AFRODAD AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

Okoa Uchumi Campaign

The Institute for Social Accountability

COMMUNIQUE ON KENYA'S PUBLIC DEBT- LESSONS FROM STRUCTURAL ADJUSTMENT PROGRAMS: WHAT WAY FORWARD FOR KENYA?

HELD ON 26TH AUGUST 2021

TISA under the *Okoa Uchumi Campaign* collaborated with AFRODAD in launching its inaugural African Conference on Debt and Development (AfCoDD 2021). The Conference involved 13 African Countries, where the Kenya in-country session was held on 26th of August 2021 to discuss *"Kenya's public debt - Lessons from Structural Adjustment Programs: What Way Forward for Kenya?"* in line with the conference's theme of positioning Africa as a "Rule maker, not a rule taker" as we come out of the global COVID-19 pandemic.

The Panelists and participants were drawn from a diverse field representing all sectors including academia, civil society, private sector, parliament, international financial institutions, economists, and public finance experts. The participants and the public joined the webinar on our social media platforms and online streaming services including YouTube, Twitter, Facebook and Zoom.

The panelists and participants acknowledged and noted THAT:

1. Kenya is facing an imminent public debt crisis, and this situation has been worsened by the COVID-19 pandemic.
    a) Kenya's overall public debt was estimated at 69 per cent of the nominal GDP as at the end of December 2020.
    b) The exponential growth in Kenya's debt is a result of the persistent fiscal deficits, which has increased from Kshs. 558.6 billion in 2013/2014 to Kshs. 1.6 trillion in the 2019/2020 financial year. This is an increase in seven years and an average annual increase of 17 per cent.
    c) The deficit has been more on recurrent expenditure and increased from Kshs. 1.02 trillion to Kshs. 2.45 trillion within the 2013/2014 and 2019/2020 financial years, representing an average annual growth rate of 20 per cent.
    d) The recurrent expenditure accounts for over 70 percent of the budget since the 2014/2015 financial year and the growing recurrent expenditure is being financed through borrowing, contrary to the Public Finance Management Act 2015.
    e) The real GDP is far less the nominal GDP and this needs to be interrogated.
    f) 55 per cent of ordinary revenue goes to repaying debt.
    g) For Kenya to manage its debt, economic growth needs to be higher than public debt. Kenya's domestic and foreign debt have grown at a rate of 202.5 and 316.8 percent respectively from June 2013 to June 2020.
    h) Foreign debt, from year 2016, has increased more than domestic debt accounting for 51.2 percent of the total public debt. The composition of Kenya's external debt shows a drastic increase in commercial debt acquisition between June 2013 to June 2020. The increasing external commercial loan in foreign currency dominated mainly in Dollar and Euro exposes Kenya to currency risk. Kenya needs to earn foreign currency through exports, investments, remittances or further borrowing to pay its foreign debt. The country is running a current account deficit financed by capital inflows mainly from borrowings.

2. Lessons from Structural Adjustment Programs
    a) All structural adjustment programs have budget rationalization, institutional and state-owned entities reforms, monetary policy reforms - a stringent control on inflation.

b) While some of the SAPs were successful in helping Kenya achieve macroeconomic stability, they were also associated with increased imports due to strengthening/stabilization of shilling. The Government abandoned some of the programs once it received financial assistance.
c) The export-led development did not work for Kenya since most of Kenya export are primary exports which were adversely affected by liberalization of the agricultural inputs.
d) Structural adjustment programs are anti-poor: eliminating subsidies and cutting public support for social services such as education and health.
e) Structural adjustment programs are shrouded in secrecy to the public and use unclear terms and wordings.
f) Structural adjustment programs encourage dependence syndrome.
g) Structural adjustment programs encourage expansion in government borrowing.

Therefore, in view of the foregoing, the meeting resolved the following as the way forward for Kenya.

- Review the domestic and foreign debt mix policy.
- Renegotiate some of IMF related conditionalities and revise monetary policy to move the country's exchange rate closer to its equilibrium and PPP with its trading partners and ensure delivery of fiscal consolidation to put the country's debt back on a sustainable footing.
- Eliminate/reduce taxes on imported domestically un-competing inputs.
- Government should move away from commercial loans.
- Transparency needs to be seen from donor supported programs.
- Consistency in public debt reporting, as well as ensuring consistency of data across various government documents/sources, and improvement in forecasting and planning.
- Government should stop using external debt merely to fund public spending which can in principle be funded by either domestic policy mix.
- The purpose and principles of good taxation need to be reassessed in Kenya to address their productivity.
- Observance of the law in fiscal discipline, that is development and recurrent expenditure and borrowing be used only for development expenditure.
- Strict observance of the budget and minimize adjustments/supplementary budgets.
- Alignment of public expenditure to revenue and promotion of prudent spending by cutting on wasteful – non-priority expenditures.
- Review the medium-term fiscal consolidation plan and how it feeds into the Budget Policy Statement and Medium-Term Debt Strategy and analyze underlying factors to enable answer questions about domestic and foreign debt, tax rates and monetary policy.
- Deal with institutional challenges, budgeted corruption, illicit financial flows.
- Unpacking the narratives – analyze public debt from human rights-based approach, call for debt cancellation.
- Push for a proper economic recovery strategy to deal with unproductive economy, access to vaccine and stimulus.
- Push for meaningful public participation in the budget process and get citizens to hold parliament accountable.

For more information kindly contact TISA on 0757 129700 or email info@tisa.or.ke