OKOA UCHUMI CAMPAIGN STATEMENT ON THE CRISIS OF THE KENYA SHILLING

TIME TO REBALANCE KENYA'S ECONOMY

24TH June 2022…*The Okoa Uchumi Debt Campaign is a civil society platform committed towards working with stakeholders to redress Kenya's public debt crisis. The coalition seeks to push for political accountability and bolster constitutional safeguards in public debt management as a means to debt sustainability through a balanced and equitable budget.*[1]

KENYA'S EXCHANGE RATE CRISIS: A LOOMING FIASCO OR AN OPPORTUNITY TO REBALANCE KENYA'S ECONOMIC POSITION

The past months have witnessed the slide of the Kenya shilling against the US dollar and the unprecedented jump in external debt repayments, signaling more pain for Kenyans as the debt repayment to revenue rate approaches the 70% mark. We have also witnessed a shortage of dollars as the central bank holds onto vital currency, incurring the wrath of manufacturers some of whom have threatened to close shop.

The falling Kenya shilling has hit consumers hard as the cost-of-living skyrockets due to Kenya's import dependent economy. It is set to get worse as poor weather conditions and prolonged Ukraine war signal more grief.

These events take place against a backdrop of panic borrowing by government, but recent events of a failed Eurobond issue, a partially subscribed government bond, and delays in the disbursement by the IMF of the third disbursement, paint the picture of a government that has run out of options, and has no more places to hide and need to come clean on the real state of the economy.

[1]Coalition Partners: Crawn Trust Kenya, Diakonia Sweden, Diocese of Lodwar, Institute for Public Finance Kenya, International Budget Partnership Kenya, Interreligious Council Kenya, Kenya Human Rights Commission, National Taxpayers Association Kenya, Okoa Mombasa, Oxfam Kenya, PAWA 254, The Institute for Social Accountability, Transparency International Kenya, East Africa Tax Governance Network, Econews, Kenya Tuitakayo Movement, Katiba Institute

OKOA UCHUMI!

In 2021 we published a report which identified fundamental flaws in Kenya's debt management and observed that the rapid build- up of public debt had driven the country into a full-blown economic crisis. We noted the following:

- **Kenya's monetary policy is effectively subsidizing imports. Borrowing has been used to support the exchange rate leading to an overvaluation of the Kenyan currency.**
- **The rebasing of the economy was not informed by the real economy, which is far less than the nominal GDP.**
- **Kenyans are overtaxed and any fiscal measure leading to the increase of taxes/tax rate will have no effect/or negative returns on tax revenue.**
- **The present fiscal consolidation policies and structural adjustment programs are not well aligned to Kenya's economic realities and favour foreign companies more than local manufacturers.**
- **We recommended that Kenya needs to adopt increased domestic borrowing in its debt mix ratio away from external commercial debt.**

Despite the external realities, the government and its funding partners have continued to insist that Kenya's debt is sustainable and is supported by sound economic fundamentals. The impacts of the war in Ukraine, coupled with unfavorable agricultural conditions, coming so soon on the back of the Covid-19 pandemic, has created an explosive situation in which government must act and act decisively or face full blown economic collapse.

The game is up!

Since 2018 the government has relied on short-term borrowing to mask the extent of Kenya's economic crisis the brunt of which has been borne by citizens through heavy taxation. In a context where government has resolutely failed to deal with budgeted corruption, Kenyan citizens are paying heavily while a few faceless individuals benefit off misplaced government priorities. Recent events expose the vulnerability of the Kenyan economy and portend a major calamity if the government does not ACT RESOLUTELY AND TRUTHFULLY.

It is time for government, present and incoming to take decisive action and we hereby make the following strong recommendations.

1. **Revise Kenya's monetary policy to allow the Kenya shilling exchange rate to adjust at its equilibrium.** Release foreign currency reserves that the central bank is presently holding to cushion businesses and vulnerable groups from the impact of the slide of the shilling, which experts predict may fall to Ksh 150 to the US dollar.
2. **Take immediate steps to cut non-essential and low returns capital expenditure**, in favour of social spending and agriculture spending which has a high multiplier rate.
3. **To cushion individuals and households from the effects falling shilling**, cut PAYE and remove tax from basis goods to maintain domestic demand.
4. **Institute emergency tax measures to prioritize local input manufacturing**, and to discourage imports/ and import based manufacturing to stimulate domestic demand.
5. **Remove taxes from key domestic inputs fuel and power to stimulate competitiveness** of Kenya's domestic manufacturing, stimulate domestic consumption, return on investment, and exchange rate earnings.
6. **Unmask the beneficiaries of corrupt government projects** who have distorted Kenya's public expenditure priorities through budgeted corruption in public procurement.
7. **Renegotiate Kenya's debt repayment** through a transparent and accountable mechanism to ensure savings are directed into productive social sectors.
8. **Ensure all future borrowing** is subjected to parliamentary approval.
9. **Ensure any adjustment to the debt ceiling** is subject to robust public engagement.
10. **Institute a tax policy based on tax justice** to seal revenues lost through non collection and illicit exemptions, and to ensure tax is based on the ability to pay and is predicable.
11. **Disclose all debt contracts** and their conditions and beneficiaries.

For further details contact rozalia.wangui@tisa.or.ke or angela.wangechi@tisa.or.ke and or call us on 0736104933.

Read more:

https://resources.tisa.co.ke/wp-content/uploads/2021/10/Fiscal-Consolidation-Report-2021.pdf

https://resources.tisa.co.ke/wp-content/uploads/2021/10/Okoa-Uchumi-Policy-Brief-Oct-2021.pdf
https://resources.tisa.co.ke/wp-content/uploads/2022/04/Okoa-Uchumi-Campaign-Citizen-Manifesto.pdf

https://resources.tisa.co.ke/2021/05/27/a-working-paper-on-kenyas-debt-crisis-options-for-balanced-and-equitable-budgets-part-2/

https://resources.tisa.co.ke/2021/05/27/a-working-paper-on-kenyas-debt-crisis-options-for-balanced-and-equitable-budgets-part-1/

Follow us on www.tisa.or.ke

Twitter: @TISAKenya

Facebook: @tisaKenya

IG: tisakenya

YouTube: Tisa Kenya

Join the movement on: www.okoauchumi.com

Twitter: @Okoa_UchumiKE

Facebook: @OkoaUchumi

***Jihusishe! Dial* *821*100#**

[1]Coalition Partners: Crawn Trust Kenya, Diakonia Sweden, Diocese of Lodwar, Institute for Public Finance Kenya, International Budget Partnership Kenya, Interreligious Council Kenya, Kenya Human Rights Commission, National Taxpayers Association Kenya, Okoa Mombasa, Oxfam Kenya, PAWA 254, The Institute for Social Accountability, Transparency International Kenya, East Africa Tax Governance Network, Econews, Kenya Tuitakayo Movement, Katiba Institute