Debt: Sound Debt Management key to reducing Kenya's Growing Debt Burden

Kenya's burgeoning debt burden remains a defining feature of public finance management, often the painful testimony of prolonged plunder and mismanagement of the nation's meager resources over the years. As at the end of April 2010, Kenya's public debt stood at ksh 1.19 trillion accounting for 46% of total GDP. Out of this domestic debt accounted for ksh 653.85 billion while external debt's share was ksh 533.46 billion.

In 2009, the government allocated ksh 60 billion to service public debts representing 7% of the total budget while apportioning ksh 83 billion for the same exercise in the 2010 budget estimates representing 8% of this year's total budget more than ksh 18.9 billion that was allocated to agriculture over the same period indicating that debt servicing is consuming a lion's share of budgetary allocations. By concentrating more funds on debt servicing rather than in the social and economic sectors, has an overall implication on revenue collection as the government fails to fully fund critical sectors of the economy that will spur the intended growth and open up more investment opportunities a key to widening the tax base.

The Rationale

With the current mode of spending coupled with the on-going operationalization of the new constitution that creates two levels of government, public expenditure will definitely rise and debt levels likely to increase to astronomical levels questioning the government's borrowing prowess and control of the public purse.

A critical look at the expenditure scenario of the Kenyan economy reveals an alarming decline in revenue collection notwithstanding the ever growing budgetary needs. For instance the total budget for the year 2009 was ksh 865.6 billion and the total revenue collected was 569 billion and after factoring in support from donors in form of grants and aid there was a shortfall of ksh 168.2 billion that was to be plugged through borrowing. In the 2010 budget, Treasury unveiled an ambitious budget of ksh 998.8 billion where estimated revenues will be ksh 609.6 billion and with ksh 199 billion from development partners this means there is a deficit of ksh 188 billion to be met through borrowing. Any fiscal strategy to be employed here needs to focus on expenditure reduction, restructuring and reform.

Over the past few years, the government through Treasury has engaged in borrowing to fill the budget shortfalls occasioned by reduced revenue collection and the desire to expand the economy and infrastructure that demands a lot of resources that are not within the government's reach, coupled with the challenges of post-election violence, long drought period in most parts of the country as well as the global financial crisis factors that have only helped to aggravate Kenya's budget deficits hence the recourse to more borrowing.

Reforms

Despite having a regulatory framework in place, debt management is still a nightmare due to existing weak legal and institutional regime. Problems abound from responsible borrowing to the general process of loan contraction that has been and is still is shrouded in secrecy. This has been made to flourish due to a weak legislation in place that over the years has left the Minister for Finance with the sole authority to commit this country into debts¸ powers that have led to abuse of the process of loan contraction where agreements are entered into without other state and non-state actors knowing the terms of the contract and the purpose of the loan being extended to us.

With the passage of the new constitution heralds a new way on borrowing. Under Article 211(1) Parliament will be required to enact a law that will prescribe the terms on which the national government may borrow and impose reporting requirements.

This is a step forward from the current dispensation where most Kenyans including parliamentarians learn from the media when the Finance Minister is signing an agreement with donors for committal of funds.

Once passed into law, the Finance Secretary will be obligated to table information concerning any particular loan or guarantee showing the extent of the total indebtedness, intended use of the proceeds of the loan, provisions for servicing the loan and the progress made in the repayment of the loan.

Any information held by any state official on borrowing will now be easily accessible as the new law guarantees the right to access information held by the State. This will further make the activities of the State officers be scrutinized and done in a more transparent and accountable manner.

Whereas this is step forward in the debt management of this country, the process of loan contraction has been a preserve of a few leaving other major players in the arena of economic governance such as the private sector and CSOs on the periphery. The daunting task ahead is on how to positively contribute and influence the yet to be enacted legislation on borrowing.

It is through this process that we shall seek inclusivity in the loan contraction process and put structures that will promote prudent use of public money and foster transparency and accountability in the management of the public resources.

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