Eightieth Sovereign Debt News Update: Kenya's President Calls for Global Finance Architecture Reform

By:

The African Sovereign Debt Justice Network

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The President of Kenya, William Ruto, engaged in a wide-ranging conversation that included the global financial architecture, climate justice and Africa's external relations at the 2023 Mo Ibrahim Governance Forum held from the 28th to the 30th of April 2023 in Kenya. Running under the theme "*Global Africa: Africa in the World and the World in Africa*", the annual high-level discussion forum convened African experts and political leaders, together with external stakeholders, to discuss African priorities for financing and international financial architecture (IFA) reforms, and how African and Global South stakeholders can shape and define reform processes. In particular, Ruto attended and participated in a discussion that focused on the future and role of the African continent in a rapidly changing world.

In his remarks, Ruto stressed that Africa was asking for a *win-win financial architecture that brings everyone on board*, highlighting that "[*Africa] is not*

asking for a financial system that favors Africa. We are asking for a fair one." Calling it "*an engineered doom loop*", Ruto argued that the current financial architecture is rigged against the Global South. The President challenged the global financial system to charge developing countries just interest rates on loans. He noted that "developed countries enjoy interest rates of as low as 0.5 per cent as compared to more than 10% rates levied on developing countries." The high interest rates, he added, have made it impossible for developing countries to finance any meaningful development. According to an October United Nations Development Programme (UNDP) report, most African countries pay much more to borrow money on capital markets.

As noted in the AfSDJN Seventy Seventh Sovereign Debt News Update, for the first time in Kenya's history, debt costs have surpassed the recurrent expenditure as debt repayments for the first nine months of the 2023 financial year overtook the national government's recurrent spending on items like civil servant salaries. This development has underlined the burden of mounting State borrowing and has left President William Ruto's administration with a narrow fiscal space to roll out his policies; preventing it from making deeper cuts in the country's borrowing. According to the International Monetary Fund (IMF), the surge in liabilities left the country at high risk of debt distress.

In addition to calling for international financial architectural reform, William Ruto emphasized the necessity of the continent adopting a strong united African position on climate change in preparation for the Africa Climate Week to be held in Nairobi, Kenya, in September 2023. The Kenyan President established the nexus between climate and debt, urging Africa to develop a strong position on climate change as meeting the continents' climate needs with the available financial resources from the existing architecture would be impossible. In his address, Ruto urged African governments to be on the forefront of green industrialization as African governments cannot meaningfully address their developmental needs. He noted that the current system is struggling to respond to the challenges of the moment such as climate change, thereby failing to respond to the needs of emerging economies. As the chairperson of the Committee of African Heads of State and Government on Climate Change, Ruto pledged to use his position to advocate for the investments needed to accelerate the continent's transformation to a green and resilient future. In agreement, Mo Ibrahim, the founder and chair of the Mo

Ibrahim Foundation, a pan-African non-profit lobby, proposed market-driven initiatives to speed the continent's low-carbon development. He suggested that a fund be set up in which high emitters pay for consuming more than their fair share of the carbon budget. According to Ibrahim, *African countries may overcome the finance gap that has impeded the green transition by mobilizing private investments and fiscal incentives from governments*. It is unclear how this market-based approach to financing the investments needed for the green transition differ from those recommended the IMF and the global finance industry. Further, although the Kenyan President has argued in favor of a common African position on climate change and related issues of development, on questions of free trade, the Kenyan government is undermining the African Continental Free Trade Area (AfCFTA) by singlehandedly pursuing a bilateral trade agreement with the United States.

As noted in an earlier update, Ruto proposed that the international financial system must be "*redesigned*" and replaced with "*a new system that is accountable*" as the current financial system favours the emitters and those who pollute. Ruto argued that those bearing the greatest responsibility for the climate crisis get cheaper development funds while those who are less responsible, including the African continent, are "punished" as they pay 100 times more than them. This "*African Premium*" costs up to $70 billion a year, which is more than twice the aid to Africa. A common Africa position to be established at the Africa Climate Week would therefore assist in building the momentum of the African countries' negotiations ahead of the 28th meeting of the Conference of the Parties (COP 28) in Dubai, United Arab Emirates (UAE) in December, 2023.

President Ruto's call for a reformed international financial architecture is well aligned to the continuous calls by the African Sovereign Debt Justice Network (AfSDJN) for the urgent commencement of deliberations on a new comprehensive, fair, and effective sovereign debt restructuring mechanism under the United Nations (UN) that would be binding on all creditors. Additionally, as found in an Afronomics Brief on climate finance and debt in Africa, the *punitive cost of climate change is being borne by the least developed countries in the world*, with Africa contributing less than 4 percent to global greenhouse gas emissions. The AfSDJN calls for African governments to establish a common position that ensures that proposed interventions, at the

minimum, have a net positive impact on addressing the debt and climate change crises; do not impede the capacity of African States to grow and meet the welfare needs of citizens; and do not exacerbate global inequalities and power imbalance.

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