Eleventh Sovereign Debt News Update: Kenyans’ Reaction to IMF Allocations in Context

By:

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In a recent interview, Geoffrey Okamoto, IMF’s first deputy managing director stated that the SDRs should not be mistaken for IMF loans or an alternative pathway to debt restructuring but rather are intended to ensure fund adequacy in the global fiscal system.

As the international community grapples with how to manage the debt crisis escalating as a result of the economic shock resulting from the pandemic, the World Bank’s Vice President and Chief Economist, Carmen Reinhart noted that although the Debt suspension program of the G20 helps, it is far from enough to restore debt sustainability for poor nations. To achieve that, he said that there was need for debt forgiveness and haircuts on the part of creditors. He said these creditors have to realize that sovereign debtors are not in the same fiscal position as they were when the loans were borrowed.

In contrast, IMF Chief Economist, Gita Gopinath, in discussing the prospect of the SDRs in boosting global fiscal deficit especially for emerging markets, noted that some countries are not at the brink of any kind of systemic debt crisis but are merely experiencing a setback which can be overcome with more export activities, and that there appears to be a strong global recovery.

The news of the allocation of new debt facilities worth $2.34 Billion granted by the International Monetary Fund to Kenya was received with mixed reactions by Kenyans. Kenyans took to social media noting that they have little or no trust in the accountability and transparency of the current government in managing the funds. Kenyans overwhelmingly told the IMF that the Uhuru Kenyatta government was corrupt and could not be trusted to receive that funding in order to avoid the incumbent government's continuing to profit from Kenya's debts. In response, the IMF unconvincingly noted that it had an anti-corruption framework included in the financing provided.

A technical group was recently setup for the purpose of creating options that might help countries tackle debt distress. It includes representatives from the International Monetary Fund, the World Bank, the United Nations and the Organization for Economic Co-operation and Development. At the World Bank/IMF Spring meeting, a proposal for establishing debt swaps was discussed . As noted by the IMF Director General, these debt swaps involve forgiving of debt in exchange for green investments. This proposal to be discussed at the forthcoming COP26 Climate summit. It raises a distinct possibility of green washing: 'the possibility that governments and companies are exaggerating or misrepresenting their environmental credentials or sustainability bona fides to tap feverish demand, lower borrowing costs and boost their reputation.'

In the midst of the projected dilemma of leveraging the G20's Common Framework and in light of the risk of credit ratings downgrades, Ethiopia called for more market friendly oriented debt restructuring that would enable it retain its access to the private debt market which the country intends to explore for raising capital in coming years. Ethiopia's concern likely stems from the downgrade ratings by Fitch in January when it joined the Common Framework.

In the interim, an IMF team led by its Mission Chief for the Republic of Botswana and head of the African Department Regional Studies Division, Mr. Papa N'Diaye held a virtual discussion with the Botswana authorities in the context of

Botswana’s Article IV Consultations in early April 2021.

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