Sixth Sovereign Debt News Update: Capital Projects and their Implications for Debt

By:

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On Mozambique's $2 billion lingering hidden debt scandal, a London Court of Appeal ruling in favour of having the matter decided by arbitration. Mozambique which takes the view that part of the government guarantee worth $622 Million for the loan facility was secured illegally, criticized the decision saying that it will continue to be relentless in "seeking open justice for the people of Mozambique".

Meanwhile, with Kenya's Auditor General revealed that immunity was waived in the SGR loan secured by the Kenya Port Authority and Kenya Railway Corporations from the Chinese Exim bank. This has raised concerns of the possibility of China assuming control of the assets of the Kenya Port Authority, including the notable Mombasa port, which were purportedly used as collateral. However, in a press statement, the Cabinet Secretary to the Treasury, Hon. Ukur Yatani, refuted the claim noting that public assets could not be pledged as collateral. He noted that all public debts are paid through a consolidated Fund and require parliamentary approval authorized by the Public Funds Management Act of 2012. He argued that Kenya is required to treat all its creditors equally and could not legally grant public assets as collateral to one without having similar arrangement with the others.

Caught in the dilemma of needing to fund capital projects while reducing escalating debts, the Nigerian government is now seeking to increase use of sovereign guarantees. While advisers are still being sought for the development of framework, the Nigerian government generally envisage that investors will secure funding from banks and institutions based on government guarantee.

The Director General of the Nigerian Debt Management Office has noted that revenues generated from infrastructure projects ought to be used in financing debts. She emphasized the need to bear debt servicing in mind when taking up debts for the purpose of developing infrastructure. She argued this was necessary considering that the Debt Management Office recently pegged the total debt stock of Nigeria as at December 2020 at N32.915 Trillion.

Similarly, the Nigerian Securities and Exchange Commission, in expressed concerns about the 2021 budget and the likelihood of more borrowing. It declared that the nation's escalating debt stock puts the economy at great risk. The commission suggested that tying debt servicing to revenue generating projects is necessary. In response, the Nigerian Minister of Finance affirmed the importance of capital project and noted that the private sector should finance infrastructure through capital markets.

At the virtual launch of the African Economic Outlook 2021 of the African Development Bank, (AfDB), the President of the bank emphasized the unsustainability of the current levels of debts owed by African countries. The AfDB President urged African governments to take a closer look at illicit cash flows in form of tax evasions by multinational companies, which he noted results in revenue losses of $70 Billion annually.

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