure which would enable the new government to fund its programmes even as it works towards sustainable ways of raising revenue internally.

President Ruto also spoke about how the Covid-19 pandemic has stripped countries of many illusions and exposed stark justice and solidarity deficits in the face of existential crisis. In his words:

"It [Covid-19] brought into sharp focus the global economy's two-lane highway, repressively patrolled by a rising tide of exclusionist nationalism. A spectre that undermines prospects of collective action and significantly impairs the resolve of the international community to guarantee fundamental rights, including safety and dignity of the world's vulnerable majority."

With these challenges in mind, President Ruto stated that Kenya stands ready to work with other nations to achieve the pan-Africanization of multilateralism and a more just and inclusive system of global governance. It is for this reason, among others, that many nations, especially from the Global South, now advocate for the democratization of global governance and a re-imagined multilateralism that is inclusive and works for the good of all.

Other world leaders have also joined the call for an overhaul of the global financial architecture in light of the double crisis of unprecedented sovereign debts and unsustainable development. For example, the President of Ghana H.E. Nana Addo Dankwa Akufo-Addo, called for an urgent reform of the international financial system as the current monetary system is skewed against developing countries. According to President Akufo-Addo, "the financial markets have been set up and operate on rules designed for the benefit of rich and powerful nations, and, during times of crisis, the façade of international co-operation, under which they purport to operate, disappears." The President also stated that "these are the savage lessons that we have had to take in, as the world emerged from the grip of the coronavirus to energy and food price hikes, and a worldwide rise in the cost of living. The necessity for reform of the system is [therefore] compelling." He recounted how by 2021, COVID-19 had pushed Africa into the worst recession for half a century, determining a slump in productivity and revenues, and increasing pressures on spending and spiralling public debts. He further noted that as central banks increase interest rates to combat inflation, global investors are pulling money out of developing economies to invest in bonds in the developed world. In his words, "it has become clear, if ever there was any doubt, that the international financial structure is skewed significantly against developing and emerging economies

like Ghana," adding that the avenues opened to powerful nations enabling them to take steps to ease economic pressures are closed to small nations. Moreover, according to President Akufo-Addo, the quick downgrading of African economies by credit rating agencies has worsened the financial situation, denying smaller countries access to cheaper borrowing, pushing them deeper into debt. As a result, the President concluded his speech by calling for reform of the financial system that operates on rules designed for the benefit of rich and powerful nation. Particularly, he called for urgent solutions to pressing issues ranging from energy transition and security to economic and political turmoil and climate change.

In addition to the African leaders, the Prime Minister of Barbados H.E. Mia Amor Mottley, in her speech, urged world leaders to "use the power of the pen" and impose natural disaster and pandemic clauses in developing countries' debt, as well as remove the extant barriers to accessing financial assistance from multilateral development banks. The Prime Minister talked about the need to reform the ageing global financial architecture to better reflect today's realities, for instance, making it easier for climate-stricken countries to access capital. According to the Prime Minister, the Bretton Woods Agreement that gave rise to the World Bank and the International Monetary Fund "no longer serve the intended purpose in the 21st century that they served in the 20th century." She, therefore, called for a global compact establishing that financing for development cannot be short term, but instead should be at least a 30-year loan.

While illustrating her point, Prime Minister Mottley talked about how the world allowed Britain to participate in the refinance of its World War I bonds which were only paid less than a decade ago, 100 years after World War I started. She also argued that Germany was allowed to cap its debt payments at the equivalent of 5 per cent of its exports, under the premise that the "cataclysm" experience of a war would not allow them to finance reconstruction while repaying debts incurred during the war. While explaining how the Global South's present experience is not any different due to the incurred debts for Covid-19, climate, and now inflation and supply crisis, the Prime Minister asked the General Assembly why developing countries must find money in 7 to 10 years when their developed counterparts benefitted from longer terms of repayment of their loans. She also referred to the issue of loss and damage and

praised Denmark for becoming the first central Government in a developed country to propose a fund devoted to this purpose, which in practical terms would directly help nations at the frontline of climate crisis.

Prime Minister Mottley also called for the reformation of the United Nations Security Council, arguing that "a Security Council that retains the power of veto in the hands of a few, will still lead us to war as we have seen this year, and therefore the reform cannot simply be in its composition but also [must include] the removal of that veto." While appreciating the need for fairness and transparency in global economic governance, the Prime Minister also called for the reform of the G20 and G7 groups, arguing that Barbados "cannot accept" these "informal committees of governance" when they have no African-descent representation and exclude 1.5 billion people in the world. She aptly argued that to be able to move from "possibilities" to "realities" it is essential to embrace a transparency framework that would allow the people who are losing faith in institutions that fairness does mean something.

Other leaders based in the Global North have also called out the hypocrisy apparent in the global financial governance. Prof. Lawrence Summers, a professor at Harvard University, has predicted that in the next year the United States will go into recession, Europe will be battered by high energy costs and China will suffer its lowest growth in decades. In essence, a major slowdown in the global economy is almost inevitable. Prof Summers argues that what will greatly depend on decisions that finance ministers will make during the 2022 IMF-World Bank Joint Annual Meetings is whether developing countries suffer a lost decade of economic opportunity, as it happened to many countries in the 1980s, or whether they are enabled to maintain momentum, as it occurred after the 2009 financial crisis. He, therefore, has called upon the IMF and the World Bank to act on three essential areas ahead of their Annual Meetings. These include easing immediate financing pressures; dealing with unsustainable debt by mandating the large creditor countries of the Group of 20 to suspend debt service for the neediest countries, which would provide about $15 billion of cash-flow relief next year; and reducing the risk of pandemics, combating climate change and preserving biodiversity.

In sum, given that trust in the global economic institutions has been severely damaged, first by real and perceived shortcomings in the help given to developing countries during the pandemic and now by the devastating impacts

of climate change, sky-high food and energy prices, and the threat of recession spreading out from the industrial world, the unfair and outdated global economy is in dire need of overhaul. And as Prof. Summers says, next week during the Annual Meetings is the time to start this repair.

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