One Hundred and Eighteenth Sovereign Debt News Update: Kenya and USA Launch the Nairobi-Washington Vision to Tackle Debt

By:

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In a bid to tackle debt, and promote development and sustainable finance, Kenya and the United States of America launched the Nairobi-Washington Vision during Kenyan President Ruto's visit to the White House on May 23rd 2024. The Nairobi-Washington Vision has been described as a "*call for the international community to help indebted countries manage their debt while investing in economic growth". According to a statement released by the White House, "countries should not have to make the difficult choice between paying back creditors and investing in their people, economy and future*". During a joint press conference with Kenyan President Ruto, President Biden said "*Too many nations are forced to make a choice between development and debt, between investing in their people and paying back their creditors*". As reported in the Seventy Seventh Sovereign Debt News Update, Kenya has been

continuously forced to choose between servicing its debt and advancing its development, with the East African country repaying government loans at the expense of civil servants' salaries. According to one source, before the meeting between the two Presidents, it was expected that America would be urging big creditor countries like China to offer debtor countries like Kenya debt relief through grants and potential debt service suspensions. This update interrogates the Nairobi-Washington Vision and its relevance for Kenya, and possibly for the African continent.

More Debt?

According to one source, US investments in Kenya announced during President Ruto's to the U.S. in May 2023 will include a $1 billion data centre invested by Microsoft and G42; $100 million in hydroelectric projects; a $10 million loan will support Hewa Tele to provide medical oxygen; $3.3 million to fund Kenyans' studies in the United States. According to the statement released by the White House, the United States committed to working with Kenya and other shareholders to secure reforms to unlock over $250 billion in new lending from multilateral development banks. In addition, the United States mentioned its intention to "*make available lending of up to $21 billion to the International Monetary Fund (IMF) to support financing needs for the poorest countries*". It was also reported that the US had made available $250 million in new financing to the International Development Association's Crisis Response Window at the World Bank to support crisis response in the world's poorest countries.

Additionally, President Biden also requested funding in his fiscal year 2025 budget that would enable $36 billion in new lending capacity at the World Bank. Together with contributions from international partners, the funding is expected to provide an additional over $100 billion boost to World Bank financing capacity over time. The USA also pledged to provide a $60 million grant from the Millennium Challenge Corporation that will fund a four-year program in Kenya focusing on transportation needs, safer options for women and pedestrians, and climate-friendly public transportation.

A closer look at the deals announced by the U.S. International Development Finance Corporation, which take its portfolio in Kenya to over $1 billion, show that this trip was more beneficial to America than Kenya. One may note that

while Ruto has been lauded for being the first African president to visit the White House on official bilateral business since 2008, and armed with the mandate to discuss how to tackle the debt crisis, yet Ruto found himself accumulating even more debt for his debt-laden country.

A Fight for Economic and Geopolitical Influence?

China's expanding role in Africa is undisputed. According to Boston University's Chinese Loans to Africa database, Beijing lent $170 billion to African nations – including $6.7 billion to Kenya from 2000 to 2022. Admitting to this, US Ambassador to Kenya Meg Whitman told CNN in an interview "*For many, many years, it was really the Chinese who showed up in Africa and in Kenya*". Some analysts have identified this visit as a political and diplomatic gesture, arguing that Washington's major objective in scheduling the high-profile visit by the Kenyan leader is mainly to counter China's rising influence in Africa. According to Whitman, the state visit signifies "a *specific message to Kenya and to the continent, which is: America wants to be your partner.*" Indeed, President Biden wooed President Ruto, designating Kenya a major non-NATO ally (the first in sub-Saharan Africa) and hosting a sunset state dinner at the White House. Notably, President Ruto visited Beijing in October 2023 and asked for $1 billion in loans from China to help complete infrastructure projects. A CNN journalist asked President Ruto "[i]f a choice is made between investment by China and the United States and companies, which would you prefer?" President Ruto demurred noting that Kenya was facing neither East nor West but rather forward.

The Reality

The East African nation is not in a position to be accumulating more debt that would further constrain its ability to provide key basics as education, health, and social protection because of the demands of debt servicing. According to the International Labour Organization (ILO), Kenya needs extra KSh2.1tn to widen social welfare net. While President Ruto was being wooed in Washington, the Kenyan Shilling weakened against the US Dollar. As of Monday, May 20, commercial banks quoted the shilling at 131.50/132.50 per dollar, compared to 130.00/131.00 at the end of the Friday, May 17, session.

Further, according to Deloitte Kenya, the Finance Bill 2024 is bad for Kenyans and the economy as the Bill only results in the increased overtaxing of Kenyans. To this, tax experts have advised that heavy taxation not is a solution to Kenya's debt problem. The Kenya Finance Bill 2024 proposes numerous progressive taxation and administrative reforms across the different taxation laws, some of the proposals raise a range of concerns; particularly with regard to the imposing of an Eco levy on specified goods, penalties for failure to comply with tax procedures, specific Value Added Tax (VAT) reforms, and specific excise duty reforms.

One of Afronomicslaw's Submissions on the Kenyan Finance Bill includes *the rejection of the harsh and unnecessary penalty of KSh. 2 million a month for failure to comply with the requirement to integrate the electronic tax system into the KRA data management and reporting system because this is primarily going to affect the informal sector individuals and enterprises*.

Another reality that cannot be ignored is that of climate change and the financing needs, especially in the context of the El Nino induced floods which Kenya has been facing. Of interest are the Climate Change (Carbon Markets) Regulations 2024 which came into force on 17th May 2024, a few days before President Ruto's visit to the US. The Regulations provide technical, regulatory oversight over participation in carbon markets in Kenya; particularly providing clarity on the roles and responsibilities of the institutions that will oversee carbon market activities in Kenya. Through these new carbon trading regulations, the Kenyan government hopes for a fresh source of revenue. However, there are valid concerns that Kenya could have rushed to lease millions of acres to foreign firms in the name of carbon trading and could actually lose out on billions due to pricing. In effect, by *accelerating the growth of carbon markets, African governments are effectively legitimizing continued emissions*.

Kenya Invests in African Multilateral Lenders

Speaking on Wednesday, May 29, during the AfDB Annual General Meeting at KICC Nairobi, President Ruto announced that his government will invest $100 million (KSh 13 billion) in African Development Bank (AfDB), Afrexim Bank & the Trade & Development Bank (TDB) over the next three years. According to

President Ruto, such investments are especially important as African countries *need to invest in the banks as a show of confidence in the institution*. The Kenyan President further announced a $20 million (KSh 2.6 billion) commitment to the Africa Development Fund (ADF). The source of such revenue is, however, unclear. Perhaps, this explains why the Finance Bill 2024 is heavy on excessive taxation. Kenya has also joined the Asian Infrastructure Investment Bank and is awaiting full ratification of membership. According to President Ruto, Kenya is looking forward to working with the bank in financing national development projects such as renewable energy, infrastructure, and digital connectivity.

Conclusion

The Nairobi-Washington Vision can be described as an ambitious policy and financing package which is supposedly promising a solution to Kenya's debt crisis, but is, in actual fact, burying Kenya into more debt. In stark contrast to its intended purpose and objective, this trip only resulted in more debt, and it remains to be seen how the Vision will help tackle debt- as is the expected outcome. Overall, the reality of the situation is that the Kenyan government cannot afford to contract more debt, taxation is not the solution, and neither is the carbon credit market. The AfSDJN encourages Kenya to focus on visits that result in bilateral debt relief and cancellation, and not be hoodwinked by political gimmicks that only result in more irresponsible debt accumulation.

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