



STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8301: AID AND SOVEREIGN DEBT MANAGEMENT

Date: Thursday 1st August 2024

Time: 3 Hours

Instructions

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

Question 1 (Compulsory) (40 Marks)

- a. The legislature plays a critical role in Public Debt Management which includes the enactment of the legal framework, approval and oversight. In Kenya, parliament provides the checks and balances on government borrowing

Has the Kenyan parliament adequately performed its roles as stated above? **[8marks]**

- b. According to the National Treasury (March 2024), Kenya's total public debt as a percentage of GDP stood at 72% against a target of 55% set in the Public Finance Act. The total debt includes guaranteed debts to State owned corporations. The ratio of external to domestic debt was 54.3% and 45.7%. As a proportion of external debt multilateral, commercial and bilateral debt accounted for 48.7%, 26.4% and 24.6% respectively. Banking institutions make up for the highest percentage of domestic debt, accounting for 45.2% of government securities holdings, while pension funds accounted for the second largest portion with 31.9% of holdings in government securities. The total debt service as a percentage of revenue was 58.8%.
 - i. From the information provided above and your general knowledge of the economy describe five types of risks posed to the economy by Kenya's sovereign debt. For each risk explain the best way to mitigate the risk. **[10marks]**
 - ii. Discuss the non-financial risks that may threaten the sustainability of Kenya's debt **[6 marks]**

- c. According to a UNDP policy brief of April 2023, African nations could have accessed an additional US\$31 billion in new financing for sovereign credit if credit ratings were based more closely on economic fundamentals and less on subjective assessments. Additionally, the 13 African countries studied could have saved nearly US\$14.2 billion in total interest costs (equivalent to US\$2.2 billion annually). Several African countries have also voiced their dissatisfaction with credit ratings given to their sovereign debt.
- i. Highlight the shortcomings of international credit ratings agencies especially in rating debt instruments of African Countries. **[10marks]**
- ii. One solution which has been suggested by several researchers is to form a Pan-African rating agency. Discuss the pros and cons of forming such an institution to address the rating issues in the African continent **[6marks]**

Question 2 (20 Marks)

- a. Explain the reasons why countries give foreign aid to others **[4marks]**
- b. Dambisa Moyo, a Zambian-born best-selling author and economist calls the AID industry in Africa, “ineffective” and “malignant.” Despite more than \$1 trillion in development aid given to Africa in the past 50 years, she argues that aid has failed to deliver sustainable economic growth and poverty reduction—and has made the continent worse off.
 - i. Do you agree with the author’s observations? Discuss. **[8marks]**
 - ii. What reforms are required to free the continent from ineffective foreign aid? **[8marks]**

Question 3 (20 Marks)

- a. In the past three years alone, there have been 18 sovereign defaults in 10 developing countries, including Zambia, Sri Lanka and Ghana — greater than the number recorded in all the previous two decades, according to the World Bank.
 - i. Why are the developing countries facing a higher probability of debt distress? **[5marks]**
 - ii. Has the Chinese lending to the African continent worsened the debt crises? **[3marks]**
- b. Resource-backed loans (RBLs) are becoming a major threat to public debt management especially in the African continent where majority of such loans have been issued.
 - i. Why are RBL loans a threat to proper public debt management in Africa? **[6marks]**
 - ii. How can the affected governments strengthen public debt management to reduce the threats posed by RBL loans **[6marks]**

Question 4 (20 Marks)

- a. 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.
- b. Is the Chinese government an impediment to the restructuring process for African countries seeking a restructuring? Discuss **[10 marks]**
- c. Identify and explain three types of reforms that are needed to improve the current restructuring process **[6marks]**