16 May 2023

Ms. Haimanot Teferra,
Mission Chief
International Monetary Fund (IMF) African Department
C/O IMF Kenya Office
Delta Centre Building, 12th Floor
Menengai Road, Upper Hill

Re: Decision to abstain from participating in Perfunctory Article IV Consultations

Dear Ms. Haimanot,

Following the invitation by the IMF Nairobi Office to participate in consultations with your office on the ongoing fiscal consolidation program in Kenya, as Civil Society under the Okoa Uchumi Campaign umbrella decline the invitation to engage with the IMF. The decision to abstain from the meeting is premised on the fact that despite previous meetings, we, as Civil Society, strongly feel that our collective contributions to the process has deliberately been ignored by the IMF, and the consultations are being used to legitimise a process that continues to put majority of Kenyans at a greater risk of hunger and poverty, in spite of our dissatisfaction and protests.

Over the past few years, the Okoa Uchumi Campaign has consistently engaged with the IMF, shared several submissions (both oral and written) regarding the fiscal consolidation program and Kenya's economic development, governance, and challenges. During these sessions, the campaign members felt the lack of the IMF's interest in a meaningful engagement premised by the lack of concrete responses or considerations on the submissions made; as well as the glaring lack of consideration of the effects of austerity measures on growing inequality, hunger, and poverty in the country, harming the most vulnerable of our population.

While expressing our dissatisfaction with IMF's engagement with Civil Society, we would like to reiterate and call to your attention the following concerns which the Campaign has raised during the previous 'consultations':

1. Rising and Unsustainable Public Debt

While we acknowledge the fact that the fiscal consolidation program has brought about a marginal increase in accountability in public finance matters, we still have a number of abiding concerns. Public debt is surging, especially commercial debt, with an increased lack of transparency and accountability. The amendments to the Public Finance Management regulations (PFM) to replace the current ceiling on debt issuance (at Ksh 10 trillion) with a medium-term debt-to-GDP anchor of 55 percent of GDP is likely to create more room for public sector borrowing without much accountability if transparency is not taken care of and ultimately prudent spending that reduces the fiscal deficit.

2. Monetary Policy

We strongly feel that the inflation-focused monetary policy that the IMF supports will continue to make the economy unproductive. This is because it affects the prioritization of other important goals such as rapid economic growth and employment creation. This focus on stabilization rather than growth and development has been promoted at the expense of achieving economic growth, enabling austerity that undermines gender responsive public service, employment creation, reducing the care burden on women and poverty reduction.

3. Good governance

Furthermore, the adequate levels of transparency and accountability regarding debt contracting, debt use, debt repayment and transparency around public procurement has not been achieved. We have in the past challenged the IMF to use its position to push for accountability in these matters. Corruption in Kenya and especially around public finance matters remains a major problem with high levels of impunity witnessed. Governance reforms especially around budget implementation and resource use, affects the question of accountability. Despite these observations to your offices, nothing has been done to assuage our concerns on the matter.

4. Burden of Taxation

In addition, the Treasury revised upwards its borrowing in the current financial year to cover the tax revenue shortfall that was expected, due to the reduction in government spending and cost cutting measures outlined in the fiscal consolidation program. While the cost cutting measures were supported by the IMF, this brought about increased commercial borrowing, and is taking Kenya to a risky debt position, a burden that unfortunately will be borne mostly by women. Higher taxation will not deal with the problem of debt, rather this can only be dealt with by making the debts productive, reducing the cost of further borrowing to service debts, and increasing accountability.

The Okoa Uchumi Campaign challenged the IMF to explore all available options to ensure that the government puts measures for balanced revenue raising strategies that do not strain the economy, especially reducing people's disposable income and expenditure on social services. This has not been done and the government has imposed a huge burden of taxation on the citizens. We further requested a conversation of all parties i.e., CSOs, Private Sector, Government, and the IMF before this round of consultations and that too has not happened. We therefore feel the obligation to break rank with the consultations and stand in solidarity with Kenyan citizens in opposing the proposed tax amendments.

We wish to point out that the proposals contained in the Tax Amendment Bill that was recently enacted in the Parliament of Kenya are only going to hurt the economy further. We note, for example, that the 1.5 percent Digital Services Tax has been eliminated on recommendation while digital content creators will be levied a withholding tax of 15 percent on their earnings. This is an unfair allocation of the burden of taxation. Such proposed revenue raising measures are misaligned with the governments purported pro-poor/ pro-hustler narrative and are likely to undermine entrepreneurship effort especially among the low-income groups. The IMF had previously recommended the introduction of VAT on petroleum products which the government implemented (8% in Uhuru's regime and now it is proposed to be raised to 16%). This will adversely affect a wide spectrum of the low-income population. Furthermore, the taxation measures proposed on the productive sector that is agriculture are unwarranted as they will make a sector that is consistently challenged by negative externalities (pandemic, climate change and natural hazards) sink further into unproductive territory with the likely effect being inflationary pressure on consumers and more significantly the loss of livelihood for a majority of Kenyans – and disproportionately affecting smallholder women farmers. Ultimately, the Bill as it is will only hinder the realisation of the benefits of progressive tax and subsequent investment in education which is key for a country as Kenya.

The focus given by the IMF on the above matters, further shifts the world's focus from the climate injustices that ought to be addressed now. The vicious cycle with the climate crisis cannot be separated from the debt crisis conversations to hold countries responsible for global warming and deter the use of debts as a mitigating measure to the crisis. It will be important for the IMF to note that 93% of countries vulnerable to the climate crisis are in debt distress or significant risk of debt distress and hence spending so much on debt, that they are likely to be cutting spending on public services hence making it impossible to invest in feminist, just transitions.

We demand that the fiscal consolidation process ensures the principles of public participation, transparency, and accountability as enshrined in the constitution and in the Public Finance Management Act are adhered to, and that the IMF consider the impact and burden of austerity on the most vulnerable of citizens. We once again call for the IMF to show good faith and accountability in the Article IV consultation process, to ensure that the voice of the citizens directly and through the civil society is heard.

For more information contact Diana Gichengo via diana.gichengo@tisa.or.ke or Angela Wangechi via angela.wangechi@tisa.or.ke

Sincerely,

The undersigned Okoa Uchumi Campaign members.

1. The Institute for Social Accountability
2. Econews Africa
3. East African Tax and Governance Network
4. Action Aid Kenya
5. The Kenya Human Rights Commission
6. Transparency International Kenya
7. Inuka Kenya Ni Sisi! Ltd
8. International Budget Partnerships Kenya
9. Centre for Economic Governance
10. Muslims for Human Rights (MUHURI)
11. CRAWN Trust
12. Christian Aid Kenya
13. Centre for Fiscal Affairs
14. Katiba Institute
15. Oxfam Kenya

16. Institute of Public Finance
17. African Forum and Network on Debt and Development (AFRODAD)
18. Social Justice Centres.
19. Okoa Mombasa Coalition