Effects of the IMF – Kenya Fiscal Consolidation Program

Because of our debt problem, The International Monetary Fund (IMF) and Government of Kenya set up a fiscal consolidation program which is aimed at helping Kenya to address its public debt challenges. This program seeks to:

- Reduce debt pressure through increasing taxation and controlling public spending.
- Reduce public spending through structural reforms within state agencies targeting cost-cutting and privatization efforts.

Whereas the program has some benefits, several conditions imposed by the IMF program have negative effects on the lives of Kenyans. For instance:

Privatization of four leading public universities and has forced government to reduce the funding it gives to these institutions leading increased school fees for students. Many students have been unable to enroll to university due to increased fees.

Increase taxation on essential commodities – IMF conditionalities have contributed to an increase in tax on basis goods such as petroleum products, LPG, household goods such as bread, unga, sugar etc and these lead to increased cost of living.

Our demands:

We call on Government should take **URGENT STEPS** to:

- Reduce the tax burden on Kenyans by reducing tax on essential commodities and instead reducing tax evasion and avoidance.
- To stop corruption through which government loses almost 30% of budget forcing it to tax Kenyans more.
- We call on Parliament **NOT** to approve a **higher debt ceiling** and instead take measures to **CURB** unproductive expenditure such as allowances, ghost projects and loss-making projects.
- We call on oversight institutions to **IMPOSE SANCTIONS** against **public officers who have violated legal requirements** in debt management.
- We call on all people should **COME TOGETHER** towards the common goal of **ACCOUNTABILITY** in debt management, and to formulate **workable policies for the resolution of Kenya's debt crisis**.
- We call for increased public participation a in public debt management as a basis for accountability.

The *Okoa Uchumi campaign* is a civil society platform committed towards working with stakeholders to resolve Kenya's public debt crisis. The campaign aims to push for the accountability of political leaders in public debt management.

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OKOA UCHUMI!

The Institute for Social Accountability

Is the IMF-Fiscal Consolidation Program Working for Kenya?

—— A Citizens' View ——

DECEMBER 2021

The Kenya Debt Crisis

The government has over the last eight years, increased the uptake of debt on commercial terms with limited transparency in decision-making and accountability as to the proceeds of the debt procured, contrary to the constitutional principles of public finance. As a result, Kenya is drowning in debt, and is at high risk of debt distress, and debt transparency is a major concern.

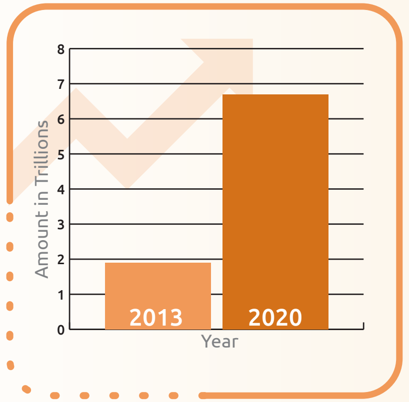
The debt levels in Kenya are unsustainable and an imminent threat to Kenya's economic and political stability. Despite Kenya being in a debt distress and the economy strained, government continues to borrow more than the economy can sustainably repay. This has dire consequences on the economic livelihood of citizens and indeed future generations.

Is Public debt bad?

Yes and No

If public debt is well utilized, it can result in economic growth through investments that can lead to economic development and generate sustainable incomes for citizens through; Creation of jobs and General citizen welfare such as well-equipped hospitals, good infrastructure and improved social welfare

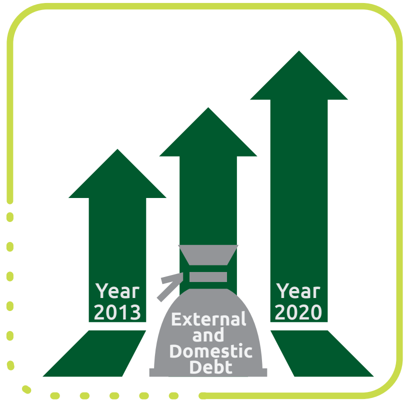
Status of Public debt in Kenya



Kenya's public debt stock increased by

253.4%

from **Kshs 1.894 trillion** in June 2013 to **Kshs 6.693 trillion** in June 2020. This is double the growth in the nominal GDP over the same period.



Between 2013 –2020, **external debt increased** from Kshs. 843.562 billion to

Kshs. 3.515 trillion

while the **domestic debt increased** from Kshs 1.050 trillion to

Kshs 3.177 trillion.

Foreign debt has increased from 3.8 trillion in 2020/2021 financial year to

4 trillion

in the current financial year. This increase in foreign debt emanated from the issuance of Eurobond 4, a commercial debt

Over the last ten years, Kenya has been accumulating increased amounts of public debt, because of consistent budget deficits.

Among the different challenges associated with this increasing public debt is the fact that the government has increased its uptake of commercial borrowing without transparency in decision making and accountability. This is in direct violation of what the constitution under article 201 provides.

What is the impact of too much debt ?

- The country's international competitiveness has been lost due to the overvaluation of domestic currency killing local businesses
- Banks are not lending to local businesses
- The government has resorted to high taxation measures making life expensive
- Government has had to reduce spending on development to pay debts

US 65.6bn

(Ksh 7,281.6 billion) Kenya's public debt situation as at the end of December 2020, equivalent to 69 percent of Gross Domestic Product (GDP)

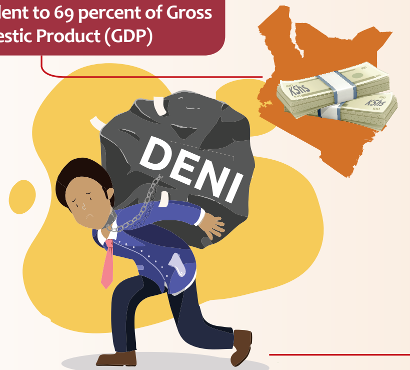
Kenya's public debt situation is at high risk owing to consistent fiscal deficits.

Ksh 3,515,812m

increase of external debt from Kshs. 843,562 million over the period 2013- 2020

Ksh 3,177,526m

increase of domestic debt from Ksh 1,050,555 million over the period 2013- 2020



Kenya needs to earn foreign currency through exports, Foreign Direct Investments (FDI) or further borrowing

What has contributed to the Public Debt Crisis?

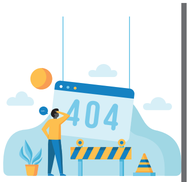
Budgeted Corruption: money put in the budget to be stolen
Budgeted corruption means that projects are inflated during the budgeting phase, or they may even be put in the budget not for their economic benefits but as special purpose vehicles for corruption.

Arror and Kimwarer dams - Ksh. 21b (US$210m) was spent even though no work on the dams was ever done.

KEMSA Covid Scandal - Ksh 7.8 billion misappropriated through shady procurement deals could have been enough to purchase 52,000 ICU beds with each county receiving 1106 ICU beds

Standard Gauge Railway (SGR) - The project was inflated four times from the original estimate. Kenya's SGR of 472km line cost 3.2billion shillings compared to the Ethiopian SGR which is 756km that cost 3.4 billion. Ethiopia's is electrified while Kenya's is not.

Misplaced Priorities- Government has been borrowing and spending money on imports instead of on domestic goods. Kenyan taxpayers are still repaying the loan taken by the government for the collapsed Galana Kulalu Irrigation Scheme project worth Kshs. 200 million. The project was to address Kenya's food insecurity by reducing the cost of certain foods such as maize and reliance on imports. Kenya's SGR is losing up to 200 million shillings a day yet Kenyan's still continue to repay the loan.



PFM Violations - reported by the Auditor General has raised various issues pertaining to poor maintenance of the public debt records and unexplained variances between various records – Failure to maintain comprehensive loan registers; Variances between figures reflected in the loan registers, other supporting schedules and the financial statements; Unsupported prior years' adjustments.

Oversight failure
The Failure by Parliament - For example, the Special Audit on the Euro Bond has not been formally tabled in the House to date; and therefore, the matter remained unresolved. This encourages political leaders to continue misappropriating funds