



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
SPECIAL EXAMINATIONS
MDF 8301: AID AND SOVEREIGN DEBT MANAGEMENT

DATE: Monday 20th April 2026

TIME: 3 Hours

Instructions

1. This examination consists of **FOUR** questions.
2. Answer Question **ONE** and **ANY OTHER TWO** Questions

QUESTION ONE **(40 Marks)**

- a. Although Kenya's credit rating improved to a positive outlook in 2025 most credit raters observed that Kenya still faces significant fiscal risks.
- (i) Why is it difficult to define the term debt sustainability? **[8marks]**
- (ii) Given the above outlook for Kenya, discuss **SIX** non-financial factors that may threaten the sustainability of Kenya's debt **[12marks]**
- b. You have been provided with the following information regarding Kenya's public debt:

Domestic Public Debt

- As of December 2025, Kenya's domestic public debt stood at approximately 55.6% of the total public debt, while external debt accounted for 44.4%.
- The domestic debt is dominated by local commercial banks and pension schemes. As of Dec 2025: Commercial Banks held 45.1% of the domestic debt and the holding by pension schemes stood at 29.8%, insurance companies held 7.2% and others such as individual investors and parastatals held 18.9 %
- The proportion of debt maturing less than one year as a percentage of total debt was 17.6% in June 2024 and increased to 20.5% in June 2025

External Debt

- The structure of the external public debt as of June 2025 was as follows:

Multilateral	20.2%
Bilateral	55.5%
Commercial	24.1%

Total Debt

- Kenya's total debt to GDP in June 2025 increased to 67.7% against the IMF threshold of 50% for developing countries

Required:

- From the information provided above describe **FIVE** types of risks to the economy posed by the structure of Kenya's public debt. **[10marks]**
- Discuss the solutions that the National Treasury and the Central Bank of Kenya can adopt to mitigate the risks identified in part a. **[10marks]**

QUESTION TWO

(20 Marks)

As of October 2025, only three of the rated 34 African countries were rated as investment grade, meaning that borrowing for most of the continent attracts a premium (for the non-investment grade countries) or punitive rates (for the 38% of the continent that is unrated).

- Highlight the short comings of international credit ratings agencies especially in rating debt instruments of African Countries. **[6 marks]**
- What can the credit rating agencies do to help African countries achieve better ratings? **[6marks]**
- Discuss how the African Countries improve their ratings. **[8marks]**

QUESTION THREE

(20 Marks)

- Differentiate a corporate and a sovereign default **[4marks]**
- Over the last 20 years, Chinese lending to African countries has increased significantly and China has become a significant bilateral player in the restructuring process, however several players have accused China of slowing the negotiation process, for example in the case of Zambia.
 - Is the Chinese government an impediment to the restructuring process for African countries seeking a restructuring? Discuss **[10 marks]**
 - Identify and explain **THREE** types of reforms that are needed to improve the current restructuring process **[6marks]**

QUESTION FOUR

(20 Marks)

There's been a global trend in the reduction of aid to Africa since 2018. The freeze of US aid to Africa in January 2025 was the latest in this trend.

- Highlight the positive and negative results of foreign aid to the African countries? **[10marks]**
- How can the African countries fill the funding gap left by foreign aid cuts? **[10marks]**