



Kenya's Debt Crisis

Misaligned Financing and Corruption are Barriers to Breaking the Debt Trap

FEBRUARY 2025

In the summer of 2024, thousands of Kenyans took to the streets as part of a protest movement against proposed policies to implement double-digit tax hikes on everyday items such as bread and cooking oil and slash critical public services. The policies were introduced to meet fiscal targets in Kenya's loan agreements with the International Monetary Fund (IMF). These measures came at a time when inflation was already rising in the East African country, with youth unemployment reaching 67 percent and poverty rates hovering close to 40 percent.

The following brief summarizes Kenya's debt crisis, the role of weak governance and corruption, and several top reforms needed to assure the accountable use of financing moving forward.

A DEBT CRISIS

The Kenyan government has accrued an alarmingly large and unsustainable amount of debt. Estimates place the total at over \$80 billion—more than double the state budget of 2023. Approximately 60% of the nation's tax revenues and almost 50% of its budget are allocated to servicing its debt, far outpacing funding for any other single line item such as health, education and other vital services.

Kenya is currently undergoing three separate IMF financing programs. This places the total number of IMF arrangements over the years at 22, suggesting more of a debt trap than pathway to a sustainable economy.

While the current IMF programs are slated to end in early-to-mid 2025, it is likely that the Kenyan government will request a program extension or negotiate a new agreement.

LACK OF ACCOUNTABILITY

The high levels of public debt have accumulated with limited transparency and contrary to constitutional principles of public finance management. Oversight reports point to massive irregularities in state funded projects. Several of those projects are cited in Auditor General reports suggesting budgeted corruption. Gaps in various laws like the Public Finance Management Act have been exploited by public officials to fund nationalist pet projects with questionable public benefit. The opacity in spending has created opportunities for corruption, all while the drain on public resources further destabilizes the country's finances and ability to address economic and social distress.

The above problems contribute to Kenya's low score of 31 on a 100-point scale in Transparency International's 2023 Corruption Perceptions Index. Its ranking of 126 out of 180 countries places it in the bottom third of countries globally.

It is difficult to see how Kenya curbs corruption and puts itself on a path to a sustainable economy without new accountability measures, particularly in public debt management.

RECOMMENDATIONS FOR ACCOUNTABLE LENDING

Current IMF loan programs have included commitments from the Kenyan government to implement some accountability measures and governance reforms. It is expected that the government will make measurable progress or fulfill these commitments before receiving additional loan disbursements. But many of the commitments that would strengthen Kenya's public financial management and close the loopholes leading to the misappropriation of funds have not been met under the active programs.

Any new IMF loan program must recognize the centrality of governance to the success of the loan program. In IMF parlance, governance is macro-critical. The IMF should focus attention on working with the Kenyan government, in consultation with civil society, to both implement prior commitments and push for the adoption of new commitments in future loan programs to ensure that financing is used for its intended purpose.

The Okoa Uchumi campaign, a coalition of dozens of Kenyan civil society organizations working to resolve the country's public debt crisis, has been leading the push for transparency and accountability around the government's accumulation and use of debt. Their experts have

extensively documented past abuses in financing and have come up with a comprehensive list of reforms.

The following is a partial list of significant reforms that should be incorporated into any continued or new IMF loan agreement. Once incorporated, future financing should be released pursuant to good faith efforts on behalf of the Kenyan government to meet the following reforms:

- 1.** Public disclosure of all forms of outstanding debt and an independent and public audit of public debt;
- 2.** Completion and publication of an independent audit of tax expenditures;
- 3.** Appropriations and protections for the sufficient funding of all oversight agencies;
- 4.** Creation of a safe and secure reporting process for whistleblowers of public corruption;
- 5.** Enactment and implementation of the Conflict of Interest Bill and publication of officials' wealth declarations in accordance with the resolutions of the 14th Regional Conference and Annual General Meeting of the Heads of Anti-Corruption Agencies in Commonwealth Africa;
- 6.** Enactment and implementation of the Public Participation Act;
- 7.** Review of compliance under the Leadership and Integrity Act, which prohibits high-ranking public officials implicated in corruption scandals from holding office;
- 8.** Fill vacancies on the Independent Elections and Boundaries Commission with fair and independent commissioners, enabling citizens to engage in processes to hold members of Parliament accountable who no longer protect the public interest in matters of debt and public financial management;
- 9.** Commitment to actively engage multi-stakeholders, including civil society organizations, throughout the entire IMF Governance Diagnostic exercise;
- 10.** Commitment to publish the Governance Diagnostic upon completion;
- 11.** Commitment to incorporate recommendations from the Governance Diagnostic as structural benchmarks in any new or future IMF loan agreement;
- 12.** Publicly post, in a list form, the structural benchmarks and nonconfidential prior actions in any new or future loan agreement along with a plan for achieving each benchmark that is updated and posted quarterly;
- 13.** Update Kenya's public procurement platform to include all public procurement contracts;
- 14.** Commitment from Parliament to exercise independent oversight of the executive arm of government on public debt management;
- 15.** Reform the process of creating and managing state-owned enterprises, including new and additional checks on executive discretion.

For more information:

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