Thirty-First Sovereign Debt News Update: Kenya’s Parliament as a Functional Debt Police

By:

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Amidst rising debt burdens, Kenya has had to budget Sh1.169 trillion ($10.579 Billion) representing 36.6% of its budget for debt servicing while also leveraging on opportunities for debt service suspension with some of its creditors. Yet, the Controller of Budget, Margret Nyakango, flagged the Kenyan Treasury for expending the sum of Sh 1.657 billion ($14.996 million) as a commitment fee. Such a fee is typically paid to secure sovereign loans, and adds to the liability of the substantive debt. The fees were noted to have been paid to Chinese, Japanese and European banks.

To reduce further borrowing, the Kenyan National Assembly Committee on Delegated Legislation annulled the Public Finance Management (Sinking Fund) Guidelines which were aimed at creating a sinking fund for debt servicing, the creation of which requires the approval of the parliament as required by the Public Finance Management Act 2012. While the matter is being debated in parliament, the treasury department avers that the sinking fund is necessary to facilitate the management of its debt by enabling it to amortize due debts while taking up new ones when the interest rates are low. The committee added that the guidelines were not consistent with the constitutional requirement of obtaining public participation.

Meanwhile, as the pending expenses for its infrastructure project grows to KShs 32 billion ($290 Million), the Kenyan government anticipates raising funds through a 10-year roads bond, Annuity Fund and Public-Private-Partnership arrangements. As the matter remains subject to Parliamentary approval, the Acting Director-General of Kenya National Highways Authority, David Muchilwa presented the matter before the National Assembly's Public Investments Committee. As regards Kenya's Eurobonds in the international market, yields from bonds that are more on a short term basis, that is ten years and below, have been noted to dwindle while the bonds with longer terms are noted to have yielded increasingly.

Comparatively, Egypt has made significant stride with the sale of its second Eurobond in the year, thus, generating $3billion while leveraging on the prevailing low interest rate. The yields accounted for 300% of what was anticipated with investors from across the continents including US, Europe, Asia, Middle East and Africa.

As one of the few countries to subscribe to the G20's Common Framework beyond the Debt Service Suspension Initiative, there are indications that the Ethiopian government is likely to have at least $30 billion of its debt restructured with its major creditors including China and the United Nations. While no formal announcement has been made yet, the committee that will administer the restructuring will be inaugurated in the coming days as the given parties conclude on some tentative terms.

As the new Zambian president, Hakainde Hichilema strives to resolve the obvious debt issues left behind by his predecessor, the situation may be more dire than anticipated with hidden debts with Chinese creditors being unveiled, thus potentially complicating moves towards negotiating a restructuring.

In its attempt at supporting the Tanzanian government in their efforts to respond to the health, humanitarian and economic implications of the COVID-19 pandemic, particularly in the light of the collapse of its tourism sector, the International Monetary Fund has approved the sum of $567.25 million as emergency financial assistance under its Rapid Credit Facility and Rapid Financing Instrument programmes.

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