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KENYA ISTAHILI HESHIMA: HOW DARE YOU PROPOSE MORE DEBT AND TAXES WHILE WE LOSE MOST OF OUR PAST REVENUES?

Four in every ten Kenyans are poor, and many more are at risk of falling into poverty unless urgent and decisive action is taken to allocate public resources wisely and spend prudently. Their dreams of a dignified life are constantly shattered, and essential public services, particularly in agriculture, education, health, and other critical sectors, continue to deteriorate.

It is against this backdrop that we, the Okoa Uchumi Campaign, a coalition of civil society organizations advocating for prudent public finance management, have submitted our recommendations on the 2025 Budget Policy Statement (BPS) and the Medium-Term Debt Strategy (MTDS) to the National Treasury, National Assembly, and the Senate. We reiterate the message in this press release. Our submissions have highlighted key concerns regarding Kenya's growing public debt burden, fiscal deficit, and lack of transparency in budget formulation. The burden of Kenya's fiscal position falls heavily on the citizens, with the fiscal deficit for FY 2025/26 projected at Ksh.831.0 billion (4.3% of GDP), as per the BPS 2025. However, our computation indicates the deficit could be as high as 5.1%. The government's revenue projections are overly optimistic, increasing the risk of additional borrowing to cover shortfalls. This seriously threatens economic stability and increases the tax burden on already struggling Kenyan citizens and businesses.

Weighed by the impeding burden on the Kenyan people, the Coalition expresses profound concerns over the recent revelations in the Auditor General's report that point to massive wastage and loss of scarce public resources. The findings of the Auditor General's report, released on March 4, 2025, exposed critical deficiencies in the implementation of the Social Health Insurance (SHI) and Social Health Authority (SHA) initiatives, the Hustler Fund, loss and wastage to among other irregular compensation through court awards. The report also points to the suffering of Kenyan workers, including those in the civil service who can no longer take home a third of their salary. Against this background, it reiterates that our problem is not revenue but expenditure, which includes budgeted and legislative corruption. We would like to bring the following areas of concern to Kenyans as contained in the **BPS and MTDS 2025;**

Fiscal deficit and public debt

The national debt-to-GDP ratio is projected to exceed sustainable levels, reaching 63.6% against a debt anchor of 55%. BPS 2025 projects a fiscal deficit of Ksh. 831 billion with Ksh. 684. 2 billion in domestic borrowing and Ksh.146.8 billion in foreign borrowing. According to BPS 2025, the government's increased reliance on domestic borrowing shall be at 82.3% of total borrowing, which poses a further risk of crowding out private sector investments, raising interest rates, and stifling economic growth. This situation encourages banks to prefer investing in government securities rather than facilitating employment creation by lending to private enterprises. We wonder why bank interests are not coming down. Who benefits from the exorbitantly high interest rates charged by our banks?

Domestic borrowing through Treasury Bills and Bonds is incurring higher interest rates, typically above 8.94%, compared to concessional external loans, ranging from 2-3%. Domestic loans often have shorter repayment periods of about 1-10 years, leading to higher repayment pressure. Additionally, this debt is mainly used for budget support, and senior government officials have admitted that up to 30% of the budget might be lost to corruption. Domestic borrowing could be indirectly funding corrupt activities.

Inconsistency of numbers in the BPS and MTDS

We are concerned that the macroeconomic numbers presented in the MTDS, and the BPS are inconsistent. A case in point is the conflicting expenditure numbers in the BPS that have a variance of Ksh. 73 billion. Further, the nominal GDP reported in the macroeconomic forecast of the BPS and the fiscal framework in the same document are different. We bring to Kenyans that inflated nominal GDP has been used to compute the fiscal deficit. We are lost as to the intention of these conflicting figures from the government.

Unrealistic revenue projections and growing tax burden

The projected ordinary revenue of Ksh. 2.83 trillion is overly ambitious, considering past revenue underperformance and slowing economic growth. Therefore, the Government is either planning to introduce additional taxation measures in the forthcoming finance bill or increase borrowing. We are opposed to either of the above options, and our view is that the government should have realistic revenue projections and cut its expenditure to match the available resources. It is time for this administration to live within its means. Punda Amechoka and the owner has refused to address the leaking roof and fissure that risk crippling livelihoods and has already adversely affected investment in local businesses in the agricultural, manufacturing, communication, and housing sectors. Employers and employees have expressed that payslips cannot take any further tax burden, nor can bank accounts and home budgets shoulder additional taxes in VAT or other indirect taxes. We must fix the source of misappropriation and corruption immediately.

Governance and transparency in debt management

The removal of key recommendations from the MTDS 2025 document tabled in parliament, such as the independence of the Public Debt Management Office (PDMO) and monitoring of debt owed by State-Owned Enterprises, raises serious concerns about the much-needed transparency and accountability. The government must publish debt agreements and provide a clear roadmap for reducing Kenya's debt burden through fiscal discipline and strategic borrowing.

Budget allocation to sectors

Allocations to the Agriculture, Rural and Urban Development (ARUD) sector are declining from 3.2% to 3% as a ratio of total national expenditure. This is concerning because the percentage falls way below the Maputo Declaration of 10% as signed by African Heads of State. According to the Economic Survey (2024), the sector contributed 21.8 percent of the GDP in 2023. However, the Abuja Declaration of 2001, which set health sector allocation at a minimum of 15 percent of the total annual budget, has not been met in the BPS 2025 projections. Despite forecasting an increase from 5.2 percent in FY 2024/25 to 8.0 percent in FY 2025/26 triggered by the withdrawal of USAID and other grants to the health sector, this still falls below the Abuja Declaration. The proposed increment remains insignificant compared to the underlying responsibilities, implying that more allocation is needed.

The proposed expenditure is contrasted with the findings of the recently released report by the auditor general. The report highlights significant breaches of constitutional procurement standards, specifically Article 227(1) on the need for procurement for public goods and services to be fair, competitive, equitable, transparent, competitive, and cost-effective. The inconsistencies in acquiring the SHA Information Technology Digitization system breach this constitutional provision. The absence of a comprehensive procurement plan and medium-term budgetary expenditure framework further underscores systemic failures. The exorbitant cost of the system, amounting to Ksh.104.8 billion, coupled with the unauthorized allocation of 2.5% of members' contributions to unknown people, raises serious concerns regarding fiscal prudence and public consent. The lack of government ownership and control over this data-sensitive system is unacceptable. Similarly, the lack of scope of work in the process raises further questions about how the amount used in training healthcare and hospital staff was arrived at. **Additionally, the** audit confirms a 64% non-performing loan rate, representing Ksh.8.7 billion in serviced loans. Furthermore, the discovery of underage beneficiaries in 1,186 loans, totaling Ksh.681,395, points to inadequate oversight and control. There are instances of double loan issuance to different people on various occasions, thus costing the scheme and Kenyans billions. The lack of transparency regarding accrued interests and the beneficiaries of the fund's proceeds demands immediate clarification from the Ministry and its accounting officers. It is also always concerning that the government interest for borrowing domestically to fund the hustler fund is higher than the 8% interest rate used in issuing loans to 'hustler'.

We therefore make the following Demands and Recommendations

1. **Transparency and Accountability:** Parliament, through the Senate and National Assembly, must compel the Executive to provide a comprehensive accounting of public resources allocated to the SHA, NHIF (account for balances brought forward ahead of decision to repay Kshs.10 million and below owed to hospitals), and the Hustler Fund. The ownership and cost justification of the SHA technology system must be publicly disclosed. Considering the established precedent set by cancelling the Adani deals due to procurement irregularities, we demand the immediate cessation of all SHA/SHI contracts. Given the risk to lives and confirmed corruption, the President must declare the SHI/SHA a national issue.

2. **Independence of the OAG, OCOB and the Public Debt Management Office:** Parliament must uphold the independence of the Office of the Auditor General and Office of the Controller of Budget by ensuring timely implementation of audit recommendations, as mandated by the Constitution and the Public Finance Management Act. We condemn in the strongest terms the witnessed intimidation and intensified conversation around the Public Audit Amendment Bill 2024, which proposes an audit advisory board to limit the powers and independence of the Auditor General by diluting the operational autonomy of the OAG. Such actions constitute a direct assault on institutional integrity and accountability. We recognize this deliberate pattern as an attempt to capture and control these Independent Institutions, similar to what happened to the Ethics and Anti-Corruption Commission (EACC). The Auditor General and Controller of Budget must be afforded the complete protection and resources necessary to execute their mandate without intimidation or prejudice. We also recommend establishing an independent public debt management office without being perceived as a subordinate office within the Ministry of National Treasury and Economic Planning. Further, Parliament should amend section 62 (3) of the Public Finance Management Act to make PDMO a fully autonomous office.

3. **Timely Review and Implementation of Audit Reports:** The County Public Accounts Committee (CPAC) must strictly adhere to the March 31st deadline for responding to audit queries. We demand a robust framework for scrutinizing flagged irregularities and ensuring the implementation of recommendations from all relevant parliamentary committees. Furthermore, mechanisms for monitoring and enforcing compliance by state agencies and counties must be established.

4. The current budget prioritization needs to address debt vulnerabilities. In FY 2025/26, over 67.5% of the Consolidated Fund Services allocation is concerned with debt servicing instead of development projects. We urge Parliament and the government to develop a strategy for managing and retiring domestic debt to reduce interest payment costs. The government must limit domestic borrowing, as excessive borrowing can crowd out the private sector by driving

up interest rates. Additionally, we recommend that the government ease monetary policy by reducing interbank rates to single digits, promoting increased private sector lending. At the same time, it is working on its recommendation to reduce the deficit by half. This should be accompanied by a more balanced approach to revenue mobilization that focuses on enhancing tax compliance and efficiency rather than introducing new tax burdens on citizens and businesses.

5. The government must improve public participation in the budget-making process to ensure citizens' opinions influence final decisions. This increases transparency and accountability, promoting trust between the government and its citizens. It incorporates a range of perspectives, contributing to a more balanced and equitable budget. It also empowers citizens by allowing them to have a say in how public funds are allocated, which promotes a sense of ownership and shared responsibility in the community.

6. Resource allocation should prioritize agriculture, micro, small, and medium enterprises (MSMEs), and social welfare to enhance economic resilience and inclusivity. Investing in agriculture improves food security, creates jobs, and promotes rural development. Supporting MSMEs advances innovation and drives economic growth, while social welfare programs elevate living standards, reduce inequality, and strengthen social cohesion through healthcare, education, and safety nets.

7. Parliament must scrutinize the discrepancies in the BPS and MTDS and direct the National Treasury to provide accurate and consistent fiscal projections. The National Treasury should be mandated to revise its revenue and expenditure projections to align with realistic economic conditions and avoid excessive borrowing. A forensic public debt audit should be expedited, and its findings made public to enhance accountability in debt management.

The Okoa Uchumi Campaign urges the government to prioritize Kenyans' interests by taking immediate action to address the concerns raised and ensure that Kenya’s economic future is secured through prudent public finance management. In the meantime, we call on Kenyans to remain engaged in the budget process and the priorities that parliament will put forward, as well as the revenue-raising measures, so that we can take charge.

Signed by the Okoa Uchumi Campaign members;

1. The Institute for Social Accountability
2. Amnesty international Kenya
3. East African Tax and Governance Network (EATGN)

4. The Kenya Human Rights Commission (KHRC)
5. African Forum and Network on Debt and Development (AFRODAD)
6. Community Advocacy and Awareness Trust (CRAWN TRUST)
7. ActionAid International Kenya (AAIK)
8. Youth training and empowerment network
9. Bunge Mashinani Initiative
10. We Believe Community Organization
11. Landscape Kenya Foundation
12. Gears for Change Initiative
13. County Anti-Corruption Civilian Oversight Committee
14. KABETE CBO FOR PERSONS WITH DISABILITIES
15. Embrace inclusion CBO
16. Kiambu University and College Students' Association
17. Green Aid Org
18. Mwangaza Rovers
19. Maslahi ya Jamii
20. Taifa Haki CBO
21. Kiambu Youth Bunge
22. Transparency International (TI) Kenya
23. Kitui Youth Connect
24. INUKA ni Sisi
25. Utu Net Foundation
26. Bajeti Hub
27. Community Initiative Action Group Kenya (CIAG-K)
28. Christian Aid Kenya
29. The Hummingbird Grassroot Centre
30. Kadibo Community Social Justice Center
31. Budget Talk Global (BTG)

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