Demands

Kenya Debt Crisis: Options for Balanced and Equitable Budgets

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A Civil Society Agenda

Kenya finds itself in debt distress on account of irresponsible accumulation of debt under the Jubilee administration. There are three paths out of distress: growth, adjustment, and relief. Our resolutions outline some of the opportunities available for government to get debt under control, and outlines some steps that Government needs to take to address Kenya's burgeoning debt and avoid the imminent crisis.

1. **Political Accountability**

There are blatant violations of constitutional safeguards by public officers through the repeated circumvention of planning and budgeting processes through politically orchestrated processes.

Against this background we call upon civil society actors to immediately:

a. Work with the relevant authorities including the auditor general's office to institute a social evaluation processes to assess the viability of debt financed projects in the county and make recommendations as a basis for continued funding.
b. Work with the relevant bodies to institute an investigation into the responsible state and public officers who aided the undermining and violation of public finance and investment laws in the country.
c. Work with relevant authorities to investigate the parliamentary oversight failures and propose appropriate action.
d. Work with relevant authorities to investigate the dual roles played by IFI's in development policy and debt financing and the extent to which these have undermined citizen voice and sovereignty and make recommendations to ensure the role of IFI's in Kenya's development landscape is aligned to the constitution of Kenya and accountable to the people of Kenya.

2. **To increase transparency and accountability and ensure scrutiny of existing and future debt, the Government of Kenya should urgently:**

a. Ensure disclosure of all past and future contracts involving sovereign debt and sovereign guarantees.
b. The Central Bank of Kenya to release official repayment calendars of all public debt.

c. The Executive to disclose to Parliament all public contracts that could result in an increase in public debt and make these contracts publicly available.
d. Hold annual public hearings on all new and ongoing debt operations open to the media and civil society.
e. Strengthen checks and balances on investment and debt decisions.

3. Debt relief

In the wake of the COVID-19 crisis, there have emerged a range of international initiatives offering debt relief and emergency funding. However, the Kenyan Government has publicly expressed its reluctance to use the debt suspension initiative (DSSI). The Government has instead indicated its preference for negotiations with bilateral lenders.

It is in this regards that we ask the Government of Kenya to act with urgency to:

a. Take advantage of the DSSI and capitalize on the space it creates for crucial emergency spending and improving transparency and public accountability.
b. Publicly advocate for debt relief, especially from World Bank and commercial debts just like other countries in Africa including Ethiopia and Ghana.
c. Immediately institute mechanisms and systems for public oversight over the debt restructuring process.
d. Institute a comprehensive and accountable debt restructuring framework.
e. Assess new loans from the World Bank and the AfDB more critically, as happens with financing from other public and private funders.

4. Fiscal Consolidation

Whereas the development budget is one of the primary factors driving debt, government is targeting soft spending instead of scaling down development expenditure. This is worsened by tax breaks, exemptions and incentives given to attract foreign investment alongside an expansionary budget.

We therefore ask the Government to urgently:

a. Institute transparent debt recovery strategy that ensures stakeholders engagement.
b. Ringfence emergency funding meant for improving social needs and boosting equitable growth to benefit ordinary citizens.
c. Commit to investing the resources released from the DSSI and emergency financing in health, education, and social protection.
d. Slow down investment in expensive large infrastructure projects.
e. Prioritise investments that boost productivity and create opportunities for lower-income groups i.e SMEs.
f. Work with realistic economic scenarios that do not underestimate the negative impact of Kenya’s debt, and of the COVID-19 crisis.
g. Merge resource-consuming parastatals and state corporations to reduce excessive spending.

5. **Increase Domestic Revenue Mobilisation and make it more progressive**

To ensure public financial stability, by reducing reliance on debt to fund progressive public spending and providing a financial base to manage necessary debt intake sustainably, we recommend that the Government and Parliament of Kenya should act with urgency to:

a. Institute transparency, and accountability at both national and county levels.
b. Review the regime of tax exemptions and incentives provided to corporates and multi-national companies.
c. Make all revenues from the extractives industry fully transparent and subject to domestic tax legislation.
d. Implement a new top rate of income tax of 35%, in line with the proposal by the National Treasury.
e. Introduce a new wealth tax that would include taxing "gifts" as ordinary income.
f. Increase the rate of capital gains tax to the same level as income tax rates from the current rate of 5% and instead graduate the rates based on the income thresholds. For instance, income of above KES 564,709 to attract a 30% rate.

6. Other relevant actors must also act:

a) The International Financial Institutions (IFIs)

- The IMF should recommend and support reprofiling and restructuring of Kenya's existing debts.
- The World Bank and African Development Bank should cancel Kenya's debt repayments during the COVID-19 crisis.
- The IMF to ensure that upcoming and emergency funding for Kenya is not spent on repaying existing debts but rather on investing in social needs.
- Working to realistic economic scenarios that do not underestimate the potential negative impact of Kenya's debt, and of the COVID-19 crisis.
- Ensuring enhanced transparency is part of any agreements, including public disclosure of all new debt contracts.

b) Bilateral and private lenders should:

- Move from debt suspension to debt cancellation and applying measures beyond the current timeframe by including debt repayments in the 2020 – 2022 period.
- Consider all options including reprofiling, moratorium, and freezing interest rates must be factored to avoid sharp economic crises hitting Kenya in the short- or medium-term.

c) The G20 should:

- Review the DSSI initiative and go beyond it. This means moving towards debt cancellation, including private creditors in the deal, and ensuring the international community establishes debt restructuring that enables a country in distress to quickly negotiate with all involved parties.