UNIVERSITY OF NAIROBI

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IMPACT OF EXTERNAL DEBT ON AFRICAN STATES DEVELOPMENT: A CASE STUDY OF KENYA (2000-2016)

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DECLARATION

This research paper is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of the University Of Nairobi.

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The project has been submitted with my approval as university supervisor.

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DEDICATION

I dedicate this project to my family. Special gratitude to my ever loving parents Mr. Bernard Kibabu and Mrs. Julia Kibabu for their unending financial, moral support and prayers. To my brother Robbie for his continued moral support and cheering up for my finishing. To my lovely sisters Clare, Justina, Joan and Linnet the journey was easy with your support, am forever grateful. To my little niece Joanne, God bless you more.

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ABSTRACT

This is a study of the impact of external debt on African state's development with an emphasis on Kenya for the period between 2000 to 2016.In assessing the impact the study outlines two objectives. First, is to investigate the impact of debt on Kenyan social – economic and political development. Second, to assess Kenya's level of external borrowing. In achieving these objectives the study has described the impact of external debt in Africa drawing examples from Democratic Republic of Congo, Libya, Zimbabwe and Nigeria. The study further finds that external debt has a positive impact on development of African States only up to a favorable debt level beyond which the impact is negative. The study also find out that between the period 2000 to 2016 Kenya borrowed with the favorable external borrowing limits.

LIST OF ACRONYMS AND ABBREVIATIONS

AFDB - Africa Development Bank

BOP – Balance of Payment

BWI – Bretton Wood Institutions

CBL – Central Bank of Libya

DAC - Development Assistance Committee

DMA – Debt Management Act

DRC – Democratic Republic of Congo

DMO – Debt Management Office

EFA - Education for All

EIB - European Investment Bank

ESAF – Enhanced Structural Adjustment Facility

EU – European Union

FPE – Free Primary Education

FSE – Free Secondary Education

GDP - Gross Domestic Product

GNI - Gross National Income

GNP - Gross National Product

HIPC - Highly Indebted Poor Countries

IATI – International Aid Transparency Initiative

IBRD - International Bank for Reconstruction and Development

ICRC – International Committee of Red Cross

ICT - Information and Communications Technology

IFBS – Infrastructure Bonds

IFI – International Financial Institution

IMF - International Monetary Fund

KACC – Kenya Anti- Corruption Commission

KDF – Kenya Defense Forces

KSHS - Kenya Shillings

LIC – Low Income Country

MDGs – Millennium Development Goals

MDRI – Multilateral Debt Relief Initiative

MTDS – Medium Terms Debt Strategies

NPV – Net Present Value

NYS – National Youth Service

NHIF – National Hospital Insurance Fund

ODA - Official Development Assistance

PRSP – Poverty Reduction Strategy Paper

PV – Present Value

RASCOM – Regional African Satellite Organization.

SAC – Structural Adjustment Credit

SAP - Structural Adjustment Program

SDGs – Sustainable Development Goals

SDR – Special Drawing Rights

SECALS – Sectoral Adjustment Loans

SSA - Sub-Saharan Africa

SWF- Sovereign Wealth Funds

UN - United Nations

USA - United States of America

USD – United State Dollar

WB - World Bank

WDI – World Development Indicators

ZIMREF – Zimbabwe Reconstruction Institution

INTRODUCTION

1.1 Background

Debt is what is owed to another person or the sum total of what is borrowed from a third party. Debts can either be internal (borrowed from within a country) or external (borrowed from foreign entities).World Bank defines external debt as," the obligations to external creditors who may be public and publicly guaranteed debt by the government or private non-guaranteed debts by private sectors". International Monetary Fund (IMF) defines external debt as "the amount at any given time of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principle with or without interest or to pay interest with or without principal."

For growth and development, individuals borrows funds from lending entities and institutions .States similarly borrow both internally and externally to facilitate their public spending, to reduce domestic borrowing and or when undertaking a major specific development project. The developed countries in the world, borrow huge amounts for their development projects led by the United Kingdom (UK) and the United States Of America (USA).The magnitude of their borrowing and the development is almost directly proportional.[1]

Development is a concept that refers to improvement in social, political and economic aspects of human development. Human development is the foundation where social, political and economic development is based while economic and political development should translate to social development.[2]Development has been viewed broadly to mean or bring about economic development. Economic growth yields to material gain to people but development is the

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[1] Global Finance, Economic data, Countries with the most external debt in 2017, November 28, 2017.
[2] Burkey, S.1993. People First: A Guide to Self-Reliant, Participatory Rural Development .London: Zed Books pp 38.

enrichment of peoples live in the society, it is more of empowerment.[3]Todaro & Smith (2006) agrees that development should be characterized by economic growth, political stability and quality life of the people in the society. In Brazil, the country encountered the difficulties of economic growth with development.[4]In the year 2008, during the international financial crisis that had an adverse effect on the economy of Europe and America leaving people impoverished, in Brazil the people were not affected. This was because of the social development that led to some level of economic stability in the country.[5]

For African states economic growth in recent years, with the poverty eradication goals and United Nation's benchmark on health, women empowerment and education, needs a new paradigm and practical approaches in economics and politics. Poverty alleviation in Africa should not be an end by itself but a means to an end to promote and transform the society's economies, social, political and cultural structure which is typical to development of a state.[6]

There are states that have fully developed out of external borrowing and there are others which have failed and some got themselves listed under Highly Indebted Poor Countries (HIPC).Venezuela's economy failed, with the increasing of debts and mismanagement of the funds. The government in Venezuela have impoverished a country with the World's largest reservoir of oil turning it into a poor state where scarcity of food is evident, rampant violence and money turned to valueless and worthless notes and coins.[7]

[3] Edwards, M.1993.How Relevant t is Development Studies, in Beyond the Impasse: New Directions in Development Theory, edited by FJ Schuurman. London: Zed Books.
[4] Todaro, M P & Smith, 2006. Economic Development. 9th edition. Har low: PEARSON Addison Wesley pp 16.
[5] OECD,org,Growth is not enough, Brazil.(http://www.oecd.org/brazil/growth-is-not-enough.htm)
[6] Costa Hofisi, After the Lost Decades: Rethinking Africa's development from a Developmental State Perspective. Vol. 4 No 11, October 2013 p423North-West University, Department of Public Administration.
[7] Matt O'Brien, What destroyed Venezuela's economy could destroy ours too, The Washington Post: Democracy dies in darkness .January 22, 2018.

Another example of an economy that failed out of debt crisis is Greece. The global financial crisis of the year 2008 came along with debt crisis in Greece which was caused by Greek's mismanagement of economy and public finances. Greece being a member of the Euro zone could not take full control of her monetary policy, for example the interest rates had to be maintained at very low rates at almost zero rate. This led to a rise in inflation pressure. Together with economic mismanagement, misreporting of economic performance, lack of accountability and proper oversight the investors withdrew from Greece and others could not pick up or act due to the economic warning signs which included unsustainable debt levels, excessive public spending, high wage growth not supported by productivity growth, flow in credit growth and immense tax evasion.[8]

"United States of America (USA) has the largest economy in the World closely followed by China and Japan is the third in the year 2018.[9]In 2011, Japan was the biggest debtor nation in the World with a very big debt to GDP ratio, her debt size was double the size of her $5.4 trillion economy according to IMF.[10]In 2018, United States of America (USA) ranked the most developed country, the military, science & technology leader in the World, the second largest by purchasing power and manufacturing base, the largest economy by nominal GDP and also leading in external debts with a ceiling of $18.2 trillion."[11]All countries borrow but the impact of the external debt on their development is dependent on other factors as discussed in this study.

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[8] Adam Kindreich, Financial Scandals, Scoundrels & Crises-The Greek Financial Crisis (2009–2016) , CFA Institute July 20th, 2017

[9] Rob Smith, The world's biggest economies in 2018, World Economic Forum 18 Apr 2018.

[10] Danielle Kurtzleben, The 10 Countries with the Most Debt, US news & the World Report Jan.28,2011@11:31 a.m.

[11] Danielle Kurtzleben, The 10 Countries with the Most Debt, US news & the World Report Jan.28,2011@3:11 p.m.

1.2 Statement to the Research Problem.

Most countries of the World are on external debts. For development purposes countries borrow to undertake specific projects, ease the inflation rate and reduce domestic borrowing. In the 21st Century many African states are in more debts than the previous century and many have fallen in debt trap. More than a quarter of Sub-Saharan African Countries are poorer than in previous century with no sign of any external borrowing helping the situation[12]

Due to the vitality of the subject of debt, it has attracted much research work worldwide. Tawfiq Ahmad et al. (2017) found out that public debt has a negative impact on the economic growth of Jordan in his empirical study on the impact of public debt in Jordan.[13]Tal Shahor (2018) examined the impact of public debt on economic growth in the Israeli economy. The result of the study were that at low debt level there is a positive impact on the growth of the economy which rises with the rise in debt level up to a certain level of debt beyond which the impact becomes negative. A country should seek to know its optimum debt advantage and avoid going beyond it.[14]

Babu et al. (2014) carried out an examination of the impact of external debt on the economic growth in the East African Community during the period (1970-2010) and the results indicated a negative impact of external debt on the economic growth in the East African Community. And a research by (Adegbite et al., 2008) on the relationship between the public debt and economic growth in developing countries resulted to be a negative impact[15].In Turkey, external borrowing influenced economic growth positively under a research carried out by Suna

[12]Daron Acemoglu and James A. Robinson *Why foreign aid fails and how to really help Africa,2014*

[13]Tawfiq Ahmad Mousa& Abdullah M Shawawreh. The Impact of Public Debt on the Economic Growth of Jordan: An Empirical Study (2000- 2015), Accounting and Finance Research Vol. 6, No. 2; 2017 University, Amman, Jordan.

[14] Tal S.The impact of public debt on economic growth in the Israeli economy, Israel Affairs, 24:2, Feb 2018.pp 262.

[15]Babu.J. Symon.k., Aquilars. M. & Mose G. External debt and economic growth in the east Africa Community. *African Journal of Business Management, 8*(21), 1011-1018

Korkmaz on the Relationship Between External Debt and economic Growth in Turkey[16].Boboye and Ojo (2012) carried out a research on the effect of external debt on economic growth in Nigeria. The results indicated that there is a negative effect of external debt on the nation's income and per capita income.[17] In their study on the relationship between a countries debt level and the risk, Chiang Lee et al. (2017 found out that the impact of a country's debt depends on the country's political and financial risk environment while improving economic performance.[18]

In regard to Kenya, the impact of the public debt to the growth of the economy is negative according to Kobey (2016) in his study on the effect of Public Debt on Economic Growth in Kenya over 1993 to 2015 considering the GDP growth rate, unemployment and inflation rate as the functions of public debt.[19]Ngure (2003) examined the impact of external debt to growth in Kenya in the year 1980-2000.The results were that external debt has a significant negative impact on growth in the case of Kenya[20].Wanjiku (2016) researched on the effect of public debt on economic growth in Kenya in the years between 1980 to 2013 .With the independent variables as external debt, domestic debt, real exchange rate, real interest rate, inflation and private investment. The research revealed a negative impact in the long run under time series regression model.[21]According to Nyachiro (2010) research on the impact of external aid on economic growth in Kenya in the years 1970 to 2007.The results were that eternal aid had small but significant positive impact on

[16] Suna Korkmaz, Relationship between External Debt and Economic Growth in Turkey. Proceedings of the Second European Academic Research Conference on Global Business, Economics, Finance and Banking (EAR15Swiss Conference) ISBN: 978-1-63415-477-2 Zurich-Switzerland, 3-5 July, 2015

[17] Boboye. A. & Ojo. O. (2012). Effect of External Debt on Economic Growth and Development of Nigeria. International Journal of Business and Social Sciences, 3(12), 297-304.

[18]Yi-B C& Chien-C Impact of the public debt on economic growth: Does country risk matter? Vol. 35, Issue 4, (October 2017) pp. 751-766.

[19] Kobey G.L, (2016).The effect of public debt on economic growth in Kenya. Unpublished MBA Project, University of Nairobi

[20] Ngure J .H. The impact of external debt to growth in Kenya. Unpublished MA (Economics) University of Nairobi, 2003.

[21] Wanjiku N.N. Effect of public debt on economic growth in Kenya. Unpublished MSC Finance Kenyatta University, 2016.

GDP growth of a country, growth of a country's consumption rate and that it has led to dependency syndrome in developing countries.[22]

Much of the research work done has focused on the impact of public debt on the economic growth of a country. The result of many researchers has showed the impact to be very small if not negative impact. A report by country economy .com show that in most African countries the public debt keep increasing year by year especially for the last fifteen years.

While the research work done has concentrated on the debt impact on economic growth, this paper considers the impact of external debt on development, with the aspects of development being social - economic and political development. Also will seek to explain the reason why African States's external borrowings and debt levels is increasing by year. This indicates that there is an impact of external debt on African States or African States are over borrowing and falling in the debt trap. Therefore, this research project seek to examine this impact of external debt on the social-economic and political development of Kenya for the last fifteen years. The study seeks to find out when a country borrows funds externally, does it result or facilitates social economic development of the country.

1.3 Objectives of the Research

1.3.1 General Research Objective.

The main objective of this study is to assess the impact of external debt on Kenya's development.

1.3.2 Specific Research Objectives

This research study seeks;

[22] Nyachiro K.N. Impact of external aid on economic growth in Kenya .Unpublished MAIS University of Nairobi, 2010.

1) To investigate the impact of external debt on Kenyan social-economic and political development.
2) To asses Kenya's level of external borrowing.

1.4 Research Question

This research paper attempts to answer the following questions.

What is the impact of external debt on Kenya's social -economic and political development?

1.5 Hypotheses

The main thesis in this project is that public debt has a positive impact on the development of African States.

1. External debts have positive impact on social - economic and political development in the Kenyan economy.
2. Kenya has over borrowed externally in the last fifteen (15) years.

1.6 Justification of the Research Problem

This study contributes to the literature and scholarly work available on the debts and developing country's development. It is expected to aid Kenya's Policy makers to identify, make and implement the appropriate policies for borrowing and measuring external debts.

It enables the government put in place appropriate measures for accountability, communication and proper measures of external debt acquired. It also helps the media and the general public to get proper information on external debts that is based on researched material.

1.7 Literature Review

In reviewing the literature on this topic, the approach taken is to look at development in various sections. This topic has been handled by many economic scholars who have emphasized on the aspect of external public debt and economic growth. International relations studies scholars have tried to focus on external aid and economic growth. Many countries borrow for development purpose. Development has been defined by my scholars as;

Todaro and Smith (2005)"Development is a process of bringing social and economic change in the society with the help of institutions, structures and the people's attitude towards growth and poverty alleviation. It is characterized by economic growth, political stability and quality of life of the people in a society. Therefore, development is concerned with the economic, cultural, social and political aspects needed to help in transformation of a society leading to development".[23]

Economic growth is an aspect of development, there has been a number of studies done to establish the relationship between external debts and economic growth. Since early 1980's debt crisis has been a major issue for many nations especially developing nations in Africa. Therefore, there has been an expectation that external borrowing will be a source of capital formation, to accelerate economic growth and enhance development in the area. However, economic performance of many indebted countries has been crippled by huge debt accumulation[24].

Tal S. (2018) examines the impact of external debt on economic growth in the Israeli economy. The results are that at low debt levels there is a positive impact on the growth which rises with the rise in the debt level up to a certain level beyond which the impact becomes negative.

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[23] Todaro and Smith, Economic Development, 2005,Page 47

[24] Schclarek, A. (2004). Debt and Economic Growth in Developing and Industrial Countries, Department of Economics, Lund University.

The conclusion is that a country should seek to know its optimum debt level for its maximum benefit.[25] Babu et.al (2014) focuses on the impact of external debt on the economic growth in the East African community during the period (1970-2010).Using Johansen-co-integration test model. The results indicates a negative impact of external debt on the economic growth in East African community.[26] A study in Nigeria by Boboye and Ojo (2012) on the effect of external debt on economic growth in Nigeria using the ordinary least squares multiple regression technique showed that there is a negative effect of external debt on the national income and the country's per capita income.[27] Moki (2012) did an analysis of the relationship between Public Debt and economic Growth in Africa. The findings indicates that Public Debt has a significant positive relationship on African Economic Growth. The findings also showed that investment is not significant in predicting Economic Growth of a country.[28]

Kibui (2009) examined the impact of external debt on public investment and economic growth in Kenya for the years 1970 to 2007 under time series data for the period and reduced form growth model. The examination reveals that the key debt indicators have been above the critical level since 1982.The empirical results of the time series data analysis revealed that debt service ratio is major in explaining the GDP growth in Kenya.[29] Another study by Kobey (2016) on the effect of public debt on economic growth in Kenya over the period 1993 to 2015 indicated that

[25] Tal S.The impact of public debt on economic growth in the Israeli economy, Israel Affairs, 24:2, Feb 2018.pp 262.
[26]Babu.J. Symon.k., Aquilars.M. & Mose G. External debt and economic growth in the east Africa Community. *African Journal of Business Management*, *8*(21), 1011-1018
[27] Boboye, A., & Ojo, O. (2012). Effect of External Debt on Economic Growth and Develpoment of Nigeria. International Journal of Business and Social Sciences, 3(12), 297-304.
[28] Moki, M (2012). An analysis of the relationship between public debt and economic growth in Africa. Unpublished MBA Project, University of Nairobi.
[29] Kibui, P. (2009). The impact of external debt on public investment and economic growth in Kenya (1970-2007). Unpublished MBA Project, University of Nairobi.

public debt has a negative impact on economic growth of Kenya considering the gross domestic product, growth rate, inflation rate and unemployment as the functions of public debt.[30]

According to Chiang Lee (2017), the impact of external debt on country's economic performance is dependent on the country's debt level. The debt level of a country is determined by the risk environment while improving the economic performance .Raising public debt is harmful to the economy under a high risk environment while in a low political and financial risk environment more external debt may lead to a favorable economic growth.[31]The impact on the relationship between a countries debt level and the risk environment is dependent on the country's political and financial risk environment while improving economic performance.[32]

Out of the increasing concern over the overwhelming effects of debts on growth of developing country's economy, according to Ochola:2007,bad leadership has led to underdevelopment in developing countries of which most of the problems experienced in Africa today are associated with leadership challenges and the valid arguments of the dependency theory.[33] Adegbite, et al (2008) investigated the presence of mixed findings on the external debt and growth relationship. The investigation revealed that it is totally not clear of the impact of debt on economic growth in developing countries. Despite the relationship between Public Debt and Economic Growth being a major concern for policy makers and public opinion, there is little empirical work investigating this relationship and the specific channels through which debt affects a country's growth.[34]

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[30] Kobey G.L, (2016).The effect of public debt on economic growth in Kenya. Unpublished MBA Project, University of Nairobi

[31]Yi-B C& Chien-C Impact of the public debt on economic growth: Does country risk matter? Vol. 35, Issue 4, (October 2017) pp. 751-766.

[32]Yi-B C& Chien-C Impact of the public debt on economic growth: Does country risk matter? Vol. 35, Issue 4, (October 2017) pp. 751-766.

[33] Samuel A Ochola, Leadership And Economic Crisis In Africa, Kenya Literature Bureau, 2007, Chapter 1,Page13

[34] Adegbite, E. O. Ayadi, F. S. and Ayadi, O. F. (2008). The Impact of Nigeria "s External Debt on Economic Development. International Journal of Emerging Markets, Vol. 3, 3, 2008, pp. 285-301.

1.8 Theoretical Framework

Glennie argues that economic growth does not automatically translate into economic development as has been assumed by many governments and donors. But, development goes far and beyond the visible parameters like GDP, economic growth improvement in balance of payments (BOP) and the overall financial status of a country[35].This study is based on two theories namely; Modernization Theory and dependency Theory, discussed below.

1.8.1 Modernization Theory

After the World War II in 1940s, it was noted that even after increased capital injection of resources, most third world countries had not experienced significant development. Modernization theory attempts to explain why underdeveloped states fail to develop based on their cultural and economic conditions (barriers to develop) and to provide poverty solutions for the developing world. The theory argues that there are cultural and economic barriers to development.

The theory attempts to explain the processes of society development and social evolution in two levels as microcosmic and macrocosmic.Microcosmic factor focuses on the componential elements of social modernization while macrocosmic factors focuses on the modernization of nations, societies, economies, and political entities in those nations and societies.[36]

The cultural barriers are internal and thus depend much on the individual country's cultural practices. This theory sees western culture more conducive allowing the western countries to develop. These practices include modern Values which tend to inspire change and economic growth. Intricate division of labor, individuals having specialized jobs rational decision making

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[35] Jonathan Glennie, The Trouble with aid, why less could mean more for Africa, International African Institute, Royal African Society, Social Science Research Council, 2008, chapter 6, page 79

[36] Portes, A. (1976) On the Sociology of National Development: Theories and Issues. American Journal of Sociology 82 (1), 55–85.

and cost benefit analysis and efficiency are of more value. Weaker community and family ties meaning more individual freedom. People being motivated to innovation and change society positively and gender equality.

Economic barriers to development according to this theory making developing countries uninviting to investors includes political instability, lack of infrastructure, poor technology, lack of skilled work force and lack of capital in the country. For a country to develop then adopt western training to absorb the western culture and undertake the evolutionary process for economic growth which includes; to improve on agriculture, improving on roads and society communications (infrastructure),establish Industry (western companies and factories) to attract more investors and companies in the country. Reinvest / plough back the profits in infrastructure, investment in education, media and birth rate control in the country.[37]

1.8.2 Dependency Theory.

André Gunder Frank (1971) argued that developing nations have not developed as they ought not only because of their 'internal barriers or cultural barriers to development' as modernization theory states, but also because of the developed West that has methodically underdeveloped them by keeping them in a dependency state thus 'dependency theory'.

Frank argues that the capitalist system begun in 16th Century as an interlocking chain with one end to the core European Nations and the other the underdeveloped peripheral Nations. It is this chain that locked the Latin America, Asia and Africa to become the European Nations wealthy metropolis and are able to exploit the peripherals due to their economic and military power.

[37] Yuan Peng, Chinese Studies in History, Modernization Theory from Historical Misunderstanding to Realistic Development: A Review of a New Thesis on Modernization Theory. Published online: 08 Dec 2014

Between 1500 and 1960s the wealthy European nations accumulated much wealth through extracting natural resources from the developing world, the profits of which paid for their industrialization and economic and social development, while the developing countries were made destitute in the process. In the late 1960s the developed nations had an intention to keep the developing countries underdeveloped so they could continue taking advantage of their weak economies. Out of desperation countries sell their raw materials for a cheap price and offer cheap labor to economically strong countries. Frank states that developed countries dread the development of the poorer countries for their development will threaten the prosperity of European countries.

This theory states that the terms of trade and trade benefits the Western interests, increasing ascendancy of Transnational Corporation is for exploiting labor and resources in poor countries and that the western aid money is a way whereby the rich countries continue to exploit poor countries by keeping them dependent on them. Aid is, in fact, often in the terms of loans, which come with conditions attached, such as requiring that poor countries open up their market for western corporations.[38] Frank offers strategies for development as breaking away from dependency, associate or dependent development and breaking away from depending from west.

[38] Andre Gunder Frank, Sociology of Development and Underdevelopment of Sociology, Pluto Press, 1971

1.9 Research Design and Methodology

This section discusses on data collection methods and instruments, data analysis and data presentation of the study**.**

1.9.1 Research Design

This study used descriptive research design to evaluate the impact of public debts in the 21st Century on African states economy with a case study of Kenya. The main source of data being both primary and secondary data. The primary data was collected by use of the questionnaires administered to the respondents and secondary data derived from differently authored books, journals, any relevant literature and the general public.

1.9.2 Target Population

In this study the target population were the senior officials of different ministries e.g. Ministry of Trade, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Planning and Development and senior private sector operators. Targeted population sample size is 60 respondents evenly distributed.

1.9.3 Data Collection

The study used both open ended and closed questionnaire as the main tools of data collection. Also the Economic surveys from World Development Indicators (WDI), Global Development Finance (GDF), African Development Bank Reports, Institute of Economic Affairs – Kenya Report, Kenya National Bureau of Statistics Annual Report 2000-2017.

1.9.4 Data Analysis and presentation.

After the collection of data, it was analyzed and presented in graphs, words, charts and inferences drawn therewith.

1.10 Limitation of the study

1.10.1 Confidentiality

The study required some data which was considered confidential financial information, thus it was hard to get it. The confidential information is not easily availed to the public.

1.10.2 Accessibility

Lack of ample time and attention from the respondents both the top management and the general staff during their working hours .The researcher could not gather data from some of the respondents due to same challenge.

1.10.3 Over reaction by the respondent.

The researcher experienced some emotional respondents over the matter of public debt and the Nation. The topic being fresh in the public arena at the moment during data collection with much national and international debate, it was hard to get clear answers from some respondent while others left the questionnaires half way done, and others did not give back the questionnaire.

1.11 Chapter Outline

Chapter I

Chapter one describes the research problem and the literature gap, the research questions, the dependent variables of the study, the study hypotheses and the methodology adopted by the researcher. This is the introduction of the research study, it sets out the broad context of the research study by outlining the statement of the problem, justification of the study, theoretical framework, hypotheses and study's methodology. This is the chapter that hosts the literature review on the impact of external debts on Africans states development.

Chapter II

Chapter two is an overview of the external debts situation in African states. The chapter examines the impact of external debts on African state's social-economic and political development in the last fifteen years. The chapter also reviews on the debt levels for African countries.

Chapter III

Chapter three focuses on the impact of external debt on Kenya's development with a special focus on the social -economic and political factors in Kenya for the last fifteen years.

Chapter IV

Chapter four focuses on the policies governing external debts in Kenya and describing the extent to which the government has operated within the agreed policies and procedures.

Chapter V

Chapter five describes the effects and the impacts of public debt on a country's economy. Highlight on the direction Kenya is taking East or West as far as external debt is concerned.

Chapter VI

Chapter six highlights the main findings of the study, conclusions and recommendations.

2 EXTERNAL DEBTS AND AFRICAN STATES

2.1 Introduction

This chapter is an overview of the external debts situation in African states. The chapter examines the impact of external debts on African state's political and social – economic development in the last fifteen years. The chapter also reviews on the debt levels for African countries.

Development of a country can be measured socially (the development of the people in the country), economically (finances and wealth of the country), politically (political system and freedom in a country).All the measures should be balanced for a well-developed country. The aim of development is to create an environment in which the people can increase their capabilities, choices and opportunities.[39]The indicators or measures of a country's development includes Gross Domestic Product (GDP),Gross National Product (GNP),Gross National Product per capita, birth and death rates, Human Development Index (HDI),Infant mortality rate, Literacy rate and life expectancy.[40]

In the years 2000 to 2013 borrowing externally by African States rose hastily. The fast rise was influenced by the changes in the debt composition. For example the debt decline after the debt waiver in thirty three (33) African countries listed under the Heavily Indebted Poor Countries Initiative which took place in the years 2006 to 2009 and 2011 to 2013.[41] These countries include: Congo, Niger, Benin, Rwanda, Coted'Ivoire, Liberia, Burkina Faso, Ethiopia, Madagascar, Senegal, Zambia,

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[39] Todaro M.1997. Economic Development. 6th edition. London: Longman pp 16.
[40] Bob R.Economic development indicators, WEDS note 054. Loughborough University, 2017.
[41] UNCTAD. Economic Development in Africa Report 2016 pp 20.

Burudi,Gambia,Malawi,SierraLeone,Cameroon,Ghana,Mali,Tanzania,CentralAfricanRepublic,Guinea,Mauritania,Togo,Chad,Guinea-Bissau,Mozambique,Uganda,Eritrea,Sudan,Somali.

Table 2.1 List of Countries under HIPC Initiative Assistance by 2017.

36 Countries at the Post – Completion		
Afghanistan	**Ethiopia**	**Mauritania**
Bolivia	**The Gambia**	**Mozambique**
Burkina Faso	**Ghana**	**Nicaragua**
Burundi	**Guinea**	**Niger**
Cameroon	**Guinea – Bissau**	**Rwanda**
Central Afrin Republic	**Guyana**	**Sao Tome & Principe**
Chad	**Haiti**	**Senegal**
Comoros	**Honduras**	**Sierra Leone**
Republic of Congo	**Liberia**	**Tanzania**
DRC	**Madagascar**	**Togo**
Cote d'Ivoire	**Malawi**	**Uganda**
Rwanda	**Mali**	**Zambia**
Three Countries at the Pre- Decision Point		
Eritrea	**Somalia**	**Sudan**

Source: IMF (as of October 2017).

Eritrea, Somalia and Sudan are at the pre-decision stage for consideration for the external debt waiver.

2.2 Overview of African States development and External debt.

External debts among states are as old as international relations between and among sovereign states. It can be traced back to 9th Century when China borrowed funds from Europe to develop, improve and extend education, transport and rural development.[42]During the World War II, United States of America (USA) gave a financial support to Europe under Marshall Plan, for Europe to regain her economic stature after the World War II spillover effects.

In 1949, President Harry S.Truma gave a speech that founded the access of foreign aid and debts to developing countries to help them develop more. Africa begun to receive external funds from IMF and World Bank first for political affiliation and industrialization.[43]Today sovereign States borrow for specific development projects, to reduce domestic borrowing or and to reduce the inflation in the country. By 1980 after the lost decade in Africa, Africa had accumulated huge debts yet no much development had taken place. This lead to Structural Adjustment Programmes (SAPs) policies by the World Bank.[44]

[42]Hugh L. Keenleyside, *International Aid*,
[43]Louis Emmerij , *Aid as a flight forward', Development and Change (2002)*,
[44] John Darnton ,*Lost Decade Drain African's Vitality*

Table 2.2 International Debt for Sub- Saharan Africa

Years	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
External Debt	**$ Million**								
External-debt stocks	227519.2	257866.6	282877	312679.1	352766.9	381720.7	404922.8	422596	453950.2
Long term External Debt	172952.2	194603.4	220005	250868.2	280105.8	306950.5	332581.8	348459.3	378335
Public &Publicly guaranteed	135425.2	148840.2	159521.4	177365.4	200365.2	223143	245266.3	262157.7	285355.4
Private non-guaranteed	37527.1	45763.2	60483.6	73502.8	79740.6	83807.5	87315.5	86301.7	92979.7
IMF Credit use	6300.5	20007.2	19482	20743.3	21643.7	21933.7	20380.5	19396.7	18863.10
Short – term external debt	48266.4	43256	43390	41067.6	51017.4	52836.5	51960.5	54739.9	56752.1
Interest arrears on long term	13531.2	11459.5	11309.7	9093	9566	10093.7	9534.4	9533.4	9703.5
Official Creditors	9058.9	8566.2	8367	8062.8	8491.7	9048.9	8511.1	8548.8	8649.8
Private Creditors	4472.3	2893.3	2942.6	1030.2	1074.3	1044.9	1033.3	984.6	1053.7
Principle arrears	21488	19465.2	17434.8	17829.7	19012.7	20161.1	19344.9	18976.4	19240.1
Official Creditors arrears	16041.6	14779.5	12975.2	12396.8	13076.4	13770.4	13230.3	12866.4	13122.3
Private creditors arrears	5446.3	4685.8	1159.6	5432.9	5936.2	6390.7	6114.6	6109.9	6117.8

Source: 2014 The World Bank Group (International Debt Statistics in Sub – Saharan Africa)

The International Debt Statistics for Sub Saharan Africa for the period between 2008 and 2016 as shown by the World Bank in Table 2.2, Africa's debt levels kept rising. The External debt stock rose from $ 227,519.20 Million in 2008 to $ 453,950.20 Million in the year 2016.A change difference of $226,431 Million an equivalent of 49.9% increase in a span of eight years.

The long- term external debt which is a component of public and publicly guarantee debt and private non-guaranteed debt, increased with 55 % from $172,952.2 million in 2008 to $378,335 in the year 2016.Africa's external borrowing from private and public sources increased significantly. The public and publicly guaranteed debts increased with 52.6% that is $135,425.5million in 2008 to $285,355.4million in 2016.This is a less percentage compared to private non-guaranteed debt that rose from $37,527.1 million in 2008 to 92,979.7 million in 2016 a 60% increase. This shows Africa's gradual shifting from public and publicly guaranteed debt to private non-guaranteed debts.

During and after the lost decade era, most African states entered in public debts most of which they struggled to repay. To mobilize resources for public and private investment, sustainable debt financing was the idea by the international donors to help in preventing and resolving unsustainable debts[45].

To help the African states and other countries of the World who were in bad debts, World Bank, International Monetary Fund, other multilateral, bilateral and commercial creditors begun a Highly Indebted Poor Countries (HIPC) Initiative to resolved and relieve the World's poorest states off the debt burden. Under the initiative, out of the 36 identified countries, 30 are African states[46]. This is well demonstrated by the IMF credit use by the African states for the eight years. The amount varies from year to year as the Initiative rolled out in portion. The forgiveness of external debt contributed to the reduction of the long term interest on debt arrears, which reduced from $13,531.20million in 2008 to $9,703.5million in 2016, this is a 30% reduction. The arrears is for both private and public creditors for the period.

Africa seems to have a preference on private external debt for as the official creditors reduced from $16,041.6 million in 2008 to $13,122.3million in 2016, the private creditors increased with a $ 671.5 million in the same period.

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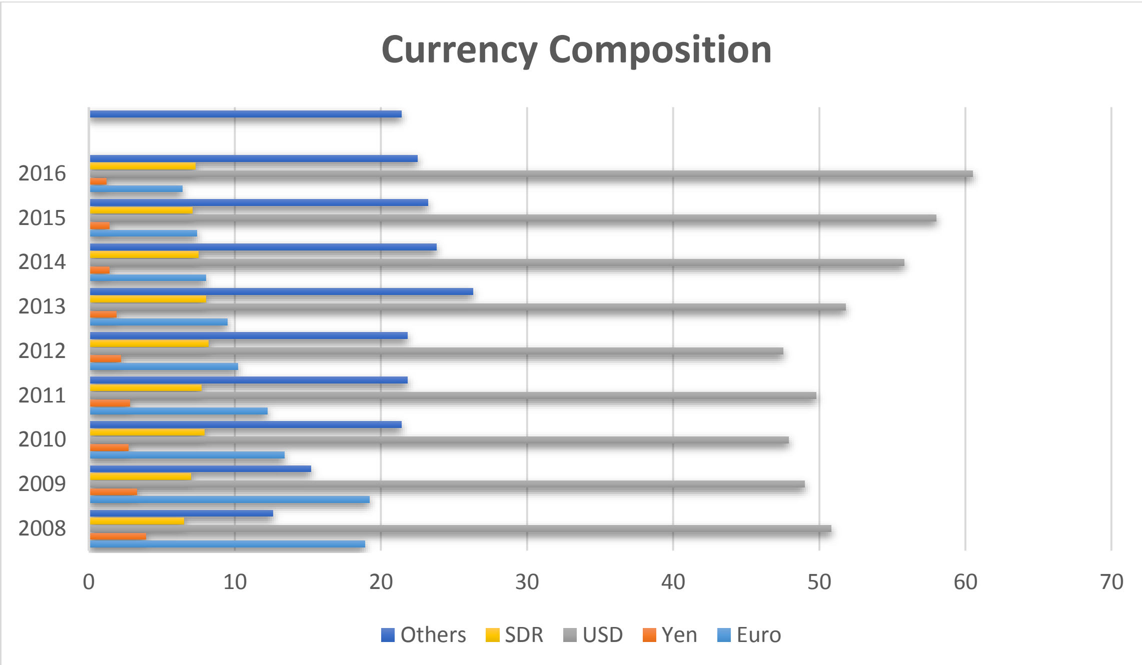
[45] African Development Bank, *African Development Report 2003,Globalisation and Africa's Development* (*African Development 2003)*

[46] World Bank, Understanding Poverty; Heavily Indebted Poor Country (HIPC) Initiative, January 9,2018

2.3 Africa Currency composition.

Figure 1 Currency Composition of Public & Publicly guaranteed Debt

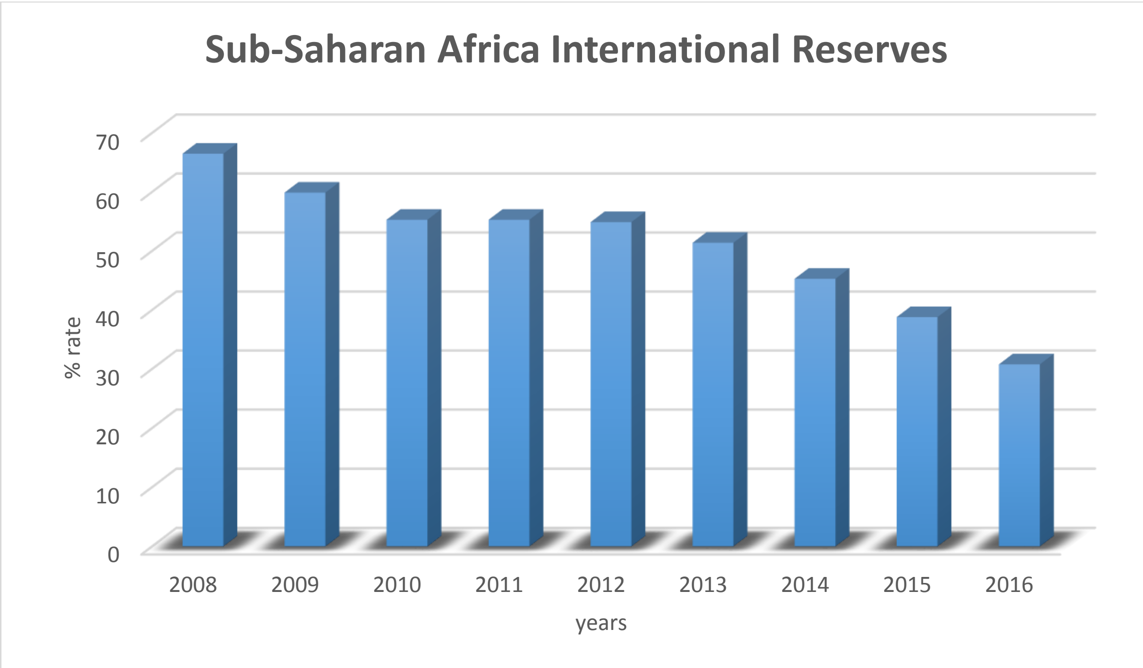


Source: 2014 The World Bank International Debt Statistics

United States Dollar has the highest percentage in Africa currency composition, with a highest percentage of 60.5% in the year 2016.In the others is the Chinese Yuan, which the African states have included in their reserve as China is presently gaining popularity in Africa. Euro is the second popular currency, followed by Special Drawing Rights (SDR) and the Japanese Yen. This would mean that the public and publicly guaranteed debt for Africa are majorly from United States, Europe and Japan.

2.4 Africa's international Reserves to External debt stock

Figure 2 Sub Saharan Africa International Reserve to External Debt Stock



Source: (2014) World Bank International Debt Statistics.

Every State must have a Balance of Payment account (balance of international payments) to facilitate all the international trade and financial transactions of a country. In 2008 the percentage of Africa's external asset (international reserve) to external debt reduced almost by half from 66.5% to 30.8 % in 2016.This increases vulnerability of Africa to speculative attacks, external shocks and financial crisis due to limited foreign exchange. As the external debt increased with years, the international asset for Africa kept fluctuating over the years due to fluctuation in exports earning over the period. In the year 2008 the international reserve increased from $151,191.7 million to $183,384 million in 2014 and followed by a reduction to $139,863.8million in 2016.

2.5 External debt Levels for African States

Debt level can be measured by the Public debt carrying capacity of a country which is the maximum amount of debt a country can owe and beyond which the country's growth can no longer increase. The debt-carrying capacity indicates how much a government can reasonably borrow.[47] That is, Public debt carrying capacity marks the maximum debt level of a country beyond which we may say the country has over borrowed.

External debt is good although can be harmful depending on the level of the debt accumulation and the management of the same. Different public debt levels have different impact on growth thus a bearable public debt level is needful for a country's economic growth and development. During the period 1970-2014 Nigeria's optimal debt carrying capacity was 29.7% debt GDP ratio, meaning the borrowing level of Nigeria should not go beyond this threshold otherwise a negative impact on the economy leading to debt distress[48]

The framework gives the guidance on lending and grant-allocation decisions to ensure the resources allocated to LICs are given on terms that are consistent with their long-term debt sustainability and progress towards achieving the Sustainable Development Goals (SDGs) and Millennium Development Goals (MDGs).[49]

The proposed debt sustainability framework based on two pillars:

(i) Indicative country-specific external debt-burden thresholds related to the quality of the country's policies and institutions.

[47] Ebi and Imoke: Public Debt Carrying Capacity and Debt Transmission Channels: The Nigerian Experience International Journal of Economics and Financial Issues | Vol 7 • Issue 5 • 2017 pp 42
[48] International Journal of Economics and Financial Issues ISSN: 2146-4138 available at http:ww.econjournals.com International Journal of Economics and Financial Issues, 2017, 7(5), 41-52.
[49] IMF.The Debt Sustainability Framework for Low-Income Countries Last Updated: July 13, 2018

(ii) (ii) An analysis and a careful interpretation of actual and projected debt-burden indicators under a baseline scenario. [50]

The debt-burden indicators are the debt threshold to monitor the sustainability of countries debt indicating the limit to the debt of a country beyond which debt becomes a serious burden and unsustainable.[51] These indicators are;

Table 2:5 DSF Debt Sustainability Indicators and Thresholds 25

DSF indicators and thresholds			
	Assessment of institutional strength and quality of policies		
Indicators	**Poor**	**Medium**	**Strong**
PV debt /GDP	30%	40%	50%
PV debt /exports	100%	150%	200%
Debt service/exports	15%	20%	25%
PV debt/ budget revenue	200%	250%	300%
Debt service/budget revenue	25%	30%	35%

Source: IMF Policy Paper (2017).Bretton Woods Institution (BWI)

2.6 Nigeria's development and external debts.

Nigeria is the Saharan Africa country with the largest economy whose backbone is petroleum and oil as the major government revenue. The 2008-2009 global financial crises brought diversification to Nigeria's economic drivers as Agriculture, telecommunication and service industry. In the oil- rich Nigeria more than 62% citizens live in notable poverty, there is insufficient power supply, lack of infrastructure and insecurity.[52]

Since the year 2000, external debts in Nigeria has been increasing. This increase has been due to the rapid growth of Nigeria's public expenditure especially on capital projects, the decline

[50] IMF.Public Information Notice: IMF Discusses Operational Framework for Debt Sustainability in Low-Income Countries April 5, 2004.
[51] Calvo, G.A. (1998), Capital flows and capital market crisis: The simple economics of sudden stops. Journal of Applied Economics, 1(1), 35-54
[52] The World Facts book, Central Intelligence Agency, Africa :Nigeria

in earning from oil and petroleum and overdependence on imports. The main sources of Nigeria's external debts are; Paris Club of Creditors, London Club of Creditors, Multilateral Creditors, Promissory Note Creditors (refinanced by uninsured trade arrears) ,bilateral and Private Sector Creditors.[53]

Nigerian's external debt burden has been due to inefficient trade and exchange rate policies, poor lending and inefficient loan utilization, poor debt management practices, accumulation of debt arrears and penalties. The debt levels increased due to the uncontrolled and inefficient borrowing pattern which were a factor of immense external borrowing in the 1980s after the collapse in oil prices, borrowing that was not linked to future growth or exports, insufficient concern to economic viable projects, poor implementation, weak governance problems and mismatch of loan terms and project profile.[54]

[53] Central Bank of Nigeria, External debt.
[54] Nzekwu, J. A. (2011) Emerging Challenges for Debt Management and Investor Offices, Central Bank of Nigeria www.centralbanking.com/debtmanagement

Table 2:6 Nigeria National Debt, GDP, Per capita, Unemployment rate and Poverty Incidences.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt million $	39,049	38,827	40,713	43,335	46,279	32,088	20,951	21,280	24,015
Debt (%) GDP)	57.60	53.10	43.27	42.09	35.49	18.94	9.40	8.12	7.28
Debt Per Capita ($)	328	318	324	336	349	236	150	148	162
Unemployment Rate (%)	5.1	6	10.6	10	7.8	9	13.4	9.85	9.84
Poverty Incidences	-	52.1	56.4	55.8	54.4	58.2	56	55.2	54.0

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt million ($)	25,670	35,388	50,249	58,707	66,649	74,295	78,918	79,542	
Debt (%) GDP)	8.62	9.60	12.13	12.74	12.94	13.07	15.98	19.61	
Debt Per Capita ($)	169	227	313	356	388	421	436	428	
Unemployment Rate (%)	9.84	9.85	9.78	9.77	9.77	8.52	8.05	13.03	13.41
Poverty Incidences	54	69	71.5	72					

Source: Countryeconomy.com, DMO (2013) and IMF (2012)

From Table 2:6, an increase in debt from the year 2000 to 2005 lead to an increase in Gross Domestic Product and per capita income in Nigeria. In 2006 the debt level dropped drastically and the outcome was a huge decline in GDP of the country and the debt per capita in the same year. The debt decline was after the creation of Debt Management Office (DMO) in 2000 to coordinate both international and local debt, but in 2005 there was no proper coordination which lead to major fundamental problems in the management of the external debt.

These problems were Inadequate debt data recording system, poor information, inaccurate and incomplete debt records, difficulty in verification of creditors' claim, complicated and inefficient debt service arrangements, inadequate manpower and poor incentive systems, lack of good and consistent borrowing policies and debt management strategies.[55]Therefore, it was difficult to procure international debts.

In the year 2007 the debt level increased but the GDP and Per capita debt declined, this was the beginning of the global financial crises that was well experienced in the year 2008 and 2009.In Nigeria the external debt increased, also the per capita debt and GDP in 2009 but in 2008 the GDP reduced even with increase in debt and per capita.[56]

In the years 1985 and 2005 the employment rate in Nigeria was constant with an increase of employment recorded in 2006 and later a steady gradual increase between the year 2008 and 2012.[57]Although according to the International Monetary Fund (IMF), the unemployment rates in Africa's two largest economies are high and alarming. In Nigeria, sub-Saharan Africa's largest economy, the unemployment rate is getting to 14% while in South Africa, the second largest economy, it is over 27%.

2.7 Democratic Republic of Congo's (DRC) development and external debts.

Democratic Republic of Congo (DRC) is the second largest country in Africa and the largest country in Sub-Saharan Africa. The country lies within the tropics with the equator cutting across it, DRC has a dense tropical rain forest with the deepest river (River Congo) in the world and the country is well endowed with vast natural resource wealth. In 2009 United States Geological Survey reported that DRC has an estimate of untapped mineral deposits of about $24 trillion and is the World's largest reserve of coltan and with 1 million tons of lithium resources.

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[55] European Journal of Business and Management www.iiste.org ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.6, No.33, 2014

[56] https://countryeconomy.com/national-debt ,countryeconomy.com

[57] Kareem, R.O (Ph.D.), Employment Level and Economic Growth of Nigeria, Journal of Sustainable Development Studies. Crescent University Nigeria Volume 8, Number 1, 2015.

The Democratic Republic of the Congo (DRC) has about 77 million inhabitants, less than 40% of the population lives in urban areas. With 80 about million hectares of arable land and over 1,100 minerals and precious metals, the DRC has the potential to become one of the richest countries in Africa and a driver of African economic growth and development if it overcomes its political instability and challenges.[58]

For about 32years since the year 1965 (shortly after independence in 1960) to 1997,DRCongo by then known as Zaire was under dictatorial leadership by President Mobutu Seseko in whose tenure the country obtained external debts of approximate 14 billion dollars. This left Congo's economy performing very poorly with a decline in per capita income leaving more than 70% of the population under absolute poverty.[59]In 1996, the World Bank, the International Monetary Fund (IMF) and other multilateral, bilateral and commercial creditors began the Heavily Indebted Poor Country (HIPC) Initiative .

The designed program was to ensure that the World's poorest countries are not overburdened by unmanageable and unproductive debt. Thus, the debt burden for 36 countries were reduces and DRCongo was considered under the programme.[60]In 2010 January, Congo reached HIPC Initiative completion point. This led to a decline in public external debts and GDP in 2010.The three years that followed, debt –to – GDP ratio increased steadily signifying new borrowing, much of this was bilateral loan agreements with China.[61]After the government qualified for HIPC Initiative in 2010, $1 billion out of the total debt of $9.1 billion related to 1992 debt.[62]

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[58] The World Bank IBRD.IDA.The World Bank in DRC.
[59] Leonce N. & James K. B.Congo's Odious Debt: External Borrowing and Capital Flight in Zaire pp 196.
[60] The World Bank IBRD.IDA, Understanding Poverty - Heavily Indebted Poor Country (HIPC) Initiative, January 9, 2018.
[61] Democratic Republic of the Congo: Debt Sustainability Analysis; IMF Country Report No. 15/263.
[62] [62] Tim Jones, Jubilee Debt Campaign. Hidden debts contribute to crisis in Congo, 18th Oct 2017.

Poverty in a country under much rich untapped mineral deposits was facilitated by systemic corruption since independence in 1960s, National instability and recurrent conflicts in early-90s.These led to reduced national output (Gross National Product), decline in government revenue and an increase in external debt. There was some efforts to implement economic reforms by President Kabila and his transitional government of 2003.The process was slow because of the country's political instability, bureaucratic inefficiency, corruption, and patronage. Affecting adversely the country's international investment prospect. There has been long term problems for the large mining companies and the government which includes; uncertain legal framework, corruption, and lack of transparency.

Although there is much economic activities in Congo's informal sector which are not reflected in the country's GDP data, Congo is in a widespread poverty characterized by failed millennium Development goals, low commodity price, currency depreciation, erratic inflation and a growing fiscal deficit.[63]

[63] The World Facts book, Central Intelligence Agency, Africa :Congo, Democratic Republic of Congo

Table 2:7 DRC National Debt, GDP, Per capita, Unemployment rate and Poverty Incidences. 31

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt million $	25,739	14,843	11,876	10,252	14,667	12,111	14,910	14,216	14,110
Debt (%) GDP)	134.98	181.62	136.04	114.46	141.76	101.47	104.30	86.89	73.81
Debt Per Capita ($)	547	307	238	200	277	221	264	243	234
Unemployment Rate (%)	4	4.7	5.8	6	5.5	5.1	4.6	4.6	5.8
Poverty Rate (%)					69.3				

	2009	2010	2011	2012	2013	2014	2015	2016
Debt million $	15,500	6,367	6,025	6,265	6,541	6,288	6,188	6,600
Debt (%) GDP)	84.51	30.88	24.51	22.74	20.02	17.51	16.11	16.78
Debt Per Capita ($)	248	99	90	91	92	85	81	84
Unemployment Rate (%)	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9
Poverty Rate (%)				63.9				

Source: Countryeconomy.com, DMO (2013) and IMF (2018)

The number of people actively looking for employment as compared to the labor force available in Congo rarely reduces below 4-5% even during the boom seasons. There are always people moving between different sectors and cities.[64]

In March 2017 press release, the IMF claimed Congo government to have a debt of 77% of Gross Domestic Product and in September there were hidden debts with a report in October showing a debt 110% of GDP ($9.1billion).Due to the fall in GDP attributed by the fall of oil price which drastically reduced the government revenue, Congo increased her external debt, loans and undisclosed debts. In October 2017, Congo carried debt restructuring which required money thus the Congolese government guaranteed the restricting costs by the proceeds from the sale of oil.

[64] The GlobalEconomy.com Economic indicators for over 200 countries.

Out of the country's \$9.1billion debt, only \$478 million is bonds with an interest of 2.5% (\$12 million) maturing in 2029.[65]

2.8 Libya development and external debts.

Libya is a northern Africa country, it is the 17th largest nation in Africa in land area terms. Libya obtained her independence from Turkey in 1951.Tripoli is the capital city and political center of Libya. Before the fall of Libyan economy, the government fully depended on hydrocarbon production and export which amounted to 70% of the GDP and accounted for 2 percent of global crude oil production. During this time the Libyan economy was not fully diversified. In the year 2011 after the violet protest and conflicts in the country, the crude oil production fell and the country recorded a reduced surplus from hydrocarbon produce. The protest and conflict brought about a disruption in the economy in that the non - hydrocarbon economic activities were greatly affected for example the infrastructure and production lines were greatly destroyed, banking activities too, there was a limited access to forex and the expatriates in the country left for their countries.

Because of the reduced crude oil income, the government could not meet its budget on humanitarian needs, capital expenditures, policy changes for example increased wage bill. To finance the deficit the government borrowed from the Central Bank of Libya (CBL) and drawing down the bank deposits.

The 2011 budget in Libya was financed by borrowing and immediately there was a revolution and Libya begun to grow diversely and inclusively rebuilding its economy, infrastructure, institutions and responding to the population demands mostly the improved governance[66]

[65] Tim Jones, Jubilee Debt Campaign. Hidden debts contribute to crisis in Congo, 18th Oct 2017.
[66] International Monetary Fund, 2012.Libya beyond the Revolution: Challenges and Opportunities.

U.S. Institute of Peace since the year 2011 has been helping Libya to restructure itself after the protest and conflict by laying a foundation for national peace agreement with local conflict resolution, dialogue, and rule of law initiatives in Libya's most conflict-ridden communities. "The work includes; Strengthening the Security Sector and Rule of Law, Improving Conflict Management Skills, informing Policy through Research and Convening Leaders for Peaceful Cooperation".[67]

Before the conflict and protest, Libya was one state that has not engaged in external borrowing in a greater measure unlike most African countries. In 1992 under the Regional African Satellite Communication Organization RASCOM) for Africans to reduce their communication costs, the World Bank, the International Monetary Fund and other donors imposed tough borrowing conditions, Libyan dictator Muammar Gaddafi, African Development Bank and West African Development Bank offered US$ 300 million, US$50 and US$ 500 million to fund the project which was completed in December 2017.Libya had pledged to fund African projects one being the creation of African Investment Bank to end the dependency on the Bretton woods Institutions but the United Stated Of America freezed the accounts.[68]

Libya owns a lot of national assets scattered internationally frozen by the United Nations since 2011.The country also has huge reserves of oil and gas, with the largest crude oil reserve in Africa and ninth-largest globally also with the fifth rank in the World for recoverable shale oil reserves, estimated at 26 billion barrels.[69]

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[67] USIP, United States for Peace. The Current Situation in Libya. A USIP Fact Sheet. Thursday, April 5, 2018

[68]Empire strikes black. The Arab World. Gaddafi's refusal of the World Bank, IMF, Western multinationals & AFRICOM: the real casus belli obscured by 'humanitarian' deceits 2 May 2011.

[69] Guma el-G.Middle East Eye. Libya Crisis. Libya, North Africa, economy. Monday 19 February 2018 Monday 26

Table 2:8 Libya National Debt, GDP and Per capita income.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt million $	1,374	1,374	1,572	1,339	2,294	1,743	2,140	9,339	1,839	2,451	16,157	-	-
Debt (%GDP)	4.16	2.91	2.86	1.98	2.63	2.76	2.86	26.61	2.25	3.71	36.39	-	-
Debt Per Capita	246	246	276	323	390	292	354	1560	293	391	2581	-	-
Unemployment rate (%)	-	-	-	19.3	18.9	18.3	18.6	15.8	19	18.7	18.5	18.4	17.7

Source: Countryeconomy.com/International Labor Organization (ILO)

External debts is not Libya's culture but from the little debt they acquired there was an increase in GDP and the per capita income. For example the year 2011 and they year 2014, the debt level increased, GDP grew, Per capita increased and more jobs were created in those years for unemployment level reduced.

Libya with huge wealth, the country is in conflict of political power control and without peaceful wealth-sharing system. Like many African states, Libyan government lacks transparency and accountability mechanisms, has weak institutions to implement good governance, presence of corruption culture.[70]

2.9 Zimbabwe's development and external debts.

Zimbabwe is a southern Africa landlocked country famous for its beautiful landscape, diverse wildlife with parks, reserves and safari areas. Zimbabwe is one African country that has experienced major economic fluctuations ranging from hyperinflation, external debts defaults, unsuccessful structural adjustment Programmes (SAPs) and at some point abandoned the country currency and adopted the dollar to curb the hyperinflation.

[70] Guma el-G.Middle East Eye. Libya Crisis. Libya, North Africa, economy. Monday 19 February 2018 Monday 26

In the years 2000-2016, Zimbabwe had serious debt crises and was in distress. One of the factors which led to this situation was huge amounts of outstanding external debt arrears. Because of these debt arrear, external financing was difficult and scarce thus the country financed its large fiscal deficits by domestic borrowing. This resulted to a crowding out effect and the country had to suffer the consequences. In 2012 domestic debt was negligible compared to 2017 domestic borrowing that was 25 percent of GDP. ”For Zimbabwe to gain debt sustainability then there must be a strident fiscal consolidation and external support from the international community”.[71]

The political and economic crisis in Zimbabwe between 2000 and 2008 reduced the country's GDP by half and raised the poverty levels by 72% with a fifth of the whole population in great poverty. The country's health, education, other social amenities and basic services which were ones the regional models were left in shambles.[72]

The International Monetary Fund (IMF) called for Zimbabwe to the understanding of the country's debt and the sustainability of the same as well as to clear the debt arrears. In 2017 the country's public debt was $11.6 billion 82% of GDP and in 2018 13billion 79% of GDP which is a violation of the provisions of the Debt Management Act (DMA) that government debt should not exceed 70% of gross domestic product (GDP) . IMF is trying to agree on a program that will stimulate growth and help curb the development challenges in Zimbabwe.[73]

In May 2014, the World Bank Board of Directors approved the country's multi-donor trust fund called Zimbabwe Reconstruction Fund (ZIMREF) that will run till December 2019 to strengthen Zimbabwe's systems for reconstruction, development, stabilization, reform and eradication of poverty. The supporters and donors to ZIMREF are Denmark, the European Union,

[71] Zimbabwe: Debt Sustainability Analysis; IMF Country Report No. 17/196, June 19, 2017
[72]World Bank http://www.worldbank.org/en/country/zimbabwe/overview
[73] Newsday : IMF says Zim must deal with debt April 24, 2018

Germany, Norway, Sweden, Switzerland and the United Kingdom. As on 31st December 2015, eight projects were approved under ZIMREF's contributions totaling to $40 million. The eight projects were: National Water Project, Public Financial Management Enhancement Project, Public Procurement Modernization Project, Business Environment, Financial Sector and Investment Policy TA, Results-based Budgeting TA, Capital Budgeting TA, Poverty Monitoring and Evaluation TA and Climate Change TA.[74]

Table 2:9 Zimbabwe's National Debt, GDP, Per capita, Unemployment rate and Poverty Incidences.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt million $	2,991	3,211	3,477	4,096	5,997	5,969	5,837	6,366	7,360	7,854	-	-
Debt (%) GDP)	38.20%	45.56%	51.61%	70.56%	71.67%	59.29%	48.35%	45.29%	48.35%	49.60%	-	-
Debt Per Capita ($)	253$	267$	289$	338$	490$	484$	469$	487$	489$	510$	-	-
Unemployment Rate (%)	-	-	4.83	5.43	5.47	5.26	5.37	5.37	5.3	5.27	5.19	5.18

Source: Countryeconomy.com/International Labor Organization (ILO)

From Table 2:9,year 2005 through 2009 the debt increased, the GDP debt increased too, in 2009 the rate exceeded the Debt Management Act provisions of 70%.During this time the country was suffering from hyperinflation, the price of commodities in the market was rising rapidly. The country abandoned its currency for dollars and it helped in stabilizing the inflation which in turn reduced the GDP debt ratio even with the increase of the debt level.

Unemployment Rate in Zimbabwe reduced to 5.16 percent in 2017 from 5.18 percent in 2016. Since 1982 until 2017 the average unemployment Rate in Zimbabwe is 5.74 percent. In 1982 it was 10.80 percent the highest it has ever been recorded and the lowest of 4.17 percent in 2004

[74] The World Bank : Zimbabwe Reconstruction Fund (ZIMREF)

so far.[75]Zimbabwe applied to be considered under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).To be considered the country must meet several condition that includes needs to clear its arrears to the (PRGT) – Poverty Reduction and Growth Trust.[76]

[75] https://tradingeconomics.com/zimbabwe/unemployment-rate

[76] Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Statistical Update; IMF Policy Paper, March 15, 2016 pp 9

3 EXTERNAL DEBT AND KENYA'S DEVELOPMENT

3.1 Introduction

This chapter focuses on the impact of external debt on Kenya's development with a special focus on the social -economic and political factors in Kenya for the last fifteen years.

Many developing countries as well as Kenya incurs external debt for capital inflows in their countries. This borrowing is either bilaterally, multilaterally or international donors including IMF and World Bank.[77] In the past Kenya's 78% of the external debts has been bilaterally acquired with a multilateral share increasing in 1980s and 1990s because of the SAPs offered by IMF.[78]Kenya has had donor interruptions with the International Monetary Institutions because of the conditionalities attached to the external debts. Other reasons being commitment to adjustment targets, corruption and governance issues during Moi's long-term control of the presidency and his multi-party elections.[79]

Among the Kenyan's potential international creditors whose debts and aid was freezed in 1990s due to political reformation issues are the IMF's Enhanced Structural Adjustment Facility (ESAF), the World Bank Sectoral Adjustment Loans (SECALs) in Agriculture, Export development and Education, the Asian Development Bank (ADB) funds, Japan, the European Union (EU) and its members like Britain, the Netherlands, Germany and the United States. Due to financial pressure, the government made reforms and received a new structural Adjustment Credit (SAC) with International Development Authority (IDA).[80]

[7777] Radelet, S. (2006). A Primer on Foreign Aid. Working Paper No 92. Washington, Center for Global Development

[78]Mwega, F. M. (2004). Foreign Aid, Monetary Policy and Economic Growth in Kenya, paper prepared for Kenya Institute for Public Policy Research and Analysis (KIPPRA).

[79] Ndulu, B. and F. Mwega (1994),"Economic Adjustment Policies", in: Barkan, J. (ed.), Beyond Capitalism vs. Socialism in Kenya and Tanzania, Boulder: Lynne Reinner

[80] World Bank (2001b), A Case for Aid: Building a Consensus for Development Assistance, Washington DC: World Bank

The Kenyan government borrows funds from multilateral organization, bilateral sources, commercial creditors, credit suppliers and public guaranteed debts. Multilateral organization are IMF and World Bank, bilateral sources are mostly the countries in good relations with Kenya which include China, France, Germany, Japan, Finland and Netherlands.[81] On Sunday July 30, 2017 Daily Nation reported on the major commercial loans on China financing the first and second phase of the Kenya Standard Gauge Railway (SGR) line and Japan financing the construction of the second port at Mombasa.[82]

External debt in Kenya has been increasing with years. According to country economy .com in the year 2005 the Kenyan debt reached over $10 billion and has been increasing to the present debt of $49.5 billion an equivalent of Ksh5 trillion.

Multilateral debt has been decreasing since 2014, as bilateral and commercial debt continues to rise. In 2014 Kenya's multilateral debt was at 54.7 per cent, but has now reduced to 44 per cent. Bilateral debt was 27 per cent now risen to thirty percent (30%) and commercial debt is up to ten per cent (10%) from point six percent (6%) of the total public debt.[83] The increase of the bilateral loans has been influenced by the Chines loans to finance standard gauge railway. The more external debt may bring the country at the crowding effect situation or even at the dangers of vulture funds.

The external debt should help in increasing the crowding in effect (*high propensity for individuals and firms to engage in economic activities increases by reducing the individuals and*

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[81] IMF ,Kenya , December 23, 2016,First reviews under the twenty-four month standby arrangement and the arrangement under the standby credit facility and requests for waivers of
applicability, rephrasing of disbursements, and modification of performance criterion–debt sustainability analysis update PP 3

[82] Herbling D. Kenya's borrowing crosses the red line, putting the economy at risk – Kippra, Daily Nation, Nairobi, Sunday July 30, 2017.

[83] Business Daily (BD). National Treasury of Kenya. The country's public debt has crossed the $49.5 billion mark. The East African, Thursday June 14 2018.

firms from tax burden) in a country. Although in Kenya this has not been the case for the last five years for the debt stock has been increasing as well as the taxes, Kenya has acquires a mega project -Standard Gauge Railway (SGR) that will enhance the growth of the country's economy as well as development. This is together with the reduced corruption and embezzlement of public funds.

Table 3:1 Kenya National Debt, GDP and Per capita income.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Debt million $	7,380	8,172	9,142	10,103	9,722	10,139	11,357	12,262	14,876	15,236	17,745	17,947	22,112	24,232	29,880	33,043	37,717
Debt (%) GDP)	52.23%	56.22%	61.84%	60.13%	53.80%	48.34%	43.98%	38.37%	41.47%	41.10%	44.40%	43.05%	43.88%	43.96%	48.56%	51.64%	53.47%
Debt Per Capita ($)	250$	270$	294$	316$	296$	300$	327$	343$	406$	404$	461$	454$	543$	580$	649$	700$	778$
Unemployment Rate (%)	10.1	10.2	10.3	10.4	10.5	10.5	10.67	10.83	10.93	12.17	12.09	11.99	11.88	11.77	11.67	11.52	11.47
Poverty Rate (%)	-	-	-	-	-	43.7	-	-	-	-	-	-	-	-	-	36.8	-

Source: Countryeconomy.com/World Bank

From Table 3:1 the debt in Kenya has been increasing with years, the debt to GDP percentage and the debt per person has been increasing too. In 2007, the debt increased but the GDP declined with an increase in per capita debt. In the same year the country experienced inter-tribal clashes that had an adverse effect on the economic growth of the country. In the period between 1996 and 2005, the composition of public debt changed with the share of external debt reducing to 57.9 per cent from 74.2percent and that of domestic debt increasing to 42.1percent from 25.8percent.[84]

In 2008 the country experienced severe drought and the post-election violence again this was the year of the global financial crisis. This enhanced the increase of public debt in the following year in that the debt rose from Ksh.870 billion in June 2008 to Ksh.1, 400 in 2011 and an increase in Public debt to GDP from 42% of GDP to 50%.[85]

Unemployment rate has been increasing since 2000 through 2009 .It was highest in the years 2009, this was after the post-election violence that left much property destroyed and many Kenyans displaced from their residence. The external debt increased in the same year, but it did not translate to job creation in the same year. In 2010 the unemployment rate begun to reduce with the increase in debt, GDP and per capita from 12.09% in 2011 to 11.47% in 2017.According to the World Bank, the proportionate number of Kenyans living under the international poverty line (US$1.90per day in 2011 PPP) has significantly reduced from 43.7 percent in year 2005/06 to 36.8% in year 2015/16.[86]This means that as the debt level has been significantly increased from $10 billion in 2005 to $33 billion in 2015, the poverty level has reduced significantly too with a margin of 6.9%.

For the years 2000 to 2013, with a deliberate strategy to safeguard the credit rating and a continued access to new funds, Kenya has done well in reducing the debt to GDP ratio without debt relief either under HIPC or MDRI like some African countries. The nominal Debt to GDP ratio has without debt relief either under HIPC or MDRI like some African countries. The nominal

[84] Republic of Kenya ministry of finance debt management department .annual public debt management report July 2005 – June 2006. March 2007.
[85] Kenya Ministry of Finance .Annual public debt management report July 2009 – June 2010.May 2011
[86] http://povertydata.worldbank.org/poverty/country/KEN

Debt to GDP ratio lowered from a high of 77.4 percent in June 2000 to 51.7 per cent in June 2013.The external debt to GDP ratio declined by almost 50 per cent.[87]

3.2 Development in Kenya.

For the last fifteen years Kenya has developed as compared to other years in the past. This was proved true from the data collected in the field, that Kenya has had a phenomenon transformation for the years covered by the study. Among the many, some of the remarkable developments includes;

a) Improved infrastructure transport network.

Many Kenyan appreciates the improved development of rail, road, air, sea transport system. This has opened up the country for more business in all sectors. The farmers in the village can transport their merchandise in urban areas with ease and for more profits. A chain market manager can be in more than four meetings in a day and in different towns .Transport has been made easier, affordable and more accessible.

Because of the improved transport, we have many domestic tourist exploring the county since it easier and cheaper. For example we have many people visiting Coast using the Standard Gauge Rail (SGR).Others visiting Kisumu city for a fun flight that is affordable even to the lowest middle class and some high- low class people in the society.

b) Improved housing

There has been building of residential houses by the government, private companies and the individuals too. This has helped to improve many peoples' housing conditions in the country.

[87] Dr. H. Sirima Kenya's economic success, prospects & challenges: managing public debt to lower risks. Central Bank of Kenya. September 2013.pp 1-20

In many areas including the rural areas housing has really improved from temporary unsecure hosing to permanent houses.

c) Rural electrification

Many Kenyan both in rural and urban areas are using electricity as the major source of fuel for lighting and cooking. Electricity has spread in most parts of the country as compared to 1990s. With the electricity it has become easier to run businesses even in the villages and to begin processing firms. Farming has become easier and more entrepreneurial than before for farmers can use electricity to run machines in cutting fodder, drawing water and brooding the animals need be. This has resulted to improved village life as compared to twenty years ago.

d) Improved health services.

Most female respondent noted this with keen interest of the most village hospitals upgrade and construction of more in that almost all Kenyans can access health care .In this hospitals children are charged absolutely nothing while adults charge is very low and affordable. The emphasis and utilization of the use of National Hospital Insurance Fund (NHIF) made available to all Kenyan. Now all Kenyans can access all health services everywhere at an affordable price. This helps to reduce the mortality rate for expectant mothers and their babies can receive services almost instantly.

e) Free primary education (FPE)

The government implemented a free primary education policy in 2003.The policy to cover the first eight years of basic schooling. Later in January 2008, another policy was unleased to cover four years for Free Secondary Education (FSE).This has helped to reduce the illiteracy level in the country for all Kenyan children can learn at no cost.

f) Expansion of overseas business opportunities.

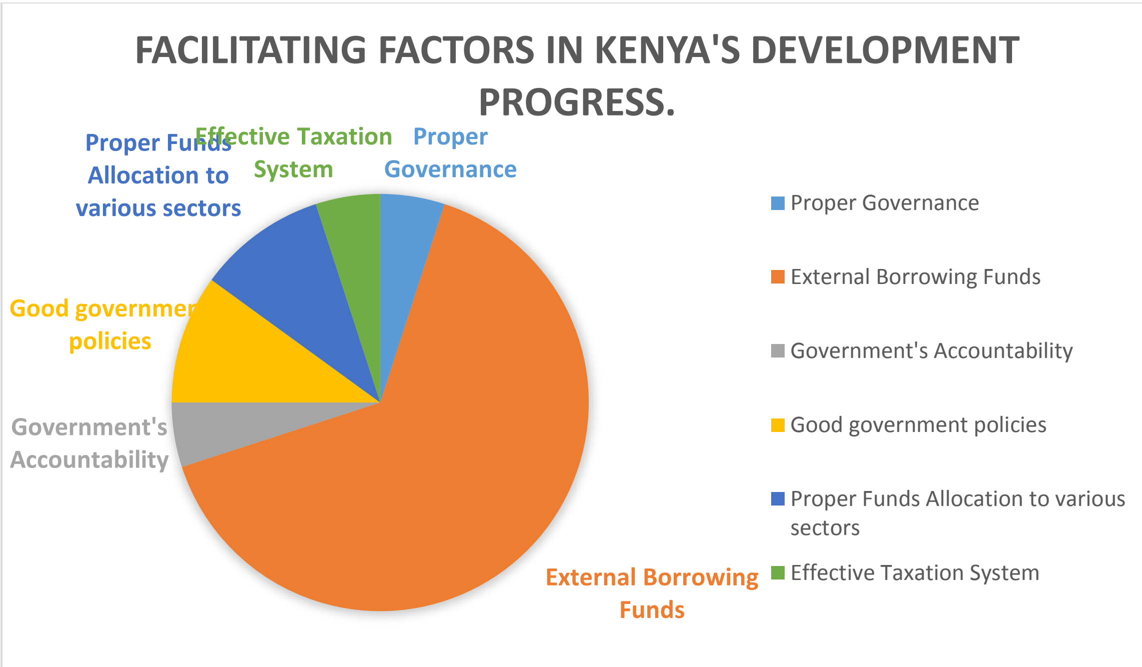
Since the year 2000 globalization has been experienced in Kenya, with many business persons travelling abroad for business especially in China after the bilateral agreements the country has with China. This has opened up many opportunities that have created employment for Kenyan.

3.3 Factors for development in Kenya

The development in Kenya in the last fifteen years has been attributed to many factors. This study explored the following factors from the respondents. Among them are; proper governance, external borrowing funds, proper government accountability, good government policies, proper funds allocation to various government sectors and effective taxation system in the country. Most responds gave credit of development on the external borrowing. Meaning borrowing has had a great impact on the development of country among the listed.

Proper governance and good policies in the country has also contributed to the development of the country. The government received a commendation on its accountability, proper allocation of funds of funds to various sectors and its taxation system, as illustrated below.

Figure 3: Responses on Facilitating Factors in Kenya's development progress.

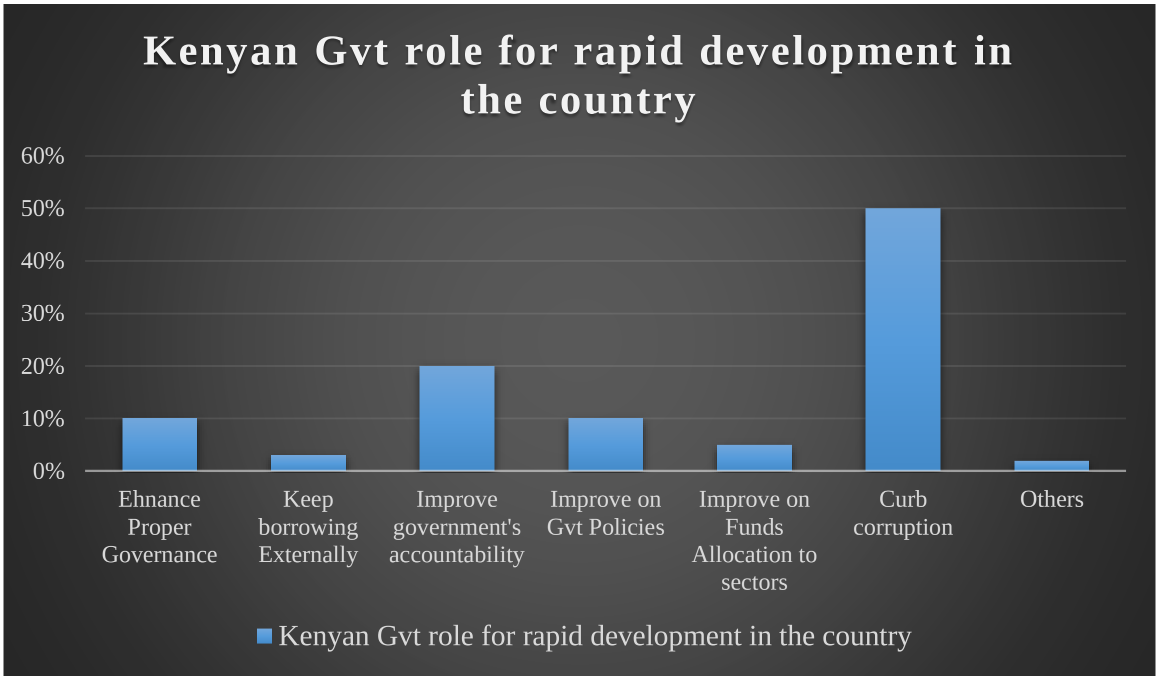


Source: Own survey (2018)

From Figure 3, the government need to put more effort on improving the listed attributes of Kenya's development. From the diagram it means without debts no development in Kenya.

For Kenya to experience rapid significant development, then the government must improve on its accountability and curb corruption in the country, as illustrated figure 3 below. Corruption seconded by government's accountability are the biggest menace of the country's rapid development. The respondent felt that Kenya need not to keep on borrowing nor enhance its governance and policies neither improve its funds allocations to various government sectors but curb corruption and improve accountability.

Figure 4: Respondent's on Government's role for rapid development in Kenya



Source: Own Survey (2018)

From Figures 2 & 3, with the amounts of money Kenya borrows externally when put into the proper use and correctly accounted for without a loss of any coin or diversion of purpose, then Kenya will experience rapid development. Kenyans appreciates policies and governance in their country. Governance, policies, allocation of funds and taxation system are not as major concern for the country's development as corruption and accountability of public funds.

3.4 Kenya's External debts share by sectors.

From the year 1996 to 2005,a large portion of external debts were used to finance the construction of roads, water and sewerage ,energy, education upgrade and health project in Kenya.[88]According to the central Bank of Kenya 2013, the average external loans acquired in the

[88] Republic Of Kenya Ministry Of Finance, Debt Management Department Annual Public Debt Management Report July 2005 – June 2006, March 2007 pp 6.

year 2000 to June 2013 were used to finance infrastructure related projects mostly energy, CT and roads.

Table 3:4 Percentage of Kenya's External debts by sectors.

Kenya sector share of External Debt by percentage				
Sector	***2011***	***2012***	***2013***	***2016***
Energy, ICT, Roads & Infrastructure	32.4	34.1	36.6	41.8
Public Administration & Foreign Affairs	12.1	7.7	13.9	23.4
Finance & Labor Affairs	17.8	10.2	19.8	11.2
Environment, Water & Housing	20.8	28.1	8.0	8.6
Agriculture	13.0	6.5	10.9	6.3
Health	2.6	0.9	5.4	4.2
Education	1.2	12.4	5.6	3.5
Others	0.1	0.1	-	1
Total (%)	***100***	***100***	***100***	***100***

Source: The Kenya National Treasury Debt Management Report (2010-2016)

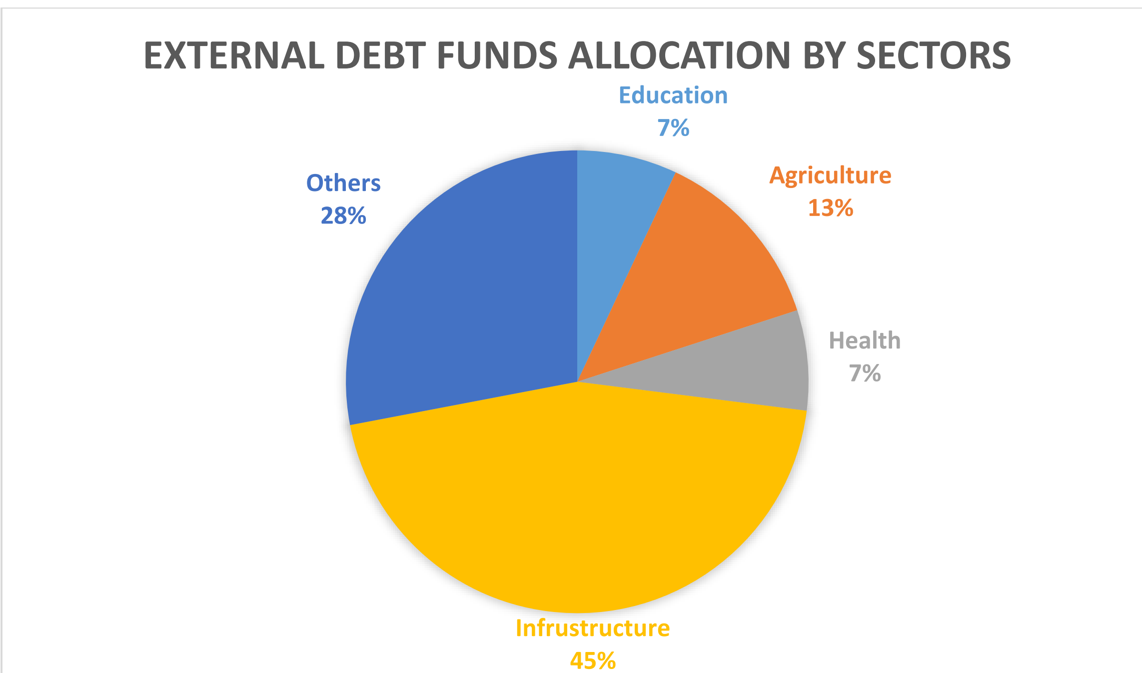
From Table 3:4, there is a notable change on the distribution of funds among the Kenyan government sectors. In 2011, the major benefactor sectors were; 1. Energy, ICT, Roads & Infrastructure 2. Environment, Water & Housing 3.Finance & Labor Affairs 4. Public Administration & Foreign Affairs. In the year 2012, the beginning of multiparty reign in Kenya with the third Kenyan president Mwai Kibaki. His government declared free public primary education, free public health care and he begun the construction of infrastructure with an example of the Thika Super High way. This brought about the restructuring of percentage funds allocation to various sectors, Infrastructure, Environment and education getting the biggest share.[89]

Energy, ICT, Roads & Infrastructure has taken the lead since then. Much of the borrowed funds is being used up in infrastructure for example the Standard Gauge Railway (SGR),construction of the Mombasa port ,the completion of the Thika – Nairobi super high way

[89] Maria Kanini Wambua, Key dates in Kenya's history. DAILY NATION: THURSDAY DECEMBER 12 2013

and its by-pass feeder roads. Although many Kenyan think Agriculture sector receives a greater share, there is a concern on the growing percentage share on the Public Administration and labor affairs sector. This increase is caused by the increase in Kenyan wage bill. From Table 3:4 in the year 2016, 76.4% of the funds went to Infrastructure, public administration and labor affairs of the countries. The government should watch over and care for the sectors offering social amenities and public goods and services and that is education, health, housing and agriculture whose percentage share of funds has reduced.

Figure 5: Respondent's on External debt funds allocation by Government sectors



Source: Own Survey (2018)

According to this study (Figure 5) much of the debt funds goes to infrastructure, these are the roads, rail, seas and air network upgrading and construction of new ones for example the SGR, Kisumu National Airport. Education and health gets the same share, these are the social amenities the government is offering free. The upgrading of hospitals and schools, upgrading of the systems to run them and constructing new learning institutions (primary, secondary and tertiary) and hospitals has taken quite some percentage of borrowed funds.

Others constituting 28% include government administration costs which includes the country wage bill amounting to 15% of the share. The wage bill in Kenya high because of the many additional civil servants as provided by the constitution. In others also there is the housing and environment that accounts for 10% of the share.

3.5 Kenya’s major External debts creditor.

In the years from 1996 to 2005, the main financiers of the external debts were; The International Development Association (IDA), African Development Bank (ADB) Group and the European Investment Bank (EIB) were the major multilateral. Major bilateral creditors were Japan, France and Germany.[90] The biggest external debt proportion for Kenya is from multilateral sources, although it has many conditionalities the servicing cost is cheaper compared to bilateral loans which do not have much conditionalities.

From Figure 3.5 in the years 2006 to 2016 International Development Association (IDA), African Development Bank (ADB) Group and the European Investment Bank (EIB) remains to be the major multilateral financiers of the external debts. Bilateral financier’s changes especially from the year 2012, China gets pronounced .From 4.8% in 2012 to 17.4% in 2016, a 12.6% difference rise in only five years. As China gives Kenya more money, Japan who used to be the biggest bilateral financier to Kenya reduces the share from 14.1% in 2012 to 5.3% in 2016, an 8.8% reduction in five years.

[90] Republic Of Kenya Ministry Of Finance, Debt Management Department Annual Public Debt Management Report July 2005 – June 2006, March 2007 pp 6.

From table 3:5, it is clear that the share Japan's contribution to Kenyan has been lost to China. It is evident that the present Kenyan government has relied heavily on China and especially the Chines-built and Chinese –financed projects to achieve the president's infrastructure campaign promises. The positive spillover effects will continue to benefit the citizens for many years.[91]

Table 3:5 Kenya's major External debts creditor.

Name	**2006**	**2007**	**2008**	**2010**	**2012**	**2015**	**2016**
IDA (World Bank)	47.4	44	46.1	44	38	28.6	27.4
Commercial	-	-	-	-	18.2		24.1
China	-	-	-	-	4.8	17.7	17.4
ADB/AfDB	6	6.8	6.8	6.8	9.3	11.3	10
Japan	8.4	11	10.7	11	14.1	5.6	5.3
IMF	-	6.3	-	6.3	4.5	6.1	4.7
France	4.3	5.1	5.2	5.1	4.8	4.1	3.3
Germany	3.2	2.8	3.5	2.8	3.2	1.6	1.7
Italy	0	0.9	1.4	-	-	0.1	-
EEC/EIB	3.1	2.2	2.6	2.2	1.1	1.4	1.2
Spain	-	-	-	-	1.3	-	1.1
Belgium	-	-	-	-	0.6	-	0.4
Others	17.6	20.9	23.7	20.9	-	11.2	3.4
Total (%)	***100***	***100***	***100***	***100***	***100***	***100***	***100***

Source: The National Treasury (2006-2016), IMF- external debt statistics (2017) & World Bank – Data AND Statistics (2016).

3.6 Kenya Debt stock and over borrowing

Debt stock is an economic indicator that reflects the external debt position of a country. It can either be External debt stock or Gross external debt.

[91] 91 Irene Ombati .Why Jubilee's infrastructure development stimulates Kenya's economy take-off .Politics. Jul 04, 2017 at 14:27 EAT

In Kenya, as at June 2013, public debt was Ksh.1.9 million, which was a composition of domestic debt of Ksh 1.1 trillion and external debt of Ksh 0.8 trillion .For the period domestic debt has become dominant in the country's debt portfolio.[92]

In February 2013, Kenya's total debt stock was Ksh 1.78 trillion, which later increased to Ksh 4.57 trillion with a GDP of Ksh 7.7 trillion and 59.3% share of debt to GDP by the end of 2017.In 2018, the total stock of debt is Ksh 4.9 trillion interpreted as Ksh 106,000 per Kenyan, Ksh 2.37 trillion domestic and Ksh 2.51 trillion external debt. This is almost three times increase in five years' time since 2013.[93] In 2007 the composition of public debt changed, domestic debt reduced from 50.5 percent of the total debt to 49.5 per cent while external debt increased from 49.5 to 50.5 per cent in the same period. The change was due to an increase in external payments.[94]

Borrowing is good for a country because it helps in stabilizing the economy. It is advisable for a country to borrow instead of raising the funds domestically by charging high domestic taxes for this increases the crowding- in effect which is an indicator of positive economic growth of a country. When a country increases the level of external borrowing domestic borrowing should and is expected to decline. Since 2000 Kenya has been raising funds both domestically and externally .Below is the debt stock figure for Kenya since the year 2000.

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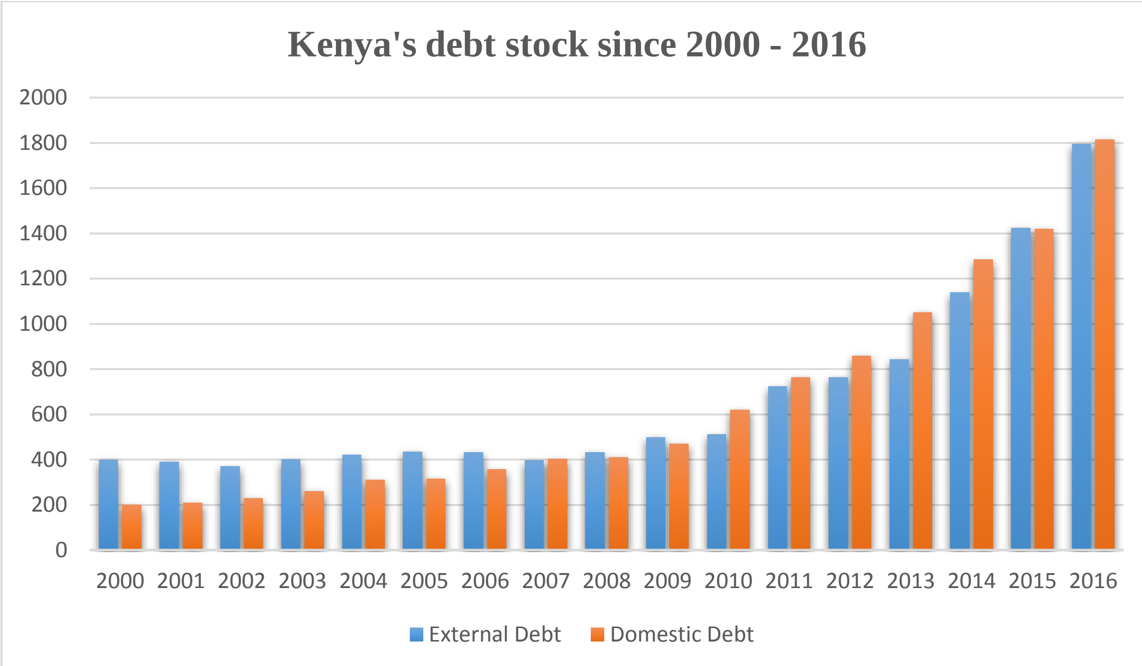
[92] Central Bank of Kenya. September 2013. Kenya's economic success, prospects & challenges: managing public debt to lower risks

[93] Institute of Economic Affairs. Trends of the Public Debt in Kenya. 14 September 2018

[94] Office of the deputy prime minister and ministry of finance. 2007-2008 Annual Public Debt Management Report .May 2009.

Figure 6: Kenya's debt stock since 2000-2016

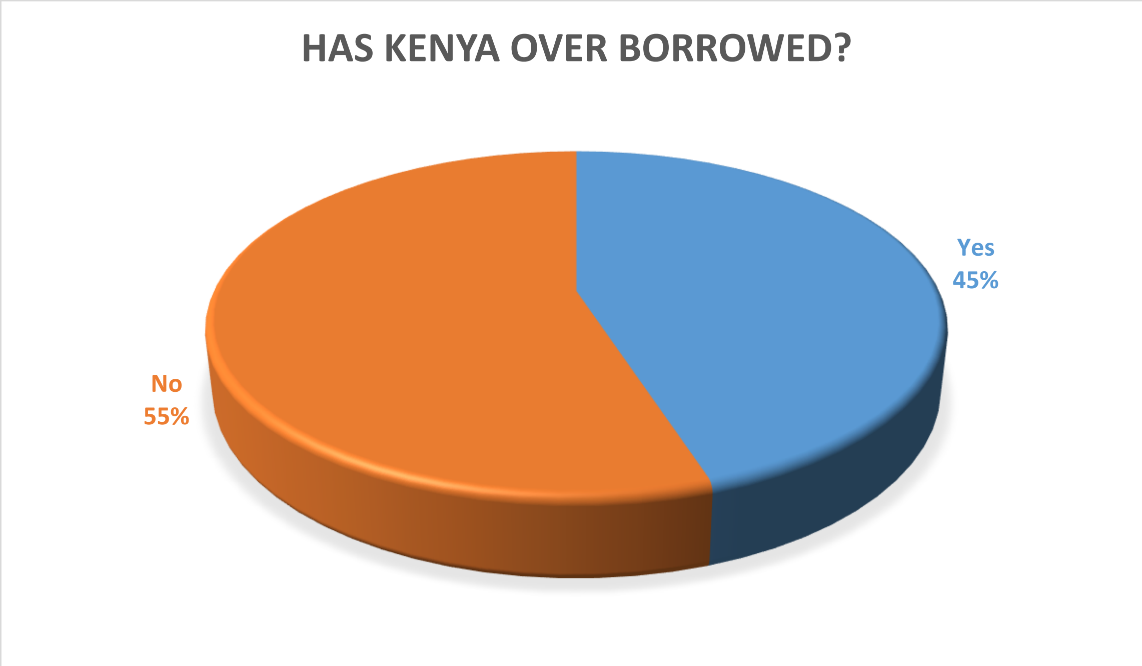


Source: Own Survey (2018)

Borrowing trends for Kenya seems to increase with years both internally and externally. For the last fifteen years domestic borrowing rose from Ksh.200, 000 Million in year 2000 to Ksh.1, 815,133 Million in the year 2016.External debt rose from Ksh.399, 000 Million to Ksh.1, 796,197 Million in year 2016.This is a difference of Ksh.1, 397,179 Million and Ksh.1, 615,133 Million for external and domestic debt respectively, a 89% increase in domestic borrowing and a 78% for external debts.

For the last sixteen years from the year 2000 to 2016 debt has increased with an average of 84% . Is Kenya over borrowing? 40% of the population believes that Kenya has not over borrowed and 60% agrees Kenya has over borrowed.

Figure 7: Responses on Kenya's external over borrowing status.



Source: Own Survey (2018)

3.7 Kenya's External debts and relief

A country's debt overhang is removed when public debt relief is given to a country that is servicing a debt. Debt relief creates a fiscal space in investments for economic growth of the countries that profit from the relief and gives them an allowance and opportunity to development process rather than debt servicing.[95]

Debt Relief is a debt adjustment or waiver where by the debtor country facing debt – servicing difficulties seeks debt forgiveness or downward adjustment. A creditors to a country may voluntarily give a debt relief. The relief may be in the form of a waiver, bilateral or commercial debt rescheduling or conversions. Although Kenya 's debt stock has been rising, Kenya does not

[95] Ebi and Imoke: Public Debt Carrying Capacity and Debt Transmission Channels: The Nigerian Experience International Journal of Economics and Financial Issues | Vol 7 • Issue 5 • 2017 pp 42

qualify for debt relief under HIPC Initiative and MDRI for DSA report indicates that Kenya's debt is sustainable in the long run. HIPC and MDRI initiatives delivers deeper relief than the Paris Club rescheduling framework. They help the countries whose debt burdens are unsustainable and cannot be resolved by any debt rescheduling option under the Paris Club.

Although Kenya has never qualified for HIPC and the MDRI, the country has received debt relief in other forms including;

a) Paris Club in 2000 and 2004, Kenya's debt arrears and flows amounting to US$650million effectively received50 percent debt.
b) China, Finland and Netherlands cancelled their debts amounting to US$30million instead of rescheduling the debt under the Paris club in the same period.
c) Arrangement of cancellation of an equivalent of US$43million with Italy under Paris Club rescheduled ODA debt on condition that the funds are channeled towards poverty alleviation Programmes.[96]

[96] Republic Of Kenya Ministry Of Finance, Debt Management Department Annual Public Debt Management Report July 2005 – June 2006, March 2007 pp 6-8

4 KENYAN POLICIES GOVERNING EXTERNAL DEBTS.

4.1 Introduction

This chapter focuses on the policies governing external debts in Kenya and describing the extent to which the government has operated within the agreed policies and procedures. Kenya is consistent with the IMF and the World Bank Public Debt Management Guidelines. A good example is the Structural Adjustments Programmes (SAPs).

Act of Parliament has allowed the government to raise money from outside Kenya and to provide for the credit facilities negotiations. External loans and credit Act - Cap 422 allows the minister of Finance under written agreement and or instruments to borrow and acquire credit externally. The negotiations with donors for development funds require legal provisions which are well given in the constitution of Kenya. These include Chapter 422 – External Loans and credit Act Chapter 420 – Internal Loans Act Chapter 461 – Guaranteed Loans Act and Chapter 467 – The IMF Act (KENDRED, 2009)[97]

Under HLM, the Kenya government launched Kenyan External Resources Policy (KERP) a framework to manage the overseas aid to the country. The policy provides a clear way to more effectiveness, efficiency and impact of external resources by donors to support the government. It is a call for stakeholders at the HLM to commit and deliver on their promises by being transparent and share more and better data on their activities. It is also an opportunity to demonstrate the usability of the data published for planning and monitoring purposes. This transparency effort leads to a closer engagement with civil society organizations and citizens.[98]

[97] A report by Kenya Debt Relief Network (KENDREN). An overview of the current status, insights and public awareness report, 2009.

[98] Elise Dufief.Aid transparency: a focus on major donors in Kenya | Dec 1, 2016 | Blog

Bretton woods Institutions (BWI) have linked a country's debt sustainability to the quality of its policies and institutions. The country with strong and good policies and institutions shoulders higher debt burdens therefore less likely to fall into debt distress than countries with weak or poor policies and institutions[99]

Most countries in East Africa region are under a debt crisis partly caused by institutional weakness which limits their ability to make policies that will offer the solutions for debt management. Kenya, Tanzania and Uganda have weak policy, poor budget planning and implementation of the same, but Rwanda has a stronger institutional and policy framework thus effective in managing debt risks associated risks.[100]Between the year 2000 and 2013, more than 90% of Kenya's external debt is from multilateral and bilateral creditors who mostly from IDA, ADB, Japan AND China. [101]

Although there are terms of borrowing and no country is under any obligation to surrender to IFI's laws, most African countries and especially have policies shaped by the dictates of the donors. In every external funding there are donor conditions to meet and at times they call for the adjustment of the country's policies and regulations. For Example International Development Association (IDA) under the World Bank in supporting infrastructure development in Kenya they led in implementing a major institution and policy reforms.[102]Another example is the introduction of Structural Adjustments Programmes (SAPs) in Africa in 1980 which is claimed to have led to the lost decade in Africa. Recently we have witnessed Kenya adjust the taxing policy with a root

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[99] file:///C:/Users/user.MC1DFINOFF00052/Downloads/Debt%20Sustainability%20Indicators%202009%2002.pdf
[100] Otiato Guguyu. East Africa lacks policies to deal with debt crisis. Standard digital Newspaper Tue, July 3rd 2018 at 00:00, Updated July 2nd 2018 at 22:30 GMT +3
[101] Dr. H. Sirima Kenya's economic success, prospects & challenges: managing public debt to lower risks. Central Bank of Kenya. September 2013.pp 1-20
[102] World Bank. Projects & operation .Infrastructure for Economic Growth and Shared Prosperity in Kenya: Addressing Infrastructure Constraints, Promoting Economic Growth, and Reducing Inequality
July 21, 2016

purpose of meeting the donors conditionalities which the Kenyan president Uhuru Kenyatta calls shackles of by IMF and World Bank.[103]

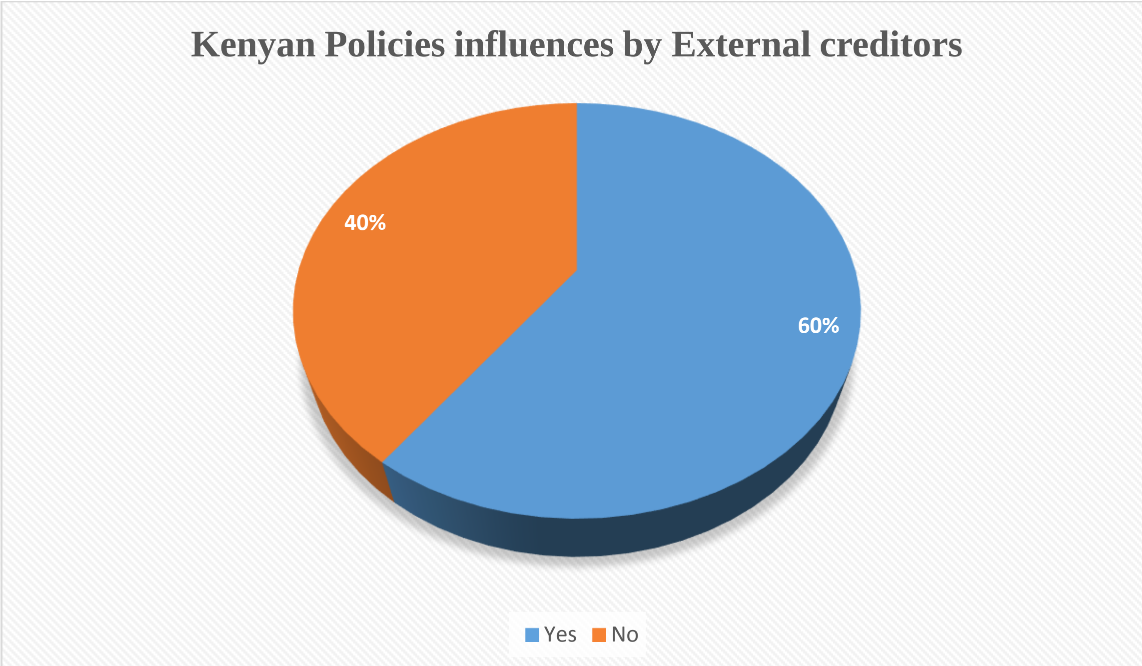
4.2 Influence of External debt on Kenyan policies.

Kenya has good and strong policies, 40% of the responses in this study believes that the donors have not influenced the country's policies. The government officers in justifying this said that Kenya has been borrowing since independence, the conditionalities given by the donors some were used in formulating the borrowing policies, thus in the last twenty years the donors have nothing to influence the Kenyan Policies.

There was another 60% of the respondents that felt that donors have influenced the country's policies. Since the 2012 Kenya's debt stock has changed, we have China a new bilateral creditor entrant and an almost exit of Japan who was the predominant bilateral creditor to Kenya. This means we will have more of China and less of Japan. Beginning with foreign policies, trade policies, borrowing policies etc. For countries to exchange funds they exchange policies too and the debtor must meet the creditor's requirements to qualify for the funds.

[103] Irene Ombati .Why Jubilee's infrastructure development stimulates Kenya's economy take-off .Politics. Jul 04, 2017 at 14:27 EAT

Figure 8: Responses on influence of External debt on Kenyan policies



Source: Own Survey (2018)

4.3 Terms of External borrowing.

The terms of external borrowing in Kenya are provided in the laws of Kenya's external loans and credit Act CAP 422.The law provides that the total indebtedness outstanding at a time shall not exceed the equivalent of the sum of six hundred and fifty million pounds or the higher of the National Assembly may by resolution approve.[104]

According to the Kenyan Central Bank the average terms of a new external loan since June 2000 through June 2013 has been;

i. An interest rate of 1.8% p.a.

ii. 23.1 years maturity rate.

iii. 60.6% grant element and a grace period of 7.1 years.

[104] Laws of Kenya. External Loans and Credits CAP. 422

According to Figure 1: Responses on attributes of Kenya's development and Figure 2: Responses on Government's role for rapid development in Kenya, policies in Kenya are good and the citizens depends on them for development.

4.4 External debt and Kenyan sovereignty.

Sovereignty is the absolute independence and autonomy the modern nation states have to the decisions taken by them in matters concerning their citizenry. This means that states are free to decide for themselves the kind of democracy they want, the leaders they want and the policies they want internally and externally.

Sovereignty call for the nation state to be autonomous and independent in and when pursuing policies of their interest and the interest of the state's citizens and not according to the dictates of a foreign power.[105]The international independence, the right and power of a state in regulating its internal affairs without any foreign dictation.

The external debt accumulation is like a bad plague that has afflicted many developing countries in the World. The three major debt forgiveness, reduction or/ and rescheduling mechanisms including; Heavily Indebted Poor Countries (HIPC), London Club and the Paris Club of Creditor countries offered internationally as an antidote for the debt plague give conditionalities attached to debt relief that is really an interference of a country's economic autonomy and independence.

There has been a substantial effects between the change in states sovereignty in African States and the international Financial Institution especially the World Bank. For example in the introduction of Structural Adjustments Programmes (SAPs) by the World Bank and the

[105] https://www.managementstudyguide.com/what-is-sovereignty.htm

International Monetary Funds (IMF)[106]. In Kenyan the government had to adjust its labor and finance laws to fit in SAPs conditionalities. States are under no legal obligation to consent with IMF conditions, but is the only way to international financial system thus debtor countries are under pressure of IMF conditionalities which can be coercive especially if the country no choice but to accept conditions or it is too expensive to accept the conditionality.[107]

Although IMF has legal personality separate from its member -states its' decision-making is in favor of the most developed countries who are the major creditors countries controlling the IMF with a voting share of 71% unlike the 29% voting share of the developing countries.[108]Thus IMF is an instrument of the major creditor countries to control the developing and under developed countries through economic policies formulation and conditionalities .IMF acknowledges that a development process should be an individual country's responsibility which includes the economic policies formulation, yet IMF fashioning the economic policies of a debtor country for it has real and effective power to shape economic policies of a country.[109]

The IMF plays a major role in designing macroeconomic policies which have powerful effects on domestic conditions of the poorest countries' through the conditionalities and the debt relief leverage.[110]

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[106] Ralf J. Leiteritz.Sovereignty, Developing Countries and International Financial Institutions: A Reply to David Williams. Vol. 27, No. 3 (Jul., 2001), pp. 435-440 (6 pages)

[107] Korner, P., Maas, G., Siebold, T. & Tetzlaff, R. (1986). The IMF and the Debt Crisis (1986). London: Zed Books.

[108] Rustomjee, C. (2005). Improving Southern Voice on the IMF Board: Quo Vadis Shareholders? In B. Carin & A. Wood (eds.), Accountability of the International Monetary Fund. Burlington, VT (USA): Ashgate Publishing Company.

[109] Canak, W. & Levi, D. (1989). Social Costs of Adjustment in Latin America. In J. Weeks (ed.), Debt Disaster? Banks, Governments, and Multilaterals Confront the Crisis. New York: New York University Press.

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5 IMPACTS OF DEBTS ON AN ECONOMY.

5.1 Introduction

This chapter describes the effects and the impacts of public debt on a country's economy. Highlight on the direction Kenya is taking East or West as far as external debt is concerned.

5.2 External debt impacts

The impacts of debts on the economy are many, some are quantifiable others are not. Some of the debt impacts in a country includes:

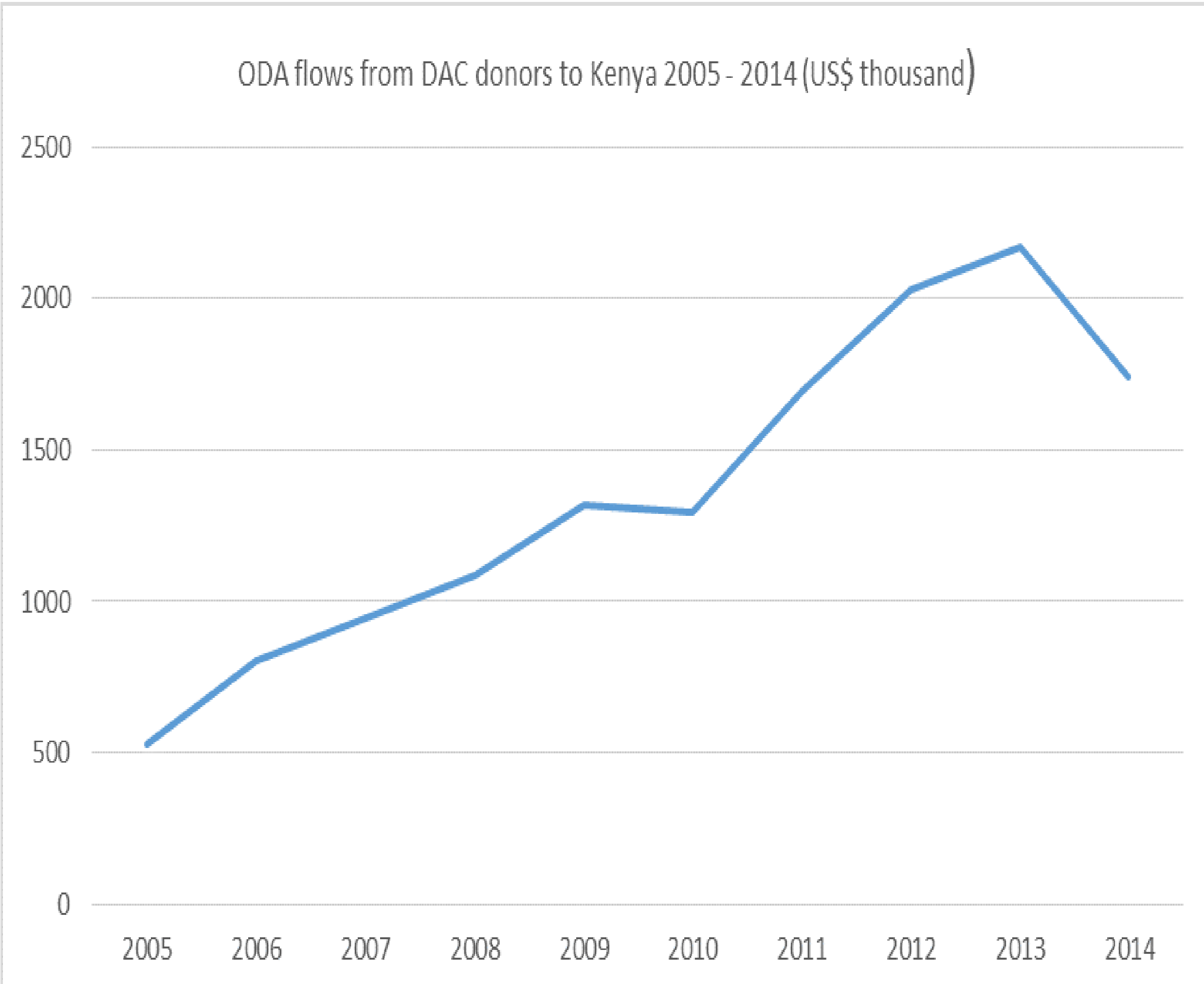
5.2.1 Official Development Assistance to Kenya

The government of Kenya hosted the second high level meeting (HLM) of the global Partnership for Effective Development Co-operation (GPEDC) for global leaders and major development cooperation stakeholders in Nairobi to enhance the transparency of donors as laid out by the provisions of the Busan Partnership Agreement in 2011.

Data published by International Aid Transparency Initiative (IATI) showed that in 2014, Kenya received US$17.40 million Official Development Assistance (ODA).This assistant flows to Kenya had been rising incrementally since 2005 but in 2014 it dwindled off.[111]

[111] http://ati.publishwhatyoufund.org/index-2016/results/, and further analysis on results information http://www.publishwhatyoufund.org/updates/by-topic/iati/open-results-information-what-do-we-know/

Figure 9: ODA flows from DAC donors to Kenya 2005-2014 (US$ thousand)

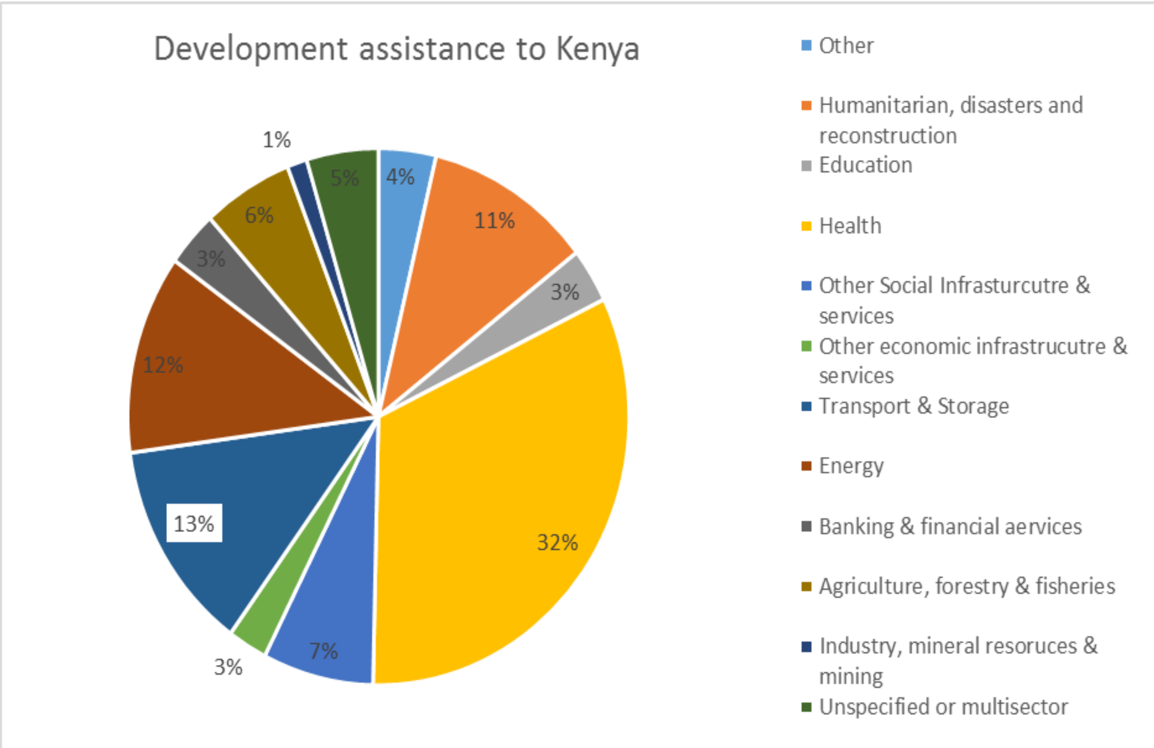


Source: Organization for Economic Co-operation and Development (OECD & Query wizard for international Development Statistics (QWIDS

The ODA to Kenya in 2014, distributed to various sectors, health sector received the largest portion of 32% of the amount, accounting for an approximate of US$1 billion. The other two key areas of development assistant were Transport and humanitarian aid. The main donors were United States of America, World Bank, African Development Bank, European Union Institutions, the United

Kingdom, Germany, France and Japan. China was not captured in the report but her budget was roughly US$295 million a year [112]

Figure 10: Development Assistance to Kenya



Source: 2014 OECD DAC CRS

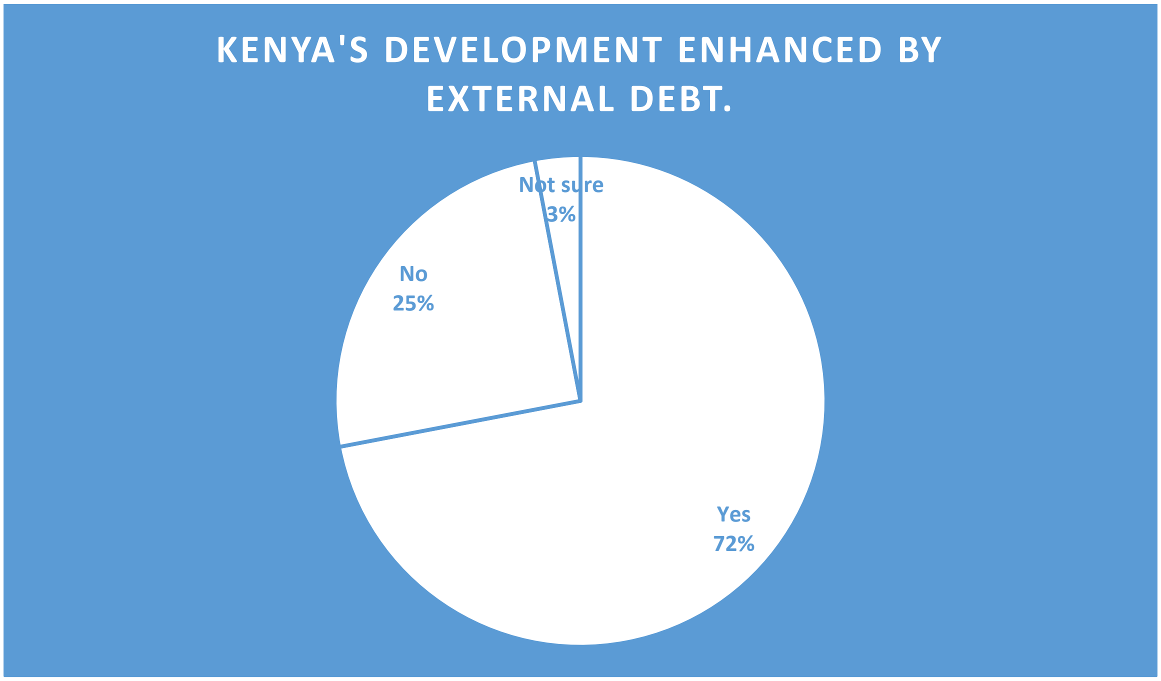
5.2.2 Developments enhanced by external borrowing

External borrowing has enhanced development in Kenya in many ways.72% of the respondents in this study think external debt has enhanced the development of Kenya in the following ways;

- Improved infrastructure.
- Improved business and trade.
- Improved international relations.
- Improved health and medical services.

[112] 'China's engagement with Africa', Brookings Paper, 2016; Prizzon and Hart, 'Kenya in the new development finance landscape', ODI report, April 2016.

Figure 11 Kenya's development enhanced by external debt.



Source: Own Survey (2018)

Of the respondents,25% think that Kenya's development has nothing to do with external borrowing.3% of the respondents were not sure of the relationship between external debt and development. These two groups associated external debts with corruption and embezzlement of public funds. Some said that the amount of funds Kenya has lost in scandals like the Euro Bond, NYS, Goldenberg and Anglo leasing must have been borrowed funds. The government borrows money for development which is squandered and embezzled a time and again. Some interpreted this to mean external borrowing promotes corruption.

5.2.3 Developments by external borrowing.

1) **Improved Infrastructure.**

A major contribution to the economic pillar for the country to achieve the vision 2030 of transforming into a middle-income economy is infrastructure development .Infrastructure affects the other pillars (social and political development) and is expected to affect the Kenyan economic growth with rate greater than 10%.Thus, the Kenyan government gave a fifteen year infrastructure bond of USD 300 million and has secured funding from the WD and ADB to fund infrastructural projects in the country.[113]Some of the major infrastructural development in Kenya include;

I. Airports

Aviation modernization project worth USD 285 million, project to upgrade Moi International Airport worth USD 84.36 million to improve airport standards and construction of Jomo Kenyatta International Airport new terminal (Terminal 1-A) all funded by the World Bank. Also Kisumu airport expansion and upgrade into an international airport.

II. Lamu Port

The construction of Lamu port at a cost of USD 23billion under Lamu Port and South Sudan Ethiopia Transport (LAPSSET) corridor project which also include road construction. The Port is expected to be complete by 2018 and to enhance regional trade in Eastern Africa.

III. Mombasa Port

Mombasa port is the Kenya's international sea port and in 2016 a new terminal was constructed to increase the port's capacity by 50%.

IV. Kenya Railway Expansion project

[113] BUSINESS SWEDEN.KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH, CENTRAL BANK OF KENYA, KENYA RAILWAYS CORPORATION. 6 FEBRUARY, 2017.

The project is expected to offer cheaper transport than road and to reduce the cost of business by 40%.The project consist of the construction of Nairobi Commuter Rail Network at a cost of the USD 200 million and Mombasa – Nairobi -Malaba Corridor at a cost of USD 3.2 billion.

According to Figure 5: Respondent's on External debt funds allocation by Government sectors, infrastructure gets the biggest share of funds. The infrastructure development has been of magnitude benefit to the growing economy of Kenya

2) Improved business and trade

Because of the improved transport network, business opportunities both locally and internationally have opened up for the Kenyan. Transportation of raw materials and food products from rural areas to cities, towns and industrial areas has been eased by the improved transport networks.

3) Improved interternational relations

Since 2012, Kenya has had its troops in Somali to promote peace and security in the land. Kenya also had its troops (KDF) in Southern Sudan for the peace mission and also the country was engaged in mediation and negotiation of peace agreements in the Sudan. This has improved the inter-state relations with Kenya. Some respondents attributed this to borrowed funds, for Kenya to carry out these functions, it requires money.

4) Improved health and medical services

Many hospitals and health facilities have been constructed with borrowed funds. This has improved the health status of the Nation. We have patients receiving medical facilities even for ailments that required to travel abroad for treatment are available in the country. For example the cancer Care Kenya.

5) **Improved standards of education.**

We have improved education standards together with building learning facilities and improved learning systems .The free primary and secondary education has given all Kenyan children an equal chance to acquire basic skills.

6) **Creation of Job opportunities**

All these developments have created jobs for the Kenyans both temporal and permanent jobs. We have people working in all these improved and improving sectors.

5.2.4 Embezzlement and corruption

Corruption and embezzlement of funds is the greatest threat for Kenya's development (refer to figure 3). As the country has constantly been borrowing funds for development it has also continued to suffer from loss of public funds .This funds are acquired at an interest of which both the principle and the interest are a burden to the citizens;

As according to *Figure 4: Respondent's on Government's role for rapid development in Kenya*. The government's role for rapid development in Kenya is to eradicate corruption. All other government's roles held constant corruption would perfectly hinder the development unlike other roles for example government policies.

In Kenya there has been scandals for loss of huge amounts of money ,the assumption is after the country borrows the embezzlers get some funds in the public accounts to swindle the borrowed funds or they corrupt the funds generated internally that the country has nothing to spend on thus turn on to external borrowing. Some of the scandals includes;

I. **The Anglo Leasing scandal**

This has been isolated from legislative inquiry in breach of external loan and credits Acts which mandates the Parliament to be cognizant of such debt by the Ministry of Finance .The detailed audit report revealing eighteen security contracts related to Anglo Leasing and worth Ksh 56.33 billion, remains pending for the hearing by the Parliament.

II. Goldenberg scandal

In 1990s, under the commission of Inquiry it was revealed that a lot of money was syphoned out of the country through Kamlesh Pattni's export compensations and foreign exchange trading schemes. The Commission requested the Kenya Central Bank to give details and procedures of handling public money. A letter of May 11, 2004 payments and the national debt showed that Central Bank of Kenya was processing over US$ 550milliom as government's external payments with a large proportion being payments for debt service.[114]

III. The Euro Bond

June 2014, the Kenyan government issued Eurobond in the international financial market and raised $ 2billion from the first issue which later reopened and raised another $815 million .The total sale price if the bond amounted to $2.8 billion (Sh250 billion).[115] During the 2014/2015 financial year audit, the Auditor General realized and declared that Sh215 billion from Kenya's Eurobond funds were accounted for and there was no proof of expenditure of the money for two years after the government claimed the cash was allocated to ministries.[116] David Lipton, IMF deputy managing director said that Kenya accounted for the $2.8 billion (Sh280 billion) Eurobond money in the same way other countries do. That is the money was moved to the Central Bank's accounts and then put at the government's disposal the way other countries raises.[117]

[114] Mars Group website
[115] David Ndii. Simple explanation of Eurobond scandal - how cash was stolen. Kenya Today January 16, 2016 20.
[116] https://www.standardmedia.co.ke/article/2000215138/audit-sh215b-eurobond-cash-unaccounted-for
[117] Geoffrey Irungu. Kenya accounted for Eurobond, says IMF. Daily Nation Wednesday may 11 2016

IV. National Youth Service Scandal

There are two reported cases in National Youth Service (NYS) citing the loss of hung amount of public funds. In 2015 the first scandal it was reported that Ksh 791 million was missing from the youth empowerment programme. In May 2018, another case reported that Ksh 9 billion was stolen from National Youth Service (NYS). In total Kenya had lost a total of Ksh.9.791 billion in a span of three years in one sector of the government.

Because of such like scandal the Kenyan parliament formed Kenya Anti-Corruption Commission (KACC) to take action against the corruption and such like economic Crimes in the country. In May 2003 the Anti-Corruption and Economic Crimes Act was formed to legislate against the actions of grand corruption scandals in the country for example Public land grabbing and irregularly appropriated land. Goldenberg scandal looting of over USD I billion; Bogus and odious debts worth over USD 1 billion , Anglo Leasing scandal s worth USD 777 million.[118]

5.3 Kenya moving East or West

For many years Kenya's bilateral financiers have been the Western countries which include France, Japan, Belgium, Germany, USA, Netherlands, Denmark and Finland see Figure 3.4.1. (Kenya External Debt stock Composition) China gained significance in Kenya in the year 2002 when a new government was elected under the second president Mwai Kibabi. Before then China's funds were added to others for it was less than 1% of the funds Kenya needed. By then China had begun to gain popularity in some other African countries like Nigeria, Angola, Sudan and

[118] A report by Kenya Debt Relief Network (KENDREN). An overview of the current status, insights and public awareness report, 2009.

Zimbabwe.[119] Since China gained muscles as another giant in the international political system, Kenya and other African countries seems to be swayed east from West. This can be evidenced by:

5.3.1 Sino-Kenya relations

In the last five years the relationship between China and Kenya has grown noticeably. The increased Chinese investment in Kenya particularly in Kenyan transport sector. China Wu Yi (Kenya) Corporation, Sheng Li Construction Company and Sino hydro Company have actively contributed in the construction of major road networks in Kenya for example, Nairobi- Thika Highway, Airport road in Nairobi, Kipsigak - Serem Shamakhokho in Rift Valley, Kima-Emusustwi Road and Gambogi Serem road in Western Kenya.[120]

Chinese have also introduced their culture to Kenyan by building hotels with pure Chinese cuisine, offering Chinese language training to Kenyan for example The Confucius Institute in collaboration with The University of Nairobi. This is influencing the intercultural marriages between the chines and the Kenyan.

5.3.2 Kenya joins Asian Infrastructure Investment Bank

Kenya lately joined Asian Infrastructure Investment Bank a China led financier offering credit without many conditionality like the western countries who are led by the lending regulations of multinational institutions that is the IMF and World Bank. Some of their conditionality includes deregulation, privatization, and reforms.

5.3.3 The growing China to Kenya lending

In March 2018, Kenyan public debt got to 5 trillion shillings ($50 billion), much of the lending is from China. In recent years, China is the largest lender to Kenya accounting for 72% of bilateral

[119] Onjala, J. (2008). "A Scoping Study on China Africa Economic Relations: The Case of Kenya," paper prepared for the African Economic Research Consortium (AERC), Nairobi.
[120] Mugendi, Florence K. Kenya-Sino Economic relations: the impact of Chinese Investment in Kenya's transport sector.2011.unpublished masters of arts in international studies project paper.

debt. This is eight times more than what Kenya received from France the second biggest lending partner. In 2016 China's lending percentage to Kenya was 57%.Overall, 21% of Kenya's external debt is from China.

Table 5:3:3 Kenya 2018 outstanding Debt

Kenya 2018 outstanding debt			
Rank	**Country**	**Debt 'Ksh. Billion' (2018)**	**Debt 'Ksh. Billion'(2016)**
1	China	534.1	465
2	France	64.8	62.4
3	Japan	51.0	64.8
4	Germany	26.1	25.3
5	Belgium	10.8	9.1
6	USA	3.0	2.8
7	Netherlands	1.1	0.7
8	Finland	1.7	1.0
9	Denmark	1.3	0.9

Source: Kenya Treasury& Kenya Bureau of Standards (2018)

From Table 5:3:3, Kenya is drawing much of her debt from China, the biggest percentage of debt in both years is from China. As the debt from China increase by 13% within two years, the percentage from Japan reduced with 21% in the same period.

5.3.4 The Currency composition of external debt resource.

Kenya has always retained a diversified currency composition for all the years since independence. This is important for hedging the country's external debt against the exchange rate risks. As at June 2006 the external debt was held in fourteen different currencies. These were Kenya shilling, Kuwaiti Dinar, Pound Sterling, Saudi Riyal,Swedish Kronar,Swiss Franc, US dollar Korean Won, Japanese Yen, the Canadian dollar, Danish Kroner,Euro,Indian Rupee and Chinese Yuan .The dollar and sterling Pound comprised the largest proportion of the external debt.[121]During this period the contribution by China was ineligible and could be counted in the group of others.

In June 2016, annual public debt report from Kenya National Treasury showed that the currency composition of the external debt stock as at the year-end composed of the United States Dollar (USD), Euro, Japanese Yen, Sterling Pounds (GBP) and Chinese Yuan. From the year 2012 China begun to gain ground in Kenya. This was during the reign of Mwai Kibaki who begun the infrastructural development which were financed by Chinese.[122]

Table 5:3:4 Kenya's currency Composition of debt resource.

Country	***currency***	***06***	***07***	***08***	***10***	***12***	***13***	***15***	***6/'16***	***12/'16***
America	USD	32	32	30	30.1	33	32.3	56	60.4	63.1
Europe	Euro	34	34	38	33.3	31	33	23.9	22.1	18.8
Japan	Yen	27	25	22	23.4	19	15.1	9.2	8.7	7.7
Britain	Pound	6	6	6	5.4	6	5.5	5.4	4.8	3.5
China	Yuan	-	-	-	-	4	5.7	4.3	3.5	6.6
Others		1	3	4	7.8	7	8.4	0.5	0.5	0.3
Total (%)		***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***

Source: National Treasury Annual Public Debt Management Report (2006 – 2016)

[121] Kenya National Treasury Reports.
[122] Republic of Kenya, National Treasury. Annual Public Debt Report 2012-2013

From 5:3:4, Chinese Yuan became material to Kenya currency Composition of external debt from the year 2012.The percentage of the Yuan is always higher than the 4% in 2011, with a 6.6% in 2016.As the percentage of Yuan is increasing from 4% in 2012 to 6.6% in 2016, the Japanese Yen is reducing from 19% to 7.7% in the same period. By December 2016, the Yuan percentage is even more than the British Pound and nearly the same level with the Japanese Yen.

6 SUMMARY, CONCLUSION & RECOMMEDATION.

6.1 Introduction

This chapter highlights the main findings the study, conclusions and recommendations.

6.2 Summary.

For development and economic growth most African countries borrows. The developed countries are major debtors of IMF and World Bank. The developing countries that includes most African countries borrows for economic growth and development. In Africa, external debt has not resulted to major economic growth and development in most African states. Many African states are in debt distress and debt trap as a result of mismanaged external debts. Poor policies and regulations, embezzlement of public funds and corruption, insecurity and internal conflicts resulting to political instability, poor governance and leadership are the major factors contributing to mismanagement of external debts.

In obtaining the external debt, the debtor country has to adhere with the donors conditionalities. The conditionalities are ties and shackles to the debtor country that interfere with a country's sovereignty and the country's laws and orders. This has led to citizens of some states to live in great poverty, fear and bondage in their own country for example Congolese of Congo.
The Africa's lost decade in 1980's is associated with these ties that led to severe effects in Africa that are felt till today.

The major source of external debt in Kenya is multilateral donor who are the World Bank and the IMF. Kenya borrows bilaterally with the main donor being Japan, but since the year 2012 Japan has been overtaken by China. Currently the main bilateral external donor to Kenya is China. The USD is the main currency in the currency composition of Kenya's external borrowing.

External debts has had a positive impact that has led to development in the country. Some of these developments includes: Developments of an elaborate transport networks that is railway line (SGR), roads, seaports and airports which have improved business and trade locally and internationally and has created job opportunities to many Kenyans. Other developments are improvement of social amenities and public good for example the healthcare, housing, security, education which have improved the citizen's livelihood. In improving security both intra and interstate, it has led to improved international relations for example with Somalia and South Sudan. External debts has been viewed as a catalyst to corruption and embezzlement of public funds in Kenya.

6.3 Conclusion

External debt has a major impact on the development of a country. The developed countries borrows to develop more, the under developed countries borrows too and some have entered into the debt trap and debt crises and are bound by the shackles of International Monetary Fund (IMF), World Bank and the creditors countries.

The difference between the developed and the underdeveloped external debts impacts is what they do with the debt funds. The developed countries acquire loans to invests in projects that have returns therefore to repay the debt will not be a burden at all. Most developing and underdeveloped countries solicit for a loan to pay the other loan that is falling due , pay country's operational expenses for example wage bill, feed the hungry ,buy medicine for the sick and very little goes to the projects it was obtained for and at time end up in the pockets of few hungry individual. The taxpayers of this country are left paying both the principle amount and interest thereon of funds they never benefited from and the burden becomes huge with time.

External debt has a positive impact toward the development of a country. This is dependent on the good and strong policies and regulations governing the management of the debt and the accountability of the same.

Kenya has potential to realize significant impact in economic growth and development from the external debts funds. To realize this the government must get strategies to curb corruption and mismanagement of public funds.

6.4 Recommendation

The borrowing country should ensure the country maintain a favorable debt level, improve on management of huge projects and public funds. In most African countries mostly in Kenya there is need for the debtor government to increase their efforts in fighting against corruption and embezzlement of public funds, reduce political instability, and enhance transparency of the financial records and accountability of public funds. Also to reduce on government budget deficits so as to minimize external debt dependency. The need for government borrowing should be well evaluated to avoid wastages and loss.

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8 APPENDIX I

Questionnaire

Section A: Demographic information of the respondent

1. Sex: Male [ ] Female [ ]

2. Age: 0-39 [ ] 40-49 [ ]

50-59 [ ] Above 60 [ ]

3. Educational Level

Certificate [ ] Diploma [ ]

Undergraduate [ ] Postgraduate [ ]

4. Place of Work (Sector)

Government Sector [ ] Private Sector [ ]

5. Length of service (Work experience)

3 years and below [ ] 3-5 years [ ]

5-8 years [ ] over 8 years [ ]

6. Years worked in the Ministry/Government Department

1-3 years [ ] 3- 5 years [ ]

6-15 years [ ] over 15 years [ ]

Section B: External Debts in Kenya

7. In your opinion what is the impact of external debts in Kenya? (Please tick v appropriately)

Beneficial [ ] No effect [ ] Adverse effect [ ] Dangerous

8. In your opinion rank the reason for Kenyan government to incur external debts. (*Tick appropriately where 1=never, 2=once, 3=Not often, 4=Often and 5= Most often*)

a) To improve infrastructure. [1] [2] [3] [4] [5]

b) To fund other Project. [1] [2] [3] [4] [5]

c) For Domestic deficit budget. [1] [2] [3] [4] [5]

d) To repay previous external debts due. [1] [2] [3] [4] [5]

e) For military investment**.** [1] [2] [3] [4] [5]

f) Others (specify)…………………………… [1] [2] [3] [4] [5]

9. Which are the major sectors that makes Kenya to borrow externally and by what percentage?

Agriculture [ ] , %........... Education [ ] %...........

Health [ ], %........... Infrastructure [ ] %...........

Others [ ], %...........

SECTION C: Kenya's development

10. For the last fifteen years Kenya has developed compared to other years. (Tick appropriately).

True [ ] False [ ]

11. Kenya's development has been attributed by; (*Tick appropriately where 1=false, 2=True, 3=very true*)

a) Proper governance [1] [2] [3]

b) External borrowing Funds [1] [2] [3]

c) Government's accountability [1] [2] [3]

d) Government policies [1] [2] [3]

e) Proper funds allocation to various sectors [1] [2] [3]

f) Effective raising of tax revenue [1] [2] [3]

12. To achieve rapid development, the Kenyan government should; (*Tick appropriately where 1=false, 2=True, 3=very true*)

a) Enhance proper governance. [1] [2] [3]

b) Keep borrowing Funds Externally. [1] [2] [3]

c) Improve on Government's accountability [1] [2] [3]

d) Improve on the Government policies [1] [2] [3]

e) Improve on proper funds allocation to various sectors [1] [2] [3]

f) Curb corruption [1] [2] [3]

g) Others (Please specify)……………………………….…………………

SECTION D: Impact of External debts in Kenya

13. Do you think external borrowing has enhanced any kind of development in Kenya in any way?

Yes [ ] No [ ]

Explain

……………………………………………………………………………………………
……………………………………………………………………………………………

14. Do you think Kenya's development policies have been influenced by the external creditor?

Yes [ ] No [ ]

Explain

……………………………………………………………………………………………
……………………………………………………………………………………………

15. Do you think Kenya has over borrowed externally?

Yes [ ] No [ ]

Explain

……………………………………………………………………………………………
……………………………………………………………………………………………

17. Do you think Kenya can develop without external borrowing?

Yes [ ] No [ ]

Explain

……………………………………………………………………………………………
……………………………………………………………………………………………

18. In your opinion is it necessary for Kenya to incur external debts?

Yes [ ] No [ ]

Explain

……...……………………………………..………………………………………………………

………………………………………………………………………………………………………