



Statement

On the Outcomes of the Webinar on Issuance of IMF Special Drawing Rights

The Okoa Uchumi Campaign in partnership with the African Forum and Network on Debt and Development (AFRODAD) convened a virtual meeting on 22nd March 2021 to deliberate on the significance of the IMF Special Drawing Rights (SDRs) and whether it would be a sustainable option to addressing the challenges of financing economic recovery from the Covid-19 pandemic.

MINDFUL THAT:

Kenya was already facing an imminent public debt crisis prior to the Covid-19 pandemic. The Covid-19 shock worsened the country's pre-existing public debt vulnerabilities pushing Kenya into high risk of debt distress.

Kenya's rapid debt accumulation has been driven by the widening budget deficit which increased from about 6.1% in 2013/14 financial year to 7.9% in 2019/20 financial year as a share of GDP. The deficit is driven by investment in questionable, large scale and costly infrastructure projects, some of which have become marred by corruption.

Even prior to the pandemic, the rapid build-up of Kenya's public debt and rising debt servicing obligations had placed a squeeze on development spending, leading to poor service delivery, incomplete projects, pending bills fuelling unplanned public borrowing.

Even prior to the pandemic, revenue collection was falling due an unfavourable business environment attributed in part to increased domestic borrowing by government. Government has responded to the revenue shortfall by increasing taxation with negative impacts on the business investment environment.

Public debt management and reporting practices have not complied with the constitutional and statutory requirements for transparency and accountability. These loopholes have been exploited to steal billions in Covid-19 funds through irregular procurement, denying millions of Kenyans access to much needed public services.

RECOGNISING

The steps taken by the World Bank (WB), the International Monetary Fund (IMF), and the G20 under the Debt Service Suspension Initiative (DSSI) and the Common Framework provide immediate fiscal liquidity to developing nations, these do not address the core global debt and financial architecture inequalities.

That the government of Kenya has outlined several measures to mitigate a public debt crisis, including policy reforms, fiscal consolidation, measures to reduce waste, debt moratorium with external lenders.

AWARE that a new issuance of Special Drawing Rights (SDRs) by the IMF would create immediate additional liquidity for Kenya to increase fiscal space for Covid-19 responses and economic recovery from the pandemic.

COGNISANT that SDRs are part of the immediate interventions in addressing the current public debt challenge in the region.

CONVINCED that the issuance of SDRs is one of the short-term financing options to fight against Covid-19 and economic recovery, given the current debt stock in Kenya as well as the Africa Region.

STRONGLY RECOMMEND the IMF highly consider issuing a new allocation of SDRs as a fast way of providing immediate relief to African countries facing liquidity constrain because of the health and economic crises resulting from the Covid-19 pandemic and other economic challenges prior to the emergence of the Covid-19.

URGE the government of Kenya to take deliberate steps in strengthening the oversight role of parliament in public financial management by fostering transparency, accountability, and public participation in the public debt management process.

ENCOURAGE the government of Kenya to transform its economy and move towards sustainable options of addressing current liquidity challenges including:

- Pursuing a resilient public debt architecture.
- More effective oversight in public debt management.
- Make public debt sustainable in the long term, by cutting spending on costly nonpriority infrastructure projects that have negative returns.
- Post Covid-19 recovery investments must be cascaded all the way to the lowest level through effective devolution.
- Prioritise investment in labour-intensive sectors in particular agriculture which also demonstrated resilience during the Covid-19 pandemic.
- Focus on ensuring tax compliance and collection, rather than increasing taxes from already strained households and businesses, in particular tax exemptions to corporations which have become a major drain on public revenues.
- Ensure the budget forecasts are based on realistic fiscal projections based on credible data from transparent sources.
- Ensure the disclosure of debt related information in compliance with the laws of Kenya.
- Ensuring independence of the national debt office and other public offices.

WE CALL UPON the government of Kenya to join the campaign for debt cancellation in addition to current debt relief and restructuring mechanisms still falling short of effectively providing sustainable solutions.

The webinar recording can be accessed here https://www.youtube.com/watch?v=8_ltl_ucXqo