





# EXTERNAL DEBT MANAGEMENT AND DEVELOPMENT PROCESS IN KENYA

**[Institutional Advocacy Issues]**

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# CONTENTS

<b>PREFACE</b>	<b>3</b>
<b>1. CHAPTER ONE: INTRODUCTION</b>	<b>4</b>
<b>1.1 OBJECTIVE OF THE STUDY</b>	<b>6</b>
<b>2. CHAPTER TWO: RELATED LITERATURE REVIEW</b>	<b>7</b>
2.1 Debt and Economic Performance – a theoretical framework	7
<b>3. CHAPTER THREE: STYLIZED FACTS ON DEBT IN KENYA</b>	<b>7</b>
3.1 Debt Situation in Kenya	9
3.1.2 Magnitude of External Debt in Kenya	9
3.1.3 Structure, Source, Type and Composition of External Debt	11
3.1.4 Terms and Conditions of Debt	12
<b>3.2 POLITICAL ECONOMY OF INDEBTEDNESS IN KENYA</b>	<b>13</b>
3.2.1 Macroeconomic Variables and Indebtedness in Kenya	14
3.2.2 Budget Process and Indebtedness in Kenya	15
3.2.3 The Budget Principle – Agent Problem and Indebtedness in Kenya	16
3.2.4 The role of Parliament in the contraction and management of external loans	17
3.2.5 Civil Society and Budget Process in Kenya	18
3.2.6 Donors and Indebtedness in Kenya	19
<b>3.3 DEBT MANAGEMENT AND INDEBTEDNESS IN KENYA</b>	<b>22</b>
3.3.1 Debt Management – The Principles	22
3.3.2 Loan Cycle and Indebtedness in Kenya	24
3.3.3 Practice of Debt Management in Kenya	24
Education and Indebtedness in Kenya	26
Health and Indebtedness in Kenya	27
Infrastructure and Indebtedness in Kenya	29
Debt and Investment	30
Debt and Economic Growth	31
<b>4. CHAPTER FOUR: CONCLUSION</b>	<b>33</b>
<b>4.1 RECOMMENDATIONS</b>	<b>35</b>
<b>REFERENCE</b>	<b>36</b>

## PREFACE

The annual report of the Central Bank of Kenya (CBK) that was released at the end of June 2007 reported that the Ministry of Finance intends to develop a comprehensive debt management strategy by the end of the fiscal year (June 2008) for effective management of the public debt.

“The strategy is designed to achieve and maintain public debt at sustainable levels, while ensuring that overall borrowing requirements are met at minimum cost, and consistent with a prudent degree of risk,” said the CBK.

Enactment of a comprehensive public debt management policy arrived at through intensive participatory consultations with key civil society stakeholders has been the clarion call of the Kenya Debt Relief Network (KENDREN) and other debt campaigners for a long time.

Though the current efforts being undertaken by the government of Kenya are a step in the right direction, they fall short of being inclusive and widely participatory. The isolation of these efforts only helps to give credence to the widely held view that public debt management in Kenya is still a preserve of a few bureaucrats at the Treasury and Central Bank who carry out policy formulation.

The drive to have a national debt management system in Kenya starts with the training of government officials in May 2008 in analysis of debt. The need for capacity enhancement and institutional development of government officials is imperative for effective debt management in the country. But equally important is the broadening of the management process through the involvement of all stakeholders such as religious organizations and the civil society. Parliament should be involved as well for it to use its authority to create checks and balances on the use and management of government loans.

This is particularly important because the debt is contracted on behalf of the citizens of Kenya and it is therefore their right to be represented at the negotiations tables as well as in the management practices. Such a broad participatory debt management process should encompass all the debt processes from negotiation through to project selection, implementation, monitoring, evaluation, debt servicing, restructuring, debt portfolio analysis, rescheduling as well as any other development during the debt cycle.

Public Debt Management is about good stewardship of financial, human and capital resources. It thus requires leadership and broader participation, authority and accountability, objectives and strategies, linkages, systems and timeliness. Participation of broader interest does not begin and end at debt management; it extends as well to projects and budgetary formulation and monitoring. This is the underlying message of this study.

This groundbreaking study was carried out in 2002 by Nyamunga J.B., then a Senior Policy Analyst with the Economic Policy Analysis and Management Consultants (EPAM) based in Nairobi, Kenya. Nyamunga currently works with the Ministry of Finance in Kenya.

It had initially been commissioned by EcoNews Africa, a Kenyan NGO, on behalf of the Kenya Debt Relief Network (KENDREN). With the approval of the author, KENDREN commissioned a review and update of the study to its current form in 2007. The updating was undertaken by Gilbert Muyumbu of Think Afrika Consultants in Nairobi.

This study underscores KENDREN’s consistent endeavour to profile the problems of the debt burden and the management processes in Kenya. This particular one goes to great lengths to highlight the existing debt management systems in Kenya, weaknesses and advances therein and requisite areas for institutional advocacy. This is undertaken along the initiatives currently underway to audit Kenya’s public debts and the enactment in Parliament of the Public Debt Management Bill.

Debt remains the cruelest manifestation of an unjust and inequitable international economic order generating undemocratic consequences in the developing countries. We hope that the stakeholders engaged in the campaign to eliminate Kenya’s debt burden will find this study a useful companion.

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# CHAPTER ONE

## INTRODUCTION

Paradoxically, instead of promoting the well being of the Developing countries' population, the international financing system has saddled them with an enormous debt they are doomed to bear in perpetuity. Indeed, this debt is deemed everlasting because it is unrepayable. Debt is the cancer that continues to affect everyone's life in the developing countries. The adverse implication of indebtedness in the socio-economic life of a nation can not, be under estimated. Many would readily agree that debt servicing has an immense human cost. The severity of the problem is reflected in the size of current debt relative to income, and the high service repayment that diverts resources away from such areas as education, health, social services and infrastructure. This study endeavors to highlight institutional constraints in debt management in Kenya with a view to developing an advocacy tool and building a coalition for effective and efficient debt management that is participatory, transparent and accountable to all stakeholders. In this regard, both conceptual and implementation issues relating to debt management are brought to the fore.

The empirical evaluations in this study shed light on the relevance of widely utilized growth model as well as the role of external debt in growth experience in Kenya. The findings would assist policy makers in piercing together programmes as well as in designing expenditure preferences in line with both medium and long term growth objective of the economy. In addition, the results provide an insight into the policy and institutional framework of debt management of Kenya. Evidence of institutional and policy weaknesses suggest a need for re-orientation of policies towards effective and broader development process. Importantly the output of this study would give forceful direction to the policy issues pertaining to debt management. In particular, it would expose stakeholders to realities of debt implication and assist in restructuring the policy formulation, implementation as well as monitoring. It would also assist the civil society appreciate the severity of the debt burden problem and use the findings to develop an advocacy approach for a more result oriented debt management strategy.

Effective debt management can contribute immensely to the development process of any country. Indeed, it can provide cheap and concessional loans that can be productively invested in viable projects thus strongly supporting the community needs and aspirations. It can also release resources to such important areas as operation and maintenance and social sector which directly and indirectly contribute to transaction costs reduction, human development as well as overall development.

The issue of debt management in many developing countries including Kenya, however, still remains foggy. Little is known, if any, about the composition of policy-makers who negotiate; how debt portfolio is managed; what data is available for the public; what checks and balances are put in place in debt management; the stock of borrowed fund-supported projects implementation status and the record of the projects portfolio.

The study, therefore attempts to break this ground with a view to developing an advocacy tool and building a coalition for an effective and efficient debt management system that is participatory, transparent and accountable to all stakeholders. To achieve this task, the study proposes to analyze both conceptual and implementation issues relating to debt management in Kenya. The overriding aim is therefore, to explore in detail the implications of Kenya's external indebtedness on development. In an attempt to address the objectives, the study poses some pertinent questions concerning debt management in Kenya. Among the questions are: What caused the debt crisis? Could this debt crisis be attributed to project or debt portfolios? Could it be institutional factors

(i.e. planning, implementation, and monitoring) or risk and external shocks that are wholly to be blamed for debt crisis? Could it be due to the budget dynamics? What are the impacts of this indebtedness on education (primary, secondary and tertiary), health care (primary and curative cares), and social services that contribute to human development process? What are the effects of indebtedness on both growth and investment in the economy? And finally, what institutional framework exists for debt management in Kenya and how can it be improved to enhance efficient development process?

Indeed, debt management in Africa in general and Kenya in particular has been rather worrying especially on the role of donor fund on the development process. One of the greatest problems facing many sub-Saharan African (SSA) countries, Kenya included, is their huge external indebtedness. The severity of the problem is reflected in the size of current debt relative to income, and the high debt service repayment that diverts resources away from such areas as education, health, social services and infrastructure.

Kenya's total external debt currently stands at more than Kshs 434,453 million or 32.2 percent of GDP. The domestic debt is estimated at more than Kshs. 315, 573 million or 23.4 percent of GDP. What this means is that every new born child in Kenya automatically inherits a debt of more than KShs.25,000 of which more that KShs.14,481 is owed to external agencies. In a country with per capita GDP of US\$270 (KShs.17550 at a rate of 1US\$=KShs.65), there is no doubt that this is a case of concern. What this means is that the budgetary resources, which ought to go into assuring the Kenyan child of good health services, a secure future and education, are diverted to service this debt and repay the domestic debt. It also means that parents cannot borrow in the domestic markets to lay a firm foundation for their children as the price of money becomes too high (Ong'wen, 1997). On average, Kenya spends about 30 percent of its budget on external debt servicing at the expense of offering vital services to its citizens. for instance in the 2005/06 Kshs 508 billion budget, the government spent Kshs 112 billion to service external debts, which is 3 percent more than its Kshs 96.7 billion allocation for education, over three times its Kshs 30 billion allocation for health and over ten times Kshs 10 billion allocation for water provision.

The human cost of debt burden is enormous as echoed by a girl child from Uganda, Anna Assimwe: "My deepest wish is to go back to school. I haven't been in school for many years, but I remember it was a good time. It will be a beautiful day for me when I can learn to read and write. Then I will be happy". Anna is a little girl living in the Southern Uganda, one of the poorest regions in one of the world's poorest country. She has something in common with over two million other children in her country and many more in Africa: She is not in school. In almost all countries in Africa, the crushing burden of foreign debt results in government spending more money repaying creditors rather than on the infrastructure, health and education of their citizens. Inadequate public spending on social service provisions means that families must meet the costs of education and health out of their own pockets, but parents like Anna's are too poor to do so.

The frustrated aspirations of Anna and other children across Africa clearly demonstrate that the debt crisis wears a human face –the face of a young girl like Anna – denied an opportunity for the education which could lift her out of poverty because some northern governments regard national debt repayment as of a high priority than her schooling; it is the face of a child whose mind and body are not growing properly because of recurrent infectious diseases – diseases which could be prevented by transferring a fraction of what is spent on debt servicing to primary health care; it is the face of a woman forced to walk for several hours to fetch water because the claims of foreign creditors have decimated the national budgetary outlays for water provisions; and it is the face of a struggling indigenous entrepreneur who is forced to shoulder more transaction and production costs because external debt service has diverted resources away from activities which could create an enabling environment for investment and development.

At present, the debt crisis is fueling a vicious circle of rising poverty, economic stagnation and increased social tension, thus contributing to processes, which threaten to culminate in the collapse of states. Basing on this reality, the World Bank and the IMF agreed to search for solutions to the debt problems of the Heavily Indebted Poor Countries (HIPC: an Initiative that seeks to forgive heavily indebted countries their debt) of which 80

percent (33 out of 41) are from Africa. However, this initiative of the World Bank initially received some resistance from the Group of 7 that postponed hopes for children like Anna Asiimwe of Uganda. These countries have continued to experience serious difficulties in managing the servicing of their relatively high stock of debt. Although Kenya does not qualify for the HIPC's Initiative, the severity of debt problems as an obstacle to the realization of development goals in the country cannot be underestimated.

The foregoing clearly demonstrates that the debt burden not only wears a human face but also has far reaching economic consequences to a country like Kenya. The purpose of this study is therefore, to explore in detail the implications of Kenya's external indebtedness to sustained economic growth. The focus of the analysis is on debt in Kenya and its effects on the physical and social infrastructure. However, the internal institutional constraints to efficient debt management for sustained development will also be analyzed.

Ultimately, the study attempts to put the Kenya's external debt viz-a-viz development into focus. We believe that such an empirical evaluation will help in assessing the relevance of the widely used growth models and in understanding the role of external debt in growth experience of Kenya's economy.

### **1.1: OBJECTIVE OF THE STUDY**

The main objective of this study is to provide an insightful analysis of Kenya's external debt burden and its implication on economic performance with a view to offering effective debt management measures that can contribute to the country's development. In particular this study will:

1. Analyze the structure and composition of external debt in Kenya over the period 1997 - 2006 in order to determine the relative importance of each component and its contribution to total external debt over time.
2. Examine the impacts of Structural Adjustments Programme implementation on debt burden dynamics in Kenya.
3. Evaluate the institutional framework of debt management and the budgetary dynamics in Kenya with a view to understanding the internal inherent forces contributing to the debt burden.
4. Examine the impact of external indebtedness on both physical and human capital development via infrastructural and social services expenditure outlays by the government. Special emphasis will be put on dynamics of primary, secondary and tertiary education, primary and curative health care and infrastructural outlays like roads, electricity and communication.
5. Empirically examine the indirect and direct impact of external debt on investment and economic growth simultaneously for the period under study.
6. Establish a link between the empirical findings and the existing debt management policy package and use 1,2,3 and 4 above to draw policy implication for Kenya's development path.
7. Use the results from 1 to 6 to build coalition among concerned groups for advocacy and lobbying.

# CHAPTER TWO

## RELATED LITERATURE REVIEW

There is no doubt that capital plays an important role in the production process of any economy. Indeed, this has been appreciated throughout the entire history of mankind. From an economic point of view, however, capital accumulation can be increased through saving by economic agents (i.e. firms and individual households). Consequently, it entails sacrifice of future consumption. The attainment of the highest return requires that the marginal efficiency of capital be higher than the cost of capital.

Besides the famous growth model of Harrod-Domar which has been extensively employed by economists studying growth, other works like Kaldor and Mirrlees (1962), Uzawa (1965), Shell (1966), Inada (1969), Romer (1986) and Lucas (1988) provide models of growth in which the long-run growth rate is endogenous. The literature also suggests that foreign capital has implication for long-run growth (see Easton, 1993).

The positive contribution of foreign resources on the economies of developing countries has however, been doubted by both economists and policy makers especially in the 1970s. The presumed positive impact of foreign resources on the volume of savings is not supported by empirical evidence, neither is the presumed growth. Most SSA countries have continued to experience serious difficulties in managing the servicing of their relatively high stocks of external debt (Claessens et al, 1996). The above arguments help us to focus the discussion of the theory of debt and economic performance.

### 2.1 Debt and Economic Performance – a theoretical framework

The question to be answered is whether the large debt burden in HIPCs is one of the factors contributing to the weak economic performance in these countries. The debt overhang theory “based on the premise that if debt exceeds the country’s repayment ability with some probability in the futures, expected debt service is likely to be an increasing function of the country’s output level. Thus some of the returns from investment by domestic and new foreign investors is discouraged” (Claessens et al, [1996]; pp.17).

The theory implies that debt reduction leads to an increased investment and repayment capacity, and as a result, the portion of the debt outstanding becomes more likely to be repaid. When this effect is strong, the debtor is said to be on the “wrong side” of the debt laffer curve. They argue that where foreign assistance is related to the debt and debt service of HIPCs, the effects of a debt overhang on economic performance is a more complex question. Green and Khan (1990) assert that foreign direct investment is now negligible in HIPCs and future prospects are worse. The scarcity of foreign exchange has driven firms and individuals in many countries to import consumer goods, spare parts and production inputs at high local prices through parallel markets, where the rate of exchange is often a multiple of the official exchange rate (Green and Khan [1990], pp.13).

The impact of debt overhang is wide and far reaching because it does not only affect investment in physical capital but any activity that involves incurring costs up-front for the sake of increased output in the future. Such activities include investment in human capital (i.e. health and education and social services) and in technology acquisition whose effects on growth may be even stronger over time especially in HIPCs. How a debt overhang discourages private investment depends on how the government is expected to raise its fiscal revenues needed to finance external debt service and whether private and public investment are complimentary.

Many policy analysts have argued that external debt can greatly compromise national development efforts in a number of ways. In spite of the continued debate on the precise effects of unsustainable debt stock and excessive debt servicing, various destructive effects of debt have been provided as the following:

- The diversion of foreign exchange and resulting limits on import capacity, competitiveness and investment
- The drain on domestic savings, again limiting the scope for investment and increasing dependence on aid
- The diversion of government revenue and resulting limitations on the government capacity to finance investment in social and economic infrastructure
- Increasing uncertainty over exchange rate stability, with adverse consequences for domestic and foreign investment
- The diversion of international aid from poverty reduction priorities into debt repayment.

Indeed, the above factors have had adverse effects on Kenya's development potential. The effects of debt servicing have undermined in particular, social development prospects.

The need to serve a large amount of external debt obligations can also affect economic performance through the "crowding out" effect, lack of access to international financial markets and the impact of stock of debt on general level of uncertainty in the economy (Claessens et al.[1996]). In the crowding out effect, a reduction in the current debt service should lead to an increase in current investment for any given level of future indebtedness (Cohen [1993]). If a greater portion of export revenue is hued to service external debt, very little would be available for investment and growth.

Empirical works on the effect of varying interest rates on indebtedness has been varied. Degefe (1992) using a modified model derived by Taylor (1985), found that external capital contributed positively to growth between 1964 and 1977 and thereafter it had a negative impact in Ethiopia. Ajayi, (1991) found positive impact of the debt burden and debt in Nigeria while in Ghana, Osei (1995) found little effect on income growth, trade balance and the debt burden. Other works for instance Amoeteng and Amoako-Adu, (1996) find feedback/bi-directional causality between external debt servicing, economic growth and exports. Cohen (1993) finds that the level of debt does not appear to explain the slowdown of investment in Africa in the 1980s. On the other hand, Borensztein, (1990) found that debt overhang had an adverse effect on private investment in Philippines. Similarly Iyoha, (1996) found that a heavy debt burden acts to reduce investment through both the debt overhang and the "crowding out" effect. Elbadawi, Ndulu and Ndung'u (1996) identified three channels in which the indebtedness in SSA works against growth: current debt flows as a ration of GDP, which stimulate growth while past debt accumulation (debt overhang) impacts negatively on growth. The third direct channel is through a liquidity constraint where debt service payment obligations reduce export earnings and this impacts negatively on growth. The final indirect channel works through the impact of the above channels on public sector expenditures, which affect growth negatively. Policy, fundamental and shock variables were also considered.

# CHAPTER THREE

## SYLIZED FACTS ON DEBT IN KENYA

### 3.1: Debt Situation in Kenya

Despite attempts to reduce debt and debt service of developing countries including Kenya, the debt situation continues to be severe and remains an impediment to sustained socio-economic development. In most cases, however, debt servicing has become a fiscal priority subsequently forcing many governments to reduce essential public investments on physical as well as on social infrastructure. Such unfolding fiscal outlay program has led to sharp increase in poverty levels and decline in basic social indicators. Although at the turn of the new millennium, especially with the coming to power of a new government Kenya has been able to channel more resources to human capital development, it should be pointed out that the national effort to eradicate poverty, ignorance and diseases in the country had been adversely reversed due to debt servicing. In fact in 1996/97 fiscal year, two thirds of the budgetary resource allocation in Kenya was channeled into debt servicing, both domestic as well as foreign. Such budgetary resource outlay scenario dwarfed the resources available for investment in human as well as capital development, thus making it imperative for the country to initiate recovery measures upon ascendancy of the new government into power. On per capita basis, this means that in 1996/97, the Kenya government spent:

- Ten times as much on debt servicing as on education provision
- Twenty six times as much on debt servicing as on basic health care provision
- Ten times as much on debt servicing as on economic service provision – capital development
- Seventy nine times as much on debt servicing as on community welfare service support

With little doubt, such skewed spending patterns are inconsistent with any sustained socio-economic development initiatives. In fact, it shuts all the rays of hope to socio-economic recovery. There is no doubt therefore that the effects of debt servicing pressure are profound and have far reaching consequences to the economic life of ordinary Kenyans. One is therefore easily tempted to question the role of Bretton Wood institutions and the effectiveness of debt rescheduling – an instrument that has been widely used over the last decade without any significant impact on poor and highly indebted countries. Indeed, the current debt situation in many developing countries clearly demonstrates the failure of rescheduling schemes. Moreover, in some instances it has actually contributed to increased debt stock and subsequent postponement of resolution of creditworthiness as well as external viability.

#### 3.1.2: Magnitude of External Debt in Kenya

The debt stock as well as the debt service payment in Kenya has varied significantly since 1972. Of significant increase, however, has been the total nominal external debt stock that experienced a record rise from a mere US\$581 million in 1972 to as high as US\$5,701 million by 2005. This is no doubt a substantial increase that represents about ten-fold rise. On the other hand, the wealth generation in the country over a similar period hardly rose in the same magnitude as the external debt stock. Between 1972 and 1981 the nominal debt stock, however, rose by US\$2,658 million owing mainly to the first and second oil price shocks of 1973-75 and 1978-80 respectively. During these periods, the government of Kenya increased her borrowing requirements to meet the increased import demands.

The 1981-87 period also witnessed substantial increase in the stock of nominal debt amounting to US\$2,449

million. The rise coincided with the worldwide debt pile-up resulting from the difficulties of the second oil crisis, the devastating droughts and the high cost of borrowing from the commercial banks. Significant increase was, however experienced during 1985-87. This was attributed mainly to drought effects and subsequent rehabilitation needs. Despite the substantial increases witnessed over the period, Kenya government's debt stock showed a relative slow down in the years 1988-89. Such a slow down in debt stock owed much to debt write-offs and the decline in bilateral as well as private debt amounting to US\$463 million. The stability and the decline in the level of the external debt stock in 1991-92 period can be attributed to the donor aid freeze in an attempt to enforce good governance in the public affairs management in Kenya. By 1996, the public debt stock had increased to Kshs 466,294 million (67.8% of GDP) and further to Kshs 750,025 million (55.6% of GDP) at end of June 2005. Domestic debt increased in proportion to total debt and to GDP. The percentage of domestic debt to both GDP and total debt increased from 17.5% and 25.8% in 1996 to 23.4% and 42.1% in 2005 respectively. External debt on the other hand witnessed a decline, reducing in percentage to GDP and to total debt from 50.3% and 74.2% in 1996 to 32.2% and 57.9% in 2005 respectively. The shift in the composition of debt was mainly attributed to reduced access to external funding, with most external donors insisting on reforms in management of public affairs, which were not forthcoming. Increase in domestic borrowing has ramifications for the private sector, which is crowded out of the credit market, thereby stifling the growth of private investments. Despite the rise in the stock of debt in the period, the share of overall debt to GDP declined mainly due to a faster growth in GDP compared to the debt.

	Jun 96	Jun 97	Jun 98	Jun 99	Jun 00	Jun 01	Jun 02	Jun 03	Jun 04	Jun 05
External	345,939	30,729	323,339	407,792	395,564	393,978	377,748	407,053	443,157	434,453
Bilateral	127,753	114,084	108,256	147,937	138,553	132,369	129,973	142,593	162,914	157,669
Multilateral	187,812	163,802	179,276	220,192	230,662	228,497	222,452	233,829	260,658	255,784
Commercial										
Banks	28,996	26,302	34,915	35,799	24,867	29,423	24,031	3,597	2,912	1,776
Export Credit	1,378	3,540	892	3,864	1,481	3,789	1,292	27,034	16,674	19,224
(As a % of GDP)	50.3	42.2	39.9	55.1	50.9	40.7	36.8	39.2	36.6	32.2
(As a % of total debt)	74.2	65.9	65.3	70.1	65.7	65.0	61.5	58.4	59.1	57.9
Domestic	120,355	159,077	171,730	174,305	206,127	211,813	235,991	289,377	306,235	315,573
(As % of GDP)	17.5	21.8	21.2	23.6	26.5	21.9	23.0	27.9	25.3	23.4
(As % of total debt)	25.8	34.1	34.7	29.9	34.3	35.0	38.5	41.6	40.9	42.1
Grand Total	466,294	466,806	495,070	582,097	601,691	605,791	613,739	696,430	749,392	750,024
(As a % of GDP)	67.8	64.0	61.1	78.7	77.4	62.6	59.8	67.1	62.0	55.6

Sources: Treasury and Central Bank of Kenya

Debt service payment has equally varied significantly during the period 1972-95. During the period 1972-81, debt service payment increased by US\$436 owing mainly to 1977 coffee boom earnings that were used to service due-debts. As a ratio of total external debt stock, it increased from 8 percent to 15 percent. On the other hand, the debt service payments remained relatively stable averaging about 14 percent as a ratio of nominal external debt stock during the period 1981-87. This is indeed, a pointer that substantial amount of resource inflow was indirectly used to partially offset the debt stock pressure subsequently adversely affecting the donor-supported development programs. This jeopardizes the effectiveness of donor aid under conditions of debt servicing pressure. However, during the

Structural Adjustment Programme, the proportion of the total debt service to total debt stock fell to an average of about 12 percent. From the fiscal year 1995/96, Kenya's overall debt service declined by Kshs 19,140 million (33.3%), from 57,487 million to Kshs 38,346 in the fiscal year 2004/05. In terms of ratio of total government revenue, the debt service fell from 39.5% to 13.2% during the period. Interest payments on domestic debt decreased from Kshs 26,168 million to Kshs 23,375 million during the period while external debt service fell from Kshs 31,319 million to Kshs 14,971 million. The reasons for the decline in debt service were:

- 1 Paris Club debt rescheduling
- 2 Reduction in external borrowing
- 3 The government did not borrow from the domestic market as programmed
- 4 Deferment of debt service payments due to some external commercial creditors pending resolution of audit findings by KENAO

Year	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
External Principal	19,831	19,110	21,399	21,010	28,187	12,529	23,345	19,611	20,448	10,544
External Interest	11,487	8,256	7,804	7,478	8,913	3,886	5,870	9,775	5,830	4,427
Domestic Interest	26,168	26,582	35,414	31,743	22,068	23,231	23,744	27,567	23,281	23,375
Total	57,486	53,948	64,617	60,231	59,168	39,646	52,959	56,953	49,559	38,346

In fact, this supports the declining trend in external debt service payment witnessed in the recent past in Kenya.

### 3.1.3: Structure, Source, Type and Composition of External Debt

External debt can be classified in many ways: among them; on the basis of source (multilateral, bilateral and private [see - appendix2]) and maturity structure (short-term and long-term [see- appendix 3]). The structure of the total outstanding external debt stock has changed drastically over the period in Kenya. A greater proportion of the external debt stock (about 80 percent) has been from official source (multilateral and bilateral). Further evaluation reveals that in 1970s official debt was mainly from bilateral donors; however, by 1982 the structure had changed in favor of both multilateral and private source. The increase in the private source of external debt attests to the accumulated private debt pressures of the early 1980s. The first half of 1980s witnessed relative increase in both the multilateral and bilateral debt as well as a decline in the private source debt. Since the inception of SAPs in Kenya, the structure further changed. Multilateral debts averaged 50 percent in relative shares whereas both bilateral and private debt averaged 29 percent and 20 percent in shares respectively. In the 1990s and the new millennium, the structure has not changed much, with multilateral agencies accounting for 58.9% of the total external debt stock, while bilateral, commercial and suppliers credit represented 36.3%, 0.4% and 4.4% respectively of the total debt stock by 2005.

The debt trend demonstrates that private debt has remained relatively low over the years. The highest relative percentage increase in private debt occurred in 1993. It is, however, worth noting from this scenario that the government has continued to exploit the relatively concessionary debt sources. The main creditors for Kenya have been World Bank (WB), International Monetary Fund (IMF), European Economic community (EEC), European Investment Bank (EIB) and the African Development Bank (ADB). The World Bank has been concerned with project lending while IMF mainly concerned with policy based lending (budget support). One unique aspect of the multilateral debts is that they cannot be rescheduled. In the bilateral category however, Japan emerged as the leading creditor outdoing the previous major creditors like USA, Germany and France that have written off substantial amounts owed to them.

The composition of the external debt stock in terms of short as well as long term is given in appendix 3. The long-term debt constitutes a major proportion (about 70 percent on average over the period studied) of total outstanding debt. The long-term debt can further be divided into public and publicly guaranteed as well as private non-guaranteed debt. Private non-guaranteed debt has not only been low but has also been rising relatively slowly over the years. In terms of relative significance, it remained low during 1972-1981 averaging 17 percent and thereafter falling to an average of 11 percent in the 1982-1987 period. However, in the period of adjustment it witnessed a relative increase through still less than the 1970s average. On the other hand, a greater proportion of long-term outstanding debt is contracted by the public sector.

Between 1972 and 1981 the relative share of long term outstanding debt stood at 62 percent on average. However, it increased significantly during 1982-1987 averaging 76 percent and retained thus high proportion during the adjustment period. The main debtors are the Government of Kenya, the Central Bank of Kenya and the parastatals. According to 1994 Annual Report on Debt Management in Kenya, in 1993 the Government owed 76 percent of the long term debt, Central Bank 7% and the rest by parastatals on average =- 99 percent of parastatal debt was guaranteed by the Government. This trend reflects the dominant role of public sector in the socio-economic development of the country. However, one wonders whether the size of contracted debt matches the country's development status. The table below further gives the break down of the public sector external debt during the period 1992-1995.

Loan Year	1992	1993	1994	1995	1999	2000	2001	2002	2003	2004	2005
Government External Debt	224.1	283.9	275.0	289.8	312.1	339.8	161.2	292.6	322.6	267.3	234.0
Parastatal External Debt	49.1	54.6	43.7	38.6							
Local Authority External Debt	1.8	2.0	1.6	1.5							
Rescheduled Debt	----	13.3	26.9	26.8							
Total Public Sector Debt	275.0	358.8	347.2	347.2							

Source: GoK publications, various issues

On the other hand, the public non-guaranteed external debt has declined drastically during the period 1972-1994. The relative share averaged 22 percent in 1972-81 period then fell to 13 percent during 1982-1987 and a further fall to only 11 percent during the adjustment period. This shows government control of contraction of debt by the public sector.

### Terms and Conditions of Debt

The change in the structure of debt source in favour of multilateral has significantly altered the maturity and terms of debt. Large proportion of debt contracted in Kenya during the adjustment period has been on soft terms. In the early 1970s, the percentage of loans at concessional rates was higher than it was in the late 1970s and early 1980s (appendix 4). For instance, the percentage share of concessional loans that stood at 35 percent in 1972 fell steadily to 24 percent in 1981 representing an average relative share of 26 percent. It showed some gradual rise in the period 1982-1987 averaging 31 percent. During the adjustment period of 1988-1995, the relative percentage significance of the concessional loans to total external debt increased tremendously from 36 percent to 54 percent representing 41 percent rise. Most of these concessional loans have been contracted from IDA and Japan's Overseas Economic Co-operation Fund (OECF).

Variable interest longer-term debt outstanding as a percentage of total long-term debt outstanding has remained relatively low except for the years 1973 to 1976 when it averaged 37 percent (appendix 7). A compari-

son of terms of borrowing from official creditors and private creditors reveals that terms and conditions are soft and favorable when one borrows from official sources. There seems to be a general improvement in the terms of borrowing with official debt becoming more favorable in the recent years. There has, however, been notable decline in the interest rates while maturity and grace periods have become longer and grant element of debt increased. Loans with an original grant element of 25 percent or more are classified as concessional. Appendix 5 demonstrates that this percentage has been above 60- well above 25 percent. The conditions for private creditors have on the other hand, become harder. In 1995, while the average interest rate and maturity for official debt was 2.1 percent and 35.4 years respectively, it was 8.2 percent and 6.3 years for private debt. This indeed, implies that any increased reliance on private debt will increase indebtedness in Kenya.

### 3.2: POLITICAL ECONOMY OF INDEBTEDNESS IN KENYA

The decade spanning from 1996 to 2006 has witnessed two governments, with the general elections of 2002 ushering in a popular government to replace the widely unpopular KANU government that had been in power since independence. Prior to the change, the general political dispensation process in Kenya had hardly evolved phenomenal development supporting ingredients. In fact, since independence the Kenya government under the ruling party KANU had institutionalized the politics of patronage in the society with little regard to people's needs and aspirations. What had therefore evolved over time was the ability of a few individuals to make both political as well as economic decisions on behalf of over thirty million Kenyans. Consequently, the development plans articulated and purportedly implemented over the years as well as the numerous budget implementations resulted into the economic landscape that was widely witnessed in the KANU regime's time: - increased poverty, collapsing social service delivery, poor infrastructure as well as increased investment risks and uncertainty in the economy. Indeed, then unfolding political as well as economic scenario revealed lack of commitment to both political and economic governance.

With the ascendancy to power of the new popular NARC government in December 2002, a number of reform measures were undertaken, and these have had positive effect on the lives of people. However, a number of other measures, especially with regard to debt contracting processes still need to be carried out. Although it is becoming harder for an individual or a few individuals to allocate external resources to either individual development projects or regions, such individuals can still contract external debts that later constitute the debt burden to the rest of the people.

This means that the few individuals who are in the center of power take decisions that affect people's lives. Such decisions include contracting of the external debt and the subsequent allocation of the external resources to either individual development projects or regions. There is need therefore to shift radically away from such a political economy of skewed resource allocation perfected in the KANU era so that the aspirations and the needs of the people can be served.

The NARC administration has introduced measures to link policies, planning and budgeting. It has adopted a Medium Term Expenditure Framework (MTEF) in order to align the allocation of public resources with national strategic objectives. The structural and economic reforms have been pursued under the framework of Economic Recovery Strategy (ERS). The ERS strategy was based on three pillars namely: (i) restoration of economic growth within a context of a sustainable macroeconomic framework; (ii) enhancement of equity and poverty reduction; and (iii) improvement of governance. With the coming to an end of the ERS in December 2007, the government has further come up with Vision 2030, which would build on the achievements made under the ERS. As with ERS, Vision 2030 has three pillars, namely: (i) the Economic pillar which targets accelerating the rate of economic growth to 10 percent and sustaining it there; (ii) the Social pillar, which aims at building a just and cohesive society enjoying equitable social development in a clean and secure environment; and (iii) the Political pillar, whose objective is to foster an issue-based, people centred, result-oriented, and accountable democratic political system. Both the ERS and the Vision 2030 demonstrate that the country has shifted away from the situation previously where it had neither consistent development nor a political philosophy that would have charted the country's future. It shifted away from the random management of the country that had been witnessed in the previous regimes.

The interests of the international capitalists cannot be ignored if the discussion of random political and eco-

conomic management is to be put in true perspective. Indeed, much of the development aid that has contributed to debt servicing pressures owes a lot to the ideological as well as economic interests imposed on the debtor countries by the international creditor community. For instance, Kenya has been receiving development aid since independence yet the country continues to degenerate into a trap of poverty. Two pertinent questions therefore come to mind. Who has benefited from foreign aid in Kenya? And where has foreign credit-based development led Kenya? There is no doubt that the foreign supported development has tremendously increased the gap between the rich and the poor in Kenya over the years. The debt servicing pressures that have been imposed on the country prior to the rescheduling by the Paris Club and the London Club only worsens the situation of the poor who are already very vulnerable. Although reforms are being undertaken to ensure the effectiveness of aid with frameworks such as the Paris Declaration on Aid Harmonization, there is still further need to marshal forces both local and international in order to develop a viable institutional framework that can enhance a development supporting political and economic ideology. There is need to allow the civil society more space into such frameworks in order to ensure wider participation and closer monitoring of the frameworks.

### **3.2.1: Macroeconomic Variables and Indebtedness in Kenya**

The debt crisis of the Third World has evolved from a complex combination of elements, some of which are external and thus beyond the control of the individual countries, while others are a direct result of internal economic policies pursued. One major external factor identified by many policy researchers is the 1973/74 oil price shock that led to deterioration in terms of trade and the consequent balance of payment deficit in many countries. The oil importing developing countries like Kenya were thus forced to borrow from abroad to pay the higher oil bills (Sachs and Lawain, 1995).

Internally, the failure to implement the development plans, the poor state of infrastructure, the collapse of social service delivery system and the increased investment uncertainty and risk were all linked to the previous political process in the country. Consequences of such unfolding economic and political realities included - increased risk and uncertainties to both the local as well as the foreign investors, low rate of return from any investment thus increasing debt servicing problems, increased instability in the foreign market as well as in the financial market and the subsequent increased government borrowing requirement that resulted in increased macroeconomic instability in the economy.

The rise in Kenya's external indebtedness in the periods 1973-1975 (the first oil crisis) and 1978-1979 (second oil crisis) coincided with the first and second oil crisis respectively. The second period also coincided with the 1979/80 drought that seriously affected agricultural output thus necessitating food imports, which were made available through increased borrowing. In the 1980s the world interest rates increased sharply owing mainly to anti-inflationary programmes in the industrial countries. At the same time, the terms of trade deteriorated further for the debtor world as raw materials' prices fell. Kenya's growth of export declined tremendously from 26 percent in 1980 to about 13 percent in 1981. The external balance continued to deteriorate in the early 1980s; worse still it was affected by the 1983/84 and early 1990s drought. The Gulf crisis of 1990-1991 also contributed to heavy external borrowing. In the late 1990s, although the debt burden indicators showed a declining trend, there were huge alarming transfers of resources out of the country. Resources that could have been allocated to consumption and investment were instead being channeled abroad. This acted as a strong disincentive not only to investment but also to partaking in any adjustment programmes aimed at increasing growth.

Internally, the debt burden can be attributed to various domestic policies and internal factors. The main factors that have been blamed for increased debt problem are the expansionary fiscal policies and the highly distorted trade policies especially those that created a bias against exports. Indeed, public sector deficit has been a major problem since 1970s. The consequences of the 1976/77 coffee boom was an expansion of public spending without a matching increase in tax revenue subsequently forcing the government to resort to foreign borrowing. When the commodity price later fell expenditures were not reduced accordingly and previous borrowing was supplemented with new borrowing to maintain the expenditure levels. By 1980s, the philosophy of "Kenyanization" over -extended the public sector size. A number of parastatals that were created added a drain on the budget resources. At the same time, the government used civil service as a mechanism to create employment for the citizens thus increasing its size tremendously. The over- extension of the public sector showed up in

economic inefficiency that also contributed to increased budget deficit throughout the 1980s and 1990s. Among other domestic policies that induced external borrowing included growth in fiscal and balance of payment deficits and the need to finance them, slow export growth and the over-reliance on traditional exports. Equally important in explaining the growth of indebtedness were the overvalued exchange rates, negative real interest rates as well as import-substituting industrial strategy that was characterized by overprotection.

### 3.2.2: Budget process and indebtedness in Kenya

A budget is a government's planning document that shows government receipts and outlays as well as how they are financed. The budget is therefore a reflection of policies and programs of the government. It charts out the government's path for five major financial flows between the government and the rest of the economy; the financial flows include the following: Revenues; Grants; Expenditure; Lending less Repayment; and the Financing of the Deficit. The main purpose of the budget includes the following: First, a framework of policy formulation; second, a measure of policy implementation (by setting economic targets and making outlays); third, a measure of legal control (legal powers to tax, spend and regulate); and lastly a source of public information. Indeed one would question Kenya government's budget process purpose with regards to the above "four-purpose" reference. The importance of a budget and its link to economic development cannot therefore be underestimated. On the contrary, if poorly implemented, the budget process can contribute immensely to indebtedness both domestically and externally.

Within a twelve-month period, the government prepares the following policy documents: (a) the Annual Estimates- of Revenues, Recurrent Expenditures and Development Expenditures; (b) the three-year rolling Forward Budget, which includes both recurrent and Development Expenditures; and (c) the Public Investment Review (PIP). In addition, the Annual Estimates may be revised to produce the Revised Estimates during the fiscal year, and every three years a National Plan has to be produced. There is hardly a whole month in the fiscal year in which the system is not concerned with preparing one of the budgets and many key people in each ministry are involved in preparing one of these budgets. With barely enough time to complete the budgets by deadlines, they have little time left to monitor and evaluate performance of the budget, except at the very macro level of trying to keep expenditures within the ceilings. As a result, what goes into subsequent budgets does not benefit much from experience gained from the implementation. The government should therefore seriously consider reducing the number of different budgets that officers are required to prepare in order to release time for monitoring and evaluating budget implementation.

Lack of proper formulation, monitoring and evaluation of the budget process in Kenya is a major contributor to Kenya's indebtedness. Additionally, lack of transparency, accountability, as well as broad-based participation in the budget making process can be blamed for the indebtedness in Kenya.

It should be noted however that a number of reforms have been undertaken in an attempt to improve on budgeting. Since 1999/2000, the government has been using a Medium Term Expenditure Framework (MTEF), an important step in modernizing the budget system towards more effective service delivery. The framework attempts to achieve budget credibility that assures of both technical and governance components of the budget. The framework arose out of the public expenditure reviews undertaken in 1997, 2003, 2004 and 2005, each of which recommended comprehensive reforms in Public Expenditure Management (PEM). Each of the reports emphasized the need to establish mechanisms to ensure that priority public goods and services are funded and delivered in an efficient and cost-effective manner. MTEF Goals include linking policy, programmes and budgets, improving macroeconomic growth targets, ensuring allocative resource efficiency and promoting predictability of resource allocation.

Through the MTEF approach, the government expects to improve the contribution of the budget to sustainable development by strengthening the links between policies, planning and budgeting systems and processes at the national, district and sector level. Since the adoption of the MTEF, there has been greater emphasis on developing and agreeing on priorities within sectors and estimating the actual cost of various activities. MTEF has been able to halt the habit prior in which line ministries would often submit over-inflated expenditure proposals, which were often slashed by the Ministry of Finance at the last minute often in an arbitrary manner, as a means of aligning these proposals to existing resource ceilings. The consequence was that resources were often

allocated on a historical and incremental basis, with minimal reference to current priorities. In addition, they were unresponsive to changing needs. Over-optimistic assumptions on revenues likely to be mobilized through taxation or other sources meant that budgeted allocations were rarely disbursed in a comprehensive, timely and predictable fashion. The budget processes prior to MTEF therefore generally lacked credibility and provided little basis or incentive for sound planning. With MTEF, the government has been able to stop the ad hoc resources outlay especially on all the non-debt as well as non-wage items.

Despite the positive contribution the MTEF approach has been able to introduce within the budgeting process, there are a number of shortcomings still existing. Firstly, a critical appraisal of the budget process indicates that reforms undertaken so far have not yet produced the desired linkages between policy objectives and budgetary allocations due to persisting weaknesses in linking policy, planning and the budget process. Secondly, the MTEF approach makes use of the Sector-wide approaches (SWApS) in resource allocation under which ministries with roles that are relatively similar or complementary such as between the Ministry of Education and the Ministry of Science and Technology come together under one sector. However, there has been less attention on the reallocation of resources between sectors, as this is dependent on having sufficient information on the various activities and evaluating their costs within all ministries. Thirdly, MTEF has yet to open up the planning process to wider public participation. Fourthly, the MTEF approach introduced both the Budget Outlook Paper (BOPA) and the Budget Strategy Paper (BSP) intended to provide direction in the setting of overall fiscal ceilings for the MTEF. However, there are serious discrepancies between the proposed BSP ceilings and the printed estimates as presented to Parliament. This indicates a failure to adhere to the hard budget constraints and also disconnect between the MTEF and the annual budget. Fifthly, Semi-Autonomous and Autonomous Government Agencies (SAGA & AGAs), the Extra-Budgetary Funds and Fund Accounts (EBFs and FAs) and the Appropriation In Aid mechanism (AIA) remain unchanged. Comprehensive data on government operations that cover all units of the general government have not yet been compiled, as operations of extra-budgetary units and funds are excluded from these figures. Information on their operations has not been systematically collected and used for analysis and reporting, leading to a fragmented oversight arrangement. Sixthly, weaknesses still exist in budget execution, with the quality, accuracy and timeliness of expenditure returns and accounting reports remaining generally poor as a direct consequence of a number of problems with reference to commitment control and reporting procedures.

Public Expenditure Tracking Surveys (PETS) that seek to estimate the amount of public money channeled through the budget system that actually reaches service delivery units have come up with a number of reform measures that would help improve budget execution. However, the implementation of reforms to address problems identified by PETS has been slow, besides the fact that PETS are yet to be institutionalized as a regular feature of the public expenditure management system. Although the government introduced the Integrated Financial Management Information System (IFMIS) to improve budget execution, the development and implementation of this system has not progressed as expected. Despite its roll out to over twenty ministries, the system is neither in use in budget formulation nor budget execution. There are large discrepancies with regard to individual votes in both recurrent and development expenditure. The reason given for discrepancies in the development expenditure is the unexpected shortfall in external financing due to poor donor disbursements.

### **3.2.3: The Budget Principle-Agent Problem and Indebtedness in Kenya**

Before the adopting the MTEF framework in 1999/2000, the practice of budget making in Kenya was narrow-based and only included a few bureaucrats working in the planning units of the line ministries. What this meant was that the few bureaucrats were assumed to act in the best interest of the whole society. It was therefore expected that they were driven more by the principle of maximizing social objectives and not their individual utility maximization. Prior to the introduction of MTEF, line ministries would often submit over-inflated expenditure proposals, which were often slashed by the Ministry of Finance at the last minute often in an arbitrary manner, as a means of aligning these proposals into existing resource ceilings. Resources were thus allocated on a historical and incremental basis, with minimal reference to current priorities and were generally unresponsive to changing needs. Over-optimistic assumptions on revenues likely to be mobilized through taxation or other sources meant that budgeted allocations were rarely disbursed in a comprehensive, timely and predictable fashion. The ultimate result was that budget processes generally lacked credibility and provided little basis or incentive for sound planning. However, it should be pointed out that although the introduction of

MTEF has done a lot to improve on the budget making processes, it has not yet produced the desired linkages between policy objectives and budgetary allocations. The explanation given for this situation is that weaknesses persist in linking policy, planning and the budget process.

### **3.2.4 The role of Parliament in the contraction and management of external loans**

Although Parliament does not have a direct role in the contraction of external loans, it however can use its authority to create checks and balances on the use and management of the external loans. In the Kenya Constitution, the authority to contract government loans is vested in External Loans and Credit Act Cap 422 (1968) and gives the Minister of Finance the power to negotiate the terms and conditions of external loans and credit for Kenya. It is therefore clear that Parliament has a limited role both in the contraction and management of external loans, except until an amendment of the Act takes place to put in place conditions for efficient use of external funds for the ministerial expenditure approval. Besides, Parliament can enhance its authority in the contraction and management of external loans through the amendment of the Act to allow involvement of the key stakeholders in the debt management committee that currently comprises the Treasury and Central Bank of Kenya only. Parliament is the law-making organ of the government and comprises politicians who are elected by the voters. But as it stands currently, budgeting is still a process controlled by professional bureaucrats who carry out policy-formulation. Public Finance Management is about good stewardship of financial, human and capital. It requires leadership and participation, authority and accountability, objectives and strategies, linkages, systems and timeliness. Parliament has four kinds of committees that are directly linked to public finance management. These include Committees of the Whole House, Standing Committees e.g. Public Accounts Committee (PAC) and Public Investment Committee (PIC), Ad hoc Select Committees and Departmental Committees.

PAC is supposed to scrutinize reports on government ministries, local authorities, departments and law courts, focus on irregularities and omissions e.g. were expenditure limits complied with, were funds used properly etc and report to Parliament (although this is done late, e.g., PAC just presented 2002/03 report in April 2007), make recommendations e.g. for adequate collection of tax, in 1995/96, and this was enacted. But others e.g. that MPs be banned from holding public office, have not been acted upon. PIC on the other hand monitors and oversees operations (including accounts) of government owned corporations and statutory agencies, assesses quality and management of corporation portfolios (can summon corporations), reports to Parliament, obtains information from KENAO (this is only financial) and corporation (last PIC report is 2005/06). On the departmental committees, there are 8 committees and are grouped according to subject. They monitor and scrutinize policies, projects and programmes of Ministries and departments. They can stop procurement where there are concerns.

#### **Parliamentary Constraints**

Budget preparation – Parliament engagement is mainly a brief discussion on Budget Strategy Paper (BSP - which mainly sets sector ceilings) with Treasury, in May. As budget is read in June this is too late to influence sector direction and fiscal policy.

Budget approval - Parliament cannot increase tax, waive or forgive debt or increase allocations, it can only reduce this. Parliament has tight capacity to understand and interrogate intricacies of fiscal policy. The President can reject and send tax and expenditure approvals back to Parliament for reconsideration.

Budget audit - Parliament does not compel Executive to report to it on budget rationale, compliance and outcomes.

However, there are ongoing reforms to both PIC and PAC. Public Finance Management Reform Strategy (PFMRS) (Feb 2006) has 6 components; financial sustainability and budgeting, resource mobilisation, budget execution, procurement, oversight and evaluation and cross cutting issues e.g. training etc. The Strategy restricts Parliament's role to oversight and audit. PIC and PAC are given the role of scrutinizing the budget and review-

ing external audit reports. Besides, there is a Fiscal Analysis and Appropriation committee (FAAC) established as a select committee in November 2006. FAAC is to engage in budget formulation early, ensure budget link to development goals and ensure budget compliance. Reports to be done by Treasury, reviewed by FAAC and FAAC to report to the House and make recommendations. FAAC is to receive technical support from Office of Fiscal Analysis (OFA) e.g. in form of macro and sector research and analysis. Similar models of FAAC and OFA are Uganda and USA. FAAC can feed into MTEF and the PFMRS. On departmental committees, Treasury has begun inviting departmental committees to sector hearings (March 2007). There has been incorporation of CSO support e.g. Action Aid Kenya, SUNY, IEA, CGD in provision of bills analysis or forums for departmental committees to discuss sector issues, priorities and budgets with MTEF Sector Working Groups.

Despite the reforms in Parliament's role in management of public finance, there areas for further reform. Among these include allowing public access to parliamentary reports e.g. Uganda parliamentary website, enforcing time frames for PIC and PAC tabling of reports, acting on PIC and PAC recommendations and reporting back to the House, having a technical support team to help PAC scrutinize KENAO reports, revising departmental committee groupings to streamline mandate, passing Fiscal Management Bill to institutionalize FAAC within the MTEF and ensuring orderly interaction between Parliament (and thereby non state actors) and the Executive.

### **3.2.5: Civil Society and Budget Process in Kenya**

Before discussing the role of the civil society in debt management especially through intervention in the budget process, it is imperative that the budget process be clearly articulated. With the introduction of MTEF in 1999/2000, the following are the budget stages that have been adopted:

July – August: Ministries revise and update their strategic plans

September – October: Treasury issues budget guidelines with Ministries undertaking Ministerial Public Expenditure Reviews and preparing their sector budget plans accordingly

November - December: Districts complete their MTEF budget plans, and then submit them to the relevant ministries. The ministerial affiliates complete their budget plans and submit them to their administrative ministry. Treasury issues Budget Outlook Paper which the Sectors/Ministries use to reconcile their projections with available resources

February - Early March: Sectors submit their proposed budget plan to stakeholders during the sector hearings

March – Early April: Budget Strategy Paper is finalized and submitted to the Cabinet for approval. The first round of budget negotiations is expected to be held between the Ministry of Finance and line ministries.

April – Early May: the second round of negotiations is held between Ministry of Finance and ministries on pending issues. If agreements are not reached, the Ministry of Finance reports these details to the Economic Committee of Cabinet for further direction.

Early May: the Ministry of Finance completes the consolidated budget plan and makes submission to the Minister for Finance who in turn presents it to Cabinet.

Mid June: The Minister for Finance submits proposed budget plan to the National Assembly for consideration and approval.

All in all, the aggregate size and composition of Government expenditures are planned at early stages of the budget process keeping in view the macro level projections, the debt financing capacity of the economy, the tax burden and their impact on price stability and economic growth. While the financial planning for annual budget starts in the preceding year, the decision-making processes within the Government leading to the Annual Budget typically gets underway early in each calendar year. A Budget Steering Committee, chaired by the

Minister for Finance, is established to review in detail the macro-economic and sectoral performance and the prospects for the coming year. In addition to the reviews done by the Budget Steering Committee, the Ministry of Finance also receives solicited and unsolicited proposals from the various organizations, industries, trade and business associations and even from individuals. Major businesses, professionals and other organizations as well as other ministries and other Government agencies also send written submissions to the Ministry of Finance on specific measures or policies which they would wish the Minister to include in the budget.

The Ministry of Finance reviews such proposals and considers their revenue and expenditure implications, feasibility of implementation and the degree of their consistency with the existing government policies and programmes. Where such proposals are consistent, they are accepted and included in the budget policy framework. For submissions which have wider implications, the organization or the association concerned is invited to make a presentation to the Ministry, allowing for more detailed clarification of the proposals and follow-up information to be provided to help with decision making.

With the adoption of the MTEF, the budget process has attempted wider participation by external stakeholders. The citizenry as well as specialized civil society organizations have been allowed information that is relevant to policy and budgeting processes. By creating opportunities for bringing this information to the table in the process, the aim is to improve the overall outcomes. Having broader participation in the process provides an opportunity for citizens, community groups, special interest groups, research organizations and advocacy organizations to have voice regarding priorities for spending. The main opportunity for formal participation is through the Sector Hearings every year, which are open budget forum type meetings where sectors present their review of past achievement and spending plans against policy priorities. While specific organizations are invited directly, the hearings are advertised more broadly and are open to all. The hearings occur after the publication of the BOPA and the MPERs, and before the finalization of sector allocations in the Budget Strategy Paper. Information from the hearings is taken into account when finalizing allocations to sectors and Ministries. Sector hearings have however been faulted for being inadequate in providing a platform for the critical external sector to engage in budget formulation. The hearings come too late and are only held in the capital Nairobi, thereby locking out non-city dwellers.

Owing to the technical nature of the budget and the inability of the people to easily translate the various vote allocations to their immediate needs and aspiration, it is important that the budget is demystified. Indeed, there is a need to translate the budgetary information in such a way that it would make sense to the most deprived of the people and inspire them to question the manner in which they are governed. This will no doubt enhance the power of the masses to not only influence the budget process but also ensure that the scarce resources are channeled to most socio-economically productive activities. This can also create checks and balances on the current as well as future debts.

Importantly however, is the need for the civil society to effectively integrate budget exercise into their advocacy work, based on grassroots mobilization, effective networking and coalition. Subsequently, such strategies would enhance the following:

- Creating public argument for policy change
- Pre-budget lobbying to ensure more just distribution of resources
- Increase the bargaining power of the social action group
- Parallel monitoring and evaluation

The foregoing therefore clearly demonstrates that a transparent, accountable and participatory budget process can enhance both socio-economic development and reduction of indebtedness in an economy. Building coalition and developing advocacy in areas of budget management therefore becomes paramount to the civil society as one way of developing mechanisms of reducing debt service pressures.

### **3.2 6 : Donors and Indebtedness in Kenya**

The debt issue is often seen as the cruelest manifestation of an unjust and inequitable international economic order generating undemocratic consequences in the countries of the recipients. In this regard, many western

institutions have lately been concerned about democracy on the African continent and attributing poor economic performance and debt problems to the dictatorial political systems. They have even been making aid conditional on improvements in this respect. Indeed, the theory has it that “the connection between democratic practice and economic efficiency has become more and more apparent. In fact market systems need accountability, rule of law and transparency in decision-making” (OECD Development Assistance Committee, 1990 Report). Equally, the IMF, World Bank and other western institutions reiterate homilies about democracy running in tandem with free market economics and efficiency. However, these sentiments must be taken with a pinch of salt, in the light of their reliance on totalitarian rule to implement their adjustment programs. Worse still, the Northern NGOs also fall into a similar position. In fact, their projects in many African countries suffer from maladministration and the grassroots have not been benefiting because of corruption in the state. Consequently, the ordinary people in many poor countries have had to bear the burden of debt – a debt that was contracted yet only benefited the authoritarian rulers and their supporters with the help of the donors.

Their concerns for democracy notwithstanding, the donors have played a major role in the current debt pressure facing many African countries. In fact a decade of lending to Africa at a rising interest rate and in circumstances of falling export revenues has meant that all of Africa is now in debt and is actually a new exporter of funds to donor organizations like the IMF and the World Bank. Indeed, what has been unfolding is the fact that the poor have been subsidizing the rich at the very time the world recognizes the deterioration of the conditions of the poor. The scale of transfer from the Third World to the North is staggering. From 1982 to 1990, there was a net transfer of \$300 billion from South to North. For Sub-Saharan Africa the figure is \$156 billion for 1984-90. And most disturbing perhaps is the net transfer from Sub-Saharan Africa to the IMF and the World Bank, which was \$4.7 billion for 1986-90, despite the claims of these organizations that they are concerned with the development of Africa. World Bank data for 2000 indicates that Kenya’s debt servicing and interest payments totaled US \$ 706 million (over 14% of GDP). The table below demonstrates that debt servicing eats into more than half of Kenya’s overall GDP, with a small but consistent reduction over the years since 1998/99/ Debt servicing as percentage of GDP is higher than development expenditure as a percentage of GDP.

	Debt/GDP (%)	External Debt Servicing/ Exports (%)	Debt Servicing/ Revenue (%)	Debt Servicing/ GDP (%)	Interest/GDP (%)	Development Expenditure/GDP (%)
1997/98	73	17	93	22	6	5
1998/99	78	16	57	13	6	4
1999/00	72	20	79	14	4	2
2000/01	71	8	49	10	3	4
2001/02	68	13	55	10	4	3
2002/03	63	10	46	9	3	3
2003/04	58	9	42	8	3	3

Source: MTEF Fiscal Strategy Paper 2001/02-2003/04

According to the 2003/04 budget, the government’s total expenditure for the financial year stood at Ksh 388,552 million (US \$ 5,180 million). Debt servicing was the single largest budgetary item in the budget accounting for 32% of the entire budget – more than what the country spent on education or health. Expenditures on debt servicing amounted to Ksh 122,107.68 million (US \$ 13,333.26 million) while the total spent on education and health was Ksh. 101,354.99 (US\$ 1,348.10 m). There is no doubt that the international economic order is unjust particularly with respect to resource flows. In fact without such resource outflow from Sub-Saharan Africa, the continent would be highly industrialized by now. If all the resource outflows were channeled into universal education for all, free primary health care, durable and efficient infrastructure as well as into welfare programs, then one would not talk of poverty currently being faced in the continent. In fact, one would be talking of development with human face in the continent of Africa. The international economic order therefore poses a challenge to the role of development assistance programs from the North. The subsequent debt problems raises even more questions to the commitment of the North to the development of the poor countries.

Also of great concern to the debt problem is the role of the coordination of the donor funds. Do the recipient countries, in collaboration with the donors, have an effective framework to coordinate all donor funds and project as well as ensure their efficient utilization towards enhancing development of the country and not merely increasing debt service problems? In Kenya, the issue of official development assistance coordination has featured in policy as one of the major causes of debt problems being experienced today. Official Development Assistance (ODA) to Kenya comes either through grants or loans. These external resource inflows form a major component of the development budget in Kenya. ODA to Kenya showed increasing trends until 1990 when it experienced considerable decline. By mid 1990s external resources accounted for about 70 percent of the total annual Development budget on average. Such inflows are expected to supplement domestic savings, facilitate acquisition of equipment and training of personnel as well as development of institutional capacity. But one important question that readily comes to mind is whether the external resource inflow has contributed to tangible development or indebtedness in Kenya.

Most of the ODA is channeled into development projects through either loans or grants. These funds are however not for free and must be paid at some point in time with an interest. If channeled into projects with a low rate of return, the socio-economic cost of servicing such debt is no doubt quite high. On the other hand, if institutions of ODA management exist and the funds are invested in projects with a high rate of return, then the individual projects will be able to either directly or indirectly service the debt thus contributing to the socio-economic development of the country. This latter practice is however, not the rule in Kenya. The transaction between the donors and the government is rather complex. Many forces are actually at play among them; donors' ideological interest, the bureaucrats' interest, the politician's interest and the donor's interest with regard to sale of either technology or human resources. The result of the interactions of the above forces has demonstrated continued inflow of ODA despite extremely low rate of project completion and increasing non-performing projects within the portfolio. It is not clear whether Kenya's project completion rate has improved from the 2 percent in a year in 1998 (UNDP, 1998). Moreover, the proportion of the technical corporation item in the ODA inflow has increased tremendously over the period signifying the tied aid phenomenon. Take the case of Japanese ODA to Kenya. Despite the fact that Japan is the only donor whose ODA to Kenya has experienced a steady increase, it has been dominated by Technical Assistance. Recent information indicates that the structure of Japan ODA to Kenya has changed from concessional loans at 5 percent; Grant Aid at 43 percent and TA at 52 percent in 1997 to 6 percent; 32 percent and 62 percent for concessional loans, grant aid and TA respectively in 2001. The table below gives an overview of ODA – TC relationship and their attendant consequences in the economy.

#### ODA – TC Flows and Macro Economic Consequences in Kenya

YEAR/SECTOR	1990	1991	1992	1993	1994
Econ. Management	766,05	142,389	360,078	404,565	122,448
Agric. Forestry and Fisheries	170,365	132,322	112,2	82,696	22,107
Disaster Preparedness	165	115	221	1,841	3,600
Other Sector	511,956	581,109	509,944	445,054	339,579
TOTAL ODA	1,448,536	855,935	982,443	934,156	487,734
Total ODA as % of GDP	18	11	14	17	7
Tech. Cooperation as % of	17	30	47	58	56
Total ODA as % of GDP					
Annual Inflation Rate	20	15	34	55	7
Exchange Rate in US\$	24.1	28.1	36.2	58	56
Dev. Expe. as % of GDP	6	4	3	4	4

Source: Development Cooperation Report Kenya and CBK Bulletin

Following the suspension of donor aid to Kenya in 1991, the ODA inflows declined significantly from 18% of GDP in 1991 to only 7% in 1994. Analysis of sectoral distribution of ODA resources in Kenya shows that Economic Management, mainly in the form of support for macro-economic, fiscal and monetary policy programs has continued to be the leading activity in terms of attracting external resources. However, the Technical Cooperation component of the ODA mainly in the form of technical assistance (supply of technical assistance, supply of equipment and facilities, training, service support, research and development information technology) has continued to witness significant growth over the period. In 1990, the TC resources amounted to about US\$252 million, approximately 17% of total ODA. By 1994, TC resources were US\$274 million or 56% of total ODA resources. Taking the example of Japan, which is a leading remitter of ODA to Kenya, recent information indicates that the structure of Japan ODA to Kenya has changed from concessional loans at 5 percent; Grant Aid at 43 percent and TC at 52 percent in 1997 to 6 percent; 32 percent; and 62 percent for concessional loans, grant aid and TC respectively in 2001. This ODA has been aimed at supporting human resource development, agriculture, economic infrastructure, population, HIV/AIDS and environmental conservation. One would therefore argue that external loans provision has been turned into a vehicle for disposing donors' equipment, capacity and facilities as well as excess labor force in the guise of technical assistants and consultations. Whether such provisions are made in regard to the recipient country's standards, development needs as well as aspirations remains highly debatable. Equally disturbing is the lack of clearly articulated procurement policy in the acquisition and use of the donor equipment and facilities. There is no doubt that such conflicting interest of the donors and the recipient country can contribute immensely to the debt servicing pressure being felt today. In addition to TC increasing indebtedness in the recipient countries, it can also distort the pattern of government expenditure particularly with respect to recurrent expenditure arising from donor funded development projects. Such expenditure pressures have some adverse effects on the production base especially through deficit financing thus adding pressure to indebtedness.

The low rate of project completion can be attributed mainly to the institutional factors in the Kenyan economy. Important to mention is lack of a national policy framework on the ODA management. Although some ODA policy elements exist in various government policy documents produced in the post-independence period, there does not exist a coherent consolidated and properly stated official policy on acquisition, utilization and management of ODA. The planning for ODA has been inadequate due to fragmentation as well as lack of harmonization between the donors and government initiatives. In addition, there is minimal participation by the private sector and the non-government initiatives. In addition, there is minimal participation by private sector and the non-governmental organizations (NGOs) in the planning of ODA-funded projects, despite their role as stakeholders in the development process. Although the need for effective coordination of ODA in Kenya is widely acknowledged by government and various stakeholders, Kenya has yet to establish an effective mechanism to facilitate networking and exchange of information among government ministries, departments and stakeholders.

Equally, donors who come with widely differing objective priorities and practices, making coordination difficult heavily influence the process of ODA project initiation. Given its importance in either enhancing or deterring the development process and the likely macro-economic consequences such as debt burden, ODA inflow management and coordination is crucial for any sustained social and economic development. The success of the role, however, depends on the development of a systematic review of the effectiveness and programming of the priority needs for ODA from all sources. This can be achieved through two important ways; first, through strengthening and developing institutional capacity involving all stakeholders and secondly, through establishing implementation, coordination, monitoring as well as evaluation mechanism as a national policy. Without these in place, ODA inflow will continue to be a major contributor to indebtedness in Kenya.

### **3.3: DEBT MANAGEMENT AND INDEBTEDNESS KENYA**

#### **3.3.1: Debt Management – The Principles**

Prudent debt management is central to rational fiscal, monetary and balance of payments strategies. A country's fiscal policy determines the level of budget deficit that in turn influences its fiscal policy stance. External as well as internal debt management is therefore an integral part of macro-economic management for a country that

relies on borrowing to supplement internal savings. Debt management covers policy aspects such as the sources of financing, the choice of debt instruments, the amount to be borrowed and the currency composition as well as the terms of debt service. An aspect of debt strategy which should be considered includes the restructuring of the existing debt stock with a view to reducing the cost of debt service and ways of minimizing the risk of exposure. Those responsible for the management of external debt should therefore be fully aware of the external debt situation at any time and to constantly review the debt portfolio with a view to assessing whether the country's debt structure and the composition are optimized and sustainable. This is the main aim of debt management. Over the 1996-2006 decade, Kenya has carried out a number of reforms with regard to public debt management. The reforms are ongoing and are aimed at addressing weaknesses in the institutional and legal frameworks on management of public debt. The reforms focus on undertaking a Debt Sustainability Analysis (DSA) and preparation of the National Debt Strategy, strengthening of the institutional and legal framework, on-line debt database link between the Ministry of Finance and the CBK and scaling up of staff capacity building.

Prior to July 2002, public debt management was characterised by weak institutional arrangements with debt functions spread across departments at the Ministry of Finance and the CBK. The debt management functions within the Ministry of Finance and CBK were guided by weak debt policy framework and ad hoc debt management strategies. Understaffing and high staff turnover was evident thus undermining operational efficiency. The external debt database was incomplete and unreliable. There were no operations manuals documenting business processes and the public debt registry lacked complete public debt records. In 2003, the government requested the World Bank for technical assistance to carry out a study on existing public debt management practices and make recommendations on appropriate reforms. In response, a joint mission of the World Bank and IMF prepared an Assessment Report on Central Government Debt management and Domestic Debt Market Development Program. The report recommended a road map on establishment of a Debt Management Office and strengthening of domestic debt markets in accordance with best practices. In 2004, the government approved the Assessment's recommendations and signed a credit agreement with the World Bank to support establishment of a DMO and strengthen domestic debt markets. The reform project has the following main activities:

- Establishment of a comprehensive and reliable public debt database supported by an effective back office
- Consolidation of debt management functions currently spread within Ministry of Finance and CBK under one unit, the Debt Management Office
- Capacity building
- Preparation of debt objectives and strategies to guide the operations of DMO
- Develop a legal framework for public debt management.

There are five basic functions of debt management: policy, regulatory, operational, accounting and statistical analysis. Due to the macro-economic consequences (effects on balance of payments, government budget and the investment programmes) of borrowing from external sources, a well-defined debt policy needs to be formulated. Although government is on the right track to establish the DMO, further reforms are called for to ensure management of debt is smoothly carried out. There are several agencies involved in dealing with external borrowings that must be coordinated to ensure that the broad policy considerations are carried through. In addition, there is a need to establish a regulatory framework in the form of laws governing levels of borrowing, approval to borrow, conditions regarding debt terms, purpose of borrowing, foreign exchange control regulation etc. The regulations should also lay down the appropriate institutional arrangements for borrowing and servicing loans as well as recording and monitoring all external and domestic debt. These arrangements should cover private as well as public sector borrowings and short as well as long and medium term debt.

At the operational level, the borrower must decide on the strategy to adopt while seeking external funds, especially the market to tap, the instrument to use, the currency in which to borrow, the interest rate and the maturity structure. These decisions will determine the structure of the debt portfolio and the need to be constantly reviewed to judge the impact that changes in the global borrowing climate and the country's own situation have on the opportunities available. It is equally important to have accounting unit for debt service and foreign debt commitment as well as disbursements. This involves collecting detailed information on the country's debt commitment and disbursement on loan-by loan basis in order to avoid debt accumulation. It should also define the

type of debt to be recorded. The statistical and analysis function of debt management involves generation of debt data bank for use by the managers for day-to-day operations as well as for general use in policy making. The databank should generate debt on loan-by-loan basis so as to provide comprehensive report showing the amount outstanding, the currency, the principle and the interest rates, due date and terms of loans etc. It should also help in establishing, through balance of payment forecasting, the sustainable level of the foreign debt-servicing burden, and to incur the foreign borrowing appropriate to that level.

### 3.3.2 Loan Cycle and Indebtedness in Kenya

As mentioned earlier, loan-by-loan databank is necessary for efficient debt management. Each loan in the databank will however, have its own unique cycle. By loan cycle, we mean the period covering all the action on a loan from the time it is negotiated till the loan is paid off. This could be as short as one month and as long as 35 years as is the case of loans from International Development Agency (IDA). The first stage is the negotiation of the loan followed by signing of the agreement. There will usually be conditions that must be complied with before the loan agreement becomes effective. Once those contractual conditions are fulfilled, the amount agreed upon can be disbursed or drawn down, for most loans, commitment fees paid on the un-drawn portion of the loan are incurred from the date on which the loan becomes effective. However, for some loan commitment fees are levied from the date specified in the agreement irrespective of whether conditions preceding effectiveness have been fulfilled. Once loan disbursements start, interest payments and other payments linked to these withdrawals begin. Disbursement ceases after a date specified in the loan agreement although this date may be revised with the arrangement of the creditor. Principal repayments usually begin after a grace period. The loan repayments may start before disbursements are completed, particularly if the project for which the funds are being used is delayed. However, interest, commitment fees, and all other charges are payable during the grace period. There are also penalty payments for amounts not paid on due dates.

It is worth noting that during this cycle, other developments may take place affecting the amount and the maturity structure of the loan. First, the loan amount may be enhanced, or an additional commitment made with the agreement of both parties. Secondly, part of the loan amount may be cancelled if it is not required or if disbursements have been formally stopped. Thirdly, the loan may be restructured which includes rescheduling; i.e. some principal repayment and/or interest payments due or arrears of principal and interest may be deferred. Other forms of restructuring include refinancing, debt reduction and debt conversion. Fourth, part or all of the principal and/or interest payments due or arrears of principal or interest may be written off. Fifth, the loan may be prepaid, either to reduce the borrower's liability or to refinance the loan. Sixth, it is also possible for the creditor to recall the loan. Lastly, the increasing use of derivatives has also meant that the currency and/or the interest rate of a loan may be swapped with that of another loan or loans; for example, from a floating to a fixed rate of interest or Japanese yen to US dollars.

### 3.3.3: Practice of debt management in Kenya

Kenya's debt management system has evolved over time though slowly. The growth of the country's debt stock as well as the international debt crisis in the early 1980s convinced the Treasury and the Central Bank of Kenya of the need for better records of existing debt and more efficient tools for analysis and forecasting of debt service payments. With the changes introduced by the reform of the debt management portfolio, the following are the institutions currently dealing with debt management in Kenya, besides the Debt Management Department which was upgraded from a division in July 2002:

- The External Resource Department of Ministry of Finance is responsible for negotiation of loans as well as projecting and tracking disbursements.
- The Central Bank of Kenya, which manages public domestic debt on behalf of the Treasury. This includes contracting domestic debt through sale of Treasury Bills and Bonds, extending overdraft facilities to the government, maintaining domestic debt register and making payments of domestic debt.
- Department of Government Investments and Public Enterprises (DGIPE), which facilitates lending of donor funds to public enterprises. It also monitors and receives repayments by these enterprises on behalf of the government.
- The Attorney General's Office, which is the principal legal adviser to Government and is responsible

for reviewing draft loan agreements to ensure conformity with the relevant legislation.

- Accountant General's Office, which is responsible for cash management and in particular the use of the government overdraft facility at the CBK.
- Controller and Auditor General, who is responsible for issuance of authority to debit the Consolidated Fund Service account to settle government debts. The office undertakes periodic audits of public debt.

With the establishment of the Debt Management Office, along with its objective of coordinating and consolidating debt management functions spread within the Ministry of Finance and the CBK under one unit, the scenario prevailing previously where the debt management system was scattered in various departments of Treasury as well as Central Bank of Kenya would be contained.

Although there are a number of regulatory frameworks for the contraction of external debt in Kenya, the discretionary authority vested in the hands of the Minister for Finance is immense and may compromise the societal needs and aspirations. The authority to contract external loan is given to the Minister for Finance by External Loans and Credit Act Cap 422 (1968). In 2000 however, Parliament put a ceiling for the stock of external debt at Ksh 500,000 million which is subject to review. The guaranteed domestic and external borrowings are contracted under the Guaranteed Loans Act Cap 461 (1980). The direct government borrowings from domestic sources are however governed by the Internal Loans Act. The State Corporation Act of 1986 requires all state corporations to seek the approval of the Minister of Finance before embarking on external borrowing. The Minister therefore has the power to negotiate the terms and conditions of external loans and credits to Kenya. Although the Minister of Finance is required by the External Loans and Credits Act to report to Parliament details of any new borrowing, what comes out clearly from this Act is the fact that it does not provide for stakeholders' participation and wholly gives the Minister the authority. This is an anomaly if debt is to be negotiated on behalf of all the stakeholders and the future generation that will pay the debt both directly and indirectly.

Besides the above structure and legislative framework outlined, the debt management process in Kenya involves mainly three Inter-ministerial Executive Committee, the four departments of the Treasury as well as the Central Bank of Kenya. The committees are:

- Budget Steering Committee (BSC): This is the senior most economic policy making committee in the country. It is chaired by the Minister of Finance and comprises the Permanent Secretary to the Treasury, the Financial Secretary, the Permanent Secretary Ministry of Planning and National Development, and representatives from the Central Bank (CBK). This committee discusses national development issues including debt management policies.
- Debt Management Committee (DMC): This committee is chaired by the Permanent Secretary to the Treasury and comprises of senior officers from the Ministry of Finance, the Ministry of Planning and National Development, the Central Bank and the Attorney General's Chambers. The work of this committee is to analyze recommendations coming from the Debt Management Technical Working Group (DMTWG) and advise the BSC on matters related to the management of government external debt and domestic debt. It meets monthly and the Debt Management Division of the Treasury acts as its secretariat.
- Debt Management acts as (DMTWG): This committee was formed at the same time as the DMC so as to act as its advisory body. It is chaired by the Head of Debt Management Department that also acts as its secretary. The committee comprises officers from different departments dealing with debt issues.

Despite the existence of the Acts of Parliament and the debt management structure in Kenya, debt problems continue to grow in disturbing magnitude and their effects stifle economic development. Looking at the Acts that control the debt issues in Kenya, one clearly sees no consistent legal framework put in place to act as regulatory benchmark. Although the regulatory framework has since 2000 established ceilings of borrowing from both external and domestic sources, it has as yet to deal with other critical issues like conditions regarding terms of borrowing and purpose of borrowing (that should be in conformity with both the development theme as well as development needs and aspiration of the people) etc. The legal provision does not equally allow for the stakeholders' participation. It is therefore imperative that all the Acts of Parliament pertaining to debt matters be reviewed in line with the current needs and the process of the review must involve all stakeholders.

Institutional as well as structural factors affecting debt management in Kenya must be addressed if result is to be expected from the donor-funded projects. There is need to avail debt information to the stakeholders. The people of Kenya should know what amount they owe to the outside world, when that amount was contracted, what were the terms, where was it used as well as the current project status. Despite the existence of relatively good reporting system of debt in Kenya, the capacity for debt management needs, however, to be strengthened. The capacity to advice on socio-economic ripples of any debt contracted, choice of debt instruments, maturity structure, the currency composition as well as terms of borrowing should be incorporated in the ongoing reforms of the institutional structure of debt management in the country.

Other areas that are completely lacking yet are important for effective debt management include capacity to restructure the existing debt stock in order to reduce debt service, ways of minimizing risk exposures, effective management of the debt cycle as well as constant reviews of debt portfolio (portfolio inventory stocktaking). The need for capacity enhancement and institutional development therefore becomes imperative for effective debt management in Kenya. Equally important is the broadening of the management process through the involvement of all stakeholders such as religious organizations, civil societies as well as the NGOs. This is important because the debt is contracted on behalf of the citizens and it is only fair and just that they are represented on the negotiation desk as well as in the debt stock and servicing management. Such a broad participatory debt management process should encompass all the debt processes from negotiation through to project selection, implementation, monitoring, evaluation, debt servicing, restructuring, debt portfolio analysis, rescheduling as well as any other development during the debt cycle.

### **Education and Indebtedness in Kenya**

Development of human resources involves investing in people to increase their skills and capacities. Investment in human development is both a basic requirement and means for creating a conducive environment for people individually and collectively to develop their full potential and to have a reasonable choice of living productive and creative lives (UNDP, 1990). Expenditure on education can therefore be viewed as both consumption and investment and any fiscal effects that reduce or cut it will adversely affect the development potential of the economy at large. Education is also regarded as the main process of transmitting dynamic culture and socializing the individuals in the wider societal norms. In fact Benevot (1992) believes that no economy can be able to develop its natural resources effectively without the development of its human capital that is achievable through investment in education.

Education does not only provide for manpower creation: a significant and overlapping component of it takes the form of consumption benefits over the educated person's lifetime. But despite these importance and needs for education in general, many low-income countries still allocate less than 3% of their GNP to education compared to almost 6% for high income countries. In Kenya like any other developing country, however, the concern has been the rapid decline of the share of expenditure on education to total expenditure let alone share of GDP. Much of this decline can be attributed to massive resources that the government has had to transfer outside in the form of debt repayment and servicing. Consequently, the government has found it easier to cut social services expenditure like education because the impact cannot be felt immediately. Such expenditure cuts are attributed to the rapid growth of both external and domestic debt servicing as well as the growth of the public sector wage bill. In fact, during 2003/04 fiscal year the government spent almost twice on servicing debt as on provision of education to her people.

An analysis of Kenya government expenditure outlays over the last decade shows that expenditure release to Ministry of Education has been on the rise, largely due to the introduction of the Free Primary Education policy in January 2003. This contrasts with the picture of the 1990s decade when expenditure in the sector had witnessed a declining trend, largely due to debt servicing. In 1996/97 fiscal year for instance, the government had spent ten times as much on debt servicing as on education. This has improved to a figure government spending twice as much on servicing debt as on education.

## Central government expenditure on education (1999 – 2004)

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Recurrent Expenditure					
Ministry of Education, Science and Technology	47,599.60	48,768.43	53,738.39	61,603.48	71,800.36
Development Expenditure					
Ministry of Education, Science and Technology	660.20	1,093.6	2,597.32	4,814.44	8,434.38
Source: Economic Survey 2004					

Despite increase in resources to the sector witnessed at the turn of the millennium, it should be pointed out that there are still important areas within the education sector that are in need of resources as well as reforms. For example the Public Expenditure Review of 2005 disclosed that exchequer allocation to wages and salaries was accorded a higher priority as compared to the development budget. The development budget, small as it is, was among the first to be targeted for reduction especially in the event of a liquidity crisis. Much of the resources need to be directed at instructional-related activities (inputs), including text books, desks, spacious classrooms, more teachers and feeding programmes (Abagi, 1997). At the moment, the bulk of the resources are used to run the secretariat at the Ministry of Education headquarters and in the districts, as well as meet teachers' salaries. Findings of empirical works on the rate of returns of the various levels of education to society can be calculated at two levels: private rate of returns and social rate of returns. Psacharopolous (1985), found an average social rate of returns to education in Sub-Saharan Africa (SSA) countries to range from 26% for primary education to 13% for high education. In Nigeria, he found it to be 23% for primary education, 12.8% for secondary education and 17% for higher education. He claimed that returns to lower education are high relative to returns to secondary and the latter are higher than returns to university education. In this regard, it is a sound policy for government to emphasize increased resource outlay to the education sector in general and primary education in particular if the country is to benefit from human capital in the development process. Institutional and capacity development in the education sector should involve the stakeholder. Adequate investment is therefore needed on the education institutions due to their relationship with human and economic development. The huge amount spent on debt servicing could help to improve the quality of the free basic education that has been a concern of many.

The causality between education productivity and earnings of labor also warrant greater investment in education if the sector has to contribute to the well-being of majority of the population. The importance of education in the growth process of any country cannot be under estimated (Ottani and Villanueva, 1989,1990; Barro and Sala-I-Martin, 1995; Tanzi, 1995 and Ekpo, 1995). Nyamunga (1997), however found expenditure on education in Kenya had not contributed to the growth process. He attributed this mainly to the inadequate expenditure outlay to the sector as well as the structure of the expenditure within the education sector that has favored higher education at the expense of basic education. A lasting solution to the development of human capital in the economy relies with the institutional reorganization as well as debt relief or forgiveness that releases resources that are currently been transferred outside in debt service to the education sector.

### Health and Indebtedness in Kenya

The provision of good health satisfies one of the basic human needs and contributes significantly towards maintaining and enhancing the productive potential of a people. Improving health reduces production losses caused by worker illness, permits the use of natural resources that had been totally or nearly inaccessible because of diseases and increases the enrolment of children in school and make them better able to learn. All these form investment in human capital and have positive impacts on adult productivity, earnings, quality of life and socio-economic development (World Bank, 1993, p.17).

A healthy nation is thus more productive as it learns more rapidly, works more steadily and manages its task more efficiently. This position is supported further by the mounting evidence on the extent to which such an investment and its links with other factors in development have acted as an engine for change in many countries

in the 1990s (Psacharopoulos). In the developing countries like Kenya, however, the picture of the role of health in the human development process is different. Due to high debt repayment and servicing requirement of Kenya's economy, the budgetary resources that ought to go into assuring the children of good health are diverted to servicing the debt and repayment of domestic debt. Indeed in the 1990s and well into the new millennium, the government has been spending more repaying debt than it spends on health, education and infrastructure together. This situation was made worse with the introduction of the SAP-related cost sharing in hospitals in the 1990s. Families were forced to meet the cost of health out of their own pockets, yet most of them were already too poor to afford. Minds and bodies of most children in Kenya were thus not growing well because of recurrent infectious diseases which could be prevented by transferring a fraction of what is spent on debt to primary health care services.

	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Recurrent Expenditure					
Ministry of Health	9,335.80	14,870.25	20,527.39	14,448.49	16,004.71
Development Expenditure					
Ministry of Health	85.40	759.11	3,539.54	4,893.66	5,115.54

Source: *Economic Survey 2004*

Although between 1999 and 2004 there has been increasing resource allocation to the Ministry of Health, the government still spends more on debt servicing than on the sector. In fact in 2003/04 fiscal year, it spent almost six times on debt as on health.

Prior to the drastic increase in 2001, the resource outlays from the exchequer to the Ministry of Health clearly attested to the crowding out effect of indebtedness in Kenya. The share of the total expenditure for the health sector relative to total expenditure was 7.2 percent in 1976/77 and thereafter averaged 5 percent up to implementation of SAPs in 1986/87. The Structural Programme period commencing in 1987 witnessed greatest decline in the budgetary resource allocation to the health sector averaging only 2 percent of the total government expenditure. On the contrary, the debt repayment and servicing rose drastically from a mere 35 percent in 1988/89 to an average of 75 percent in the 1990s. This clearly indicated that debt servicing and repayment was crowding out the health sector in general and in particular primary health care services in the resource outlays. In fact, the budgetary outlay figures for the fiscal year 1996/97 provided a testimonial evidence of the inherent suffering of a key service ministry. Its importance notwithstanding, the Kenya government spent twenty six times as much on debt servicing as on basic health care provision. Between 2002 and 2005, government expenditure on health stood at 7.5, 7.0, 7.5 and 9.0 percent of total government expenditure respectively. Indeed the sector's share of total sectoral expenditure was low, accounting for only 1.6 percent of GDP. In the Public Expenditure Review of 2006 the government states that it intends to push spending in the health sector to at least 15% of total government expenditure, in line with the Abuja Declaration. To this effect, it has increased spending on healthcare from 7 percent in 2003/04, to 8.4 percent in 2005/06 and eventually to 9.4 percent in 2008/09.

Despite the recent rise however, the current level of public spending on healthcare remains far below national benchmarks and international commitments. The ERS set a target of realizing 12 percent of the total government expenditure on the sector by 2006/07. In 2004/05, both per capita and total spending on healthcare as a percentage of total public spending stood at US \$ 7.48 or 6.1 percent, as compared to the recommended levels of US\$34 set by the Commission on Macroeconomics and Health (CMH) and 15 percent by the Abuja Declaration respectively. It is envisaged that adopting the recommended levels of spending would allow for the adequate provision of a basic package of health services and enable a sustained response to the rising burden of disease.

Segall, (1989) notes that Kenya has ill controlled allocative system and that the Ministry of Health has little influence on the actual expenditure allocation. In this regard MoH's priority for rural health services relative to prevention and promotion are hardly ever provided in the matching expenditure allocations. Since 1970s the

MoH's recurrent expenditures have been skewed in favour of curative care with about 70 percent going towards supporting curative care (that is hospitals). Curative health still takes the largest share of the Ministry's total expenditure. However, this share is declining, while that on preventive and promotive healthcare is increasing, in line with government policy.

Ultimately, an expenditure pattern that favours hospitals and higher level facilities, at the expense of lower level facilities that have lower per capita costs, leads to inefficiency. The government should therefore prioritize expenditure into the health sector so as to produce a healthy people and productive human resource. Due to the crowding out attributed to increased debt service costs, debt relief covering all types of debt need to be advocated for if the health sector is to be rejuvenated to reach the level advocated for by international commitments such as the Abuja Declaration and national objectives

The distribution of the health facilities in the country further indicates how the government has been abrogating its responsibility as a provider of health. NGOs provide as many hospitals in the country as the government. Other than the health centers and dispensaries, other health facilities are mainly provided for by NGOs. The trend of provision of the health care by the NGO sector evolved more rapidly in the 1990s and can also be attributed to the increased debt servicing requirements thus reducing government ability in the provision. Such a situation therefore demands a wholesome approach in an attempt to change the trend. Not only should debt relief be sought but also ability to appreciate that the NGO are major stakeholders who should be involved.

### **Infrastructure and Indebtedness in Kenya**

The stock of public capital can play an important role in the development process of an economy. It can raise private sector output both directly and indirectly (Tatom, 1991). Social capital overhead constitutes the necessary prerequisite for private sector investment (Rosentein-Rodan 1943). One important issue that arises when one talks about infrastructure is what exactly constitutes infrastructure in an economy. Infrastructure can be both broadly and narrowly defined. The broad definition looks at it in terms of large capital-intensive natural monopolies while the other, which is expedient in applied work, is based on a narrow definition of just the tangible stock of owned public sector. The literature also notes that like other public goods, some benefits of infrastructure capital such as improved security, time saving, improved health and cleaner environment are magnitudes that are difficult to measure but which need to be included in the official measures of national output.

There is little doubt that infrastructure generally supports economic activity. What is not obvious is the degree to which such public infrastructure stimulates economic development in specific locations. Fox and Smith (1990) discuss the relationship between public infrastructure policy and economic development and conclude that infrastructure cannot be expected to stimulate the economies of all communities, but most communities can benefit from exploring new ways to deliver infrastructure services more efficiently. Aschauer (1989) found significant effects of infrastructure on the productivity of the USA. Canning and Fay (1993), Easterly and Rebelo (1993) also came up with similar findings.

**TABLE 2: Relative Shares of Infrastructure Expenditures to GDP (%)**

YEAR	ELECTRICITY	ROAD	OTHER COMM.	TOTAL
1980/81	1.45	2.03	0.31	3.8
1982/83	0.82	1.79	0.31	2.91
1984/85	0.8	1.27	0.25	2.32
1986/87	1	0.81	0.25	2.32
1988/89	0.99	1.34	0.15	2.49
1991/92	0.56	0.81	0.24	1.61
1992/93	0.43	0.5	0.18	1.11
1993/94	0.48	0.45	0.04	0.97

Source: *Economic Survey, various issues*

Despite its importance in the development process, infrastructure development relatively slowed down significantly since 1980s. The share of infrastructure expenditure relative to nation wealth (GDP) was 3.80 percent in the fiscal year 1980/81 thereafter fell drastically to only 0.97 percent by 1993/94. Importantly, however, is the fact that by 1993/94 the government spent as much as seventy times in debt servicing as in infrastructure provision. This indeed, attested to the poor state of the infrastructure stock in Kenya. By 2002 however, expenditure in the sector had began recovering to the initial 3 percent of GDP. Under the sector-wide approaches adopted since 1999, the physical infrastructure sector which comprises of the Ministries of Roads and Public Works, Local Government, Transport, Housing, Energy and Water and Irrigation, receives about 3.0 percent of the GDP and 14 percent of total government expenditure. In line with the objective of the ERS to expand and rehabilitate the infrastructure, expenditure within this sector increased from Kshs. 24 billion in 2002/03, to Kshs 34.9 billion (45.4%). It was projected to increase further to Kshs 58 billion in 2005/06.

Whether this increase was adequate to pay for the damage incurred in the 1990s when funding for the sector was at it lowest is not clear. Intra-sectoral analysis revealed that road sector had shouldered the greatest burden of the expenditure reduction over the 1990s period. In fact its relative share of GDP fell from 2.03 percent in 1980/81 to a mere 0.45 percent by 1993/94. Electricity, water and steam also fell remarkable from 1.45 percent to 0.48 percent in the same period. What comes out clearly from the date is the drastic fall in the relative expenditure shares of infrastructure to national wealth from 1982/83. This trend attested to the increased debt pressures since 1980s both repayment and servicing. This is a clear indicator of how debt servicing and repayment crowded out infrastructure in general and in particular the road sub-sector in the resource outlays. The current poor state of the Kenya road network is the fruit of this negligence over time, a negligence that requires adequate funds to rehabilitate. Other areas affected by this negligence included the non-measured attributes of infrastructure like reduced security both in rural and urban areas, environmental degradation and poor health.

### Debt and Investment

In circumstances where the country may not be able to repay her debt obligation, the overhang theory predicts a discouragement of both domestic as well as foreign investment. In this regard, debt reduction is expected to lead to an increased investment and more repayment capacity. In fact, empirical findings have revealed declining direct foreign investment in HIPCs and future prospects seem to be worse (Green and Khan, 1990). Indeed, the scarcity of foreign exchange has driven many firms and individuals to import consumer goods, spare parts and production inputs at high local prices thus dampening investment initiatives further. When one looks at the effect of debt on investment within an economy, the question that comes to mind is whether the borrowed funds were used efficiently or not. Foreign funds or capital if used efficiently and productively can increase the national welfare and growth process through enhanced savings and investments. However, for most developing countries, the picture is rather different. Most of the countries with debt servicing difficulties have lost ac-

cess to new international capital markets, suffered significant reduction of foreign direct investment and have experienced declining investment in excess of net resource transfers abroad in recent years. This suggests that investment has declined because of the lack of foreign resources and because of the more general disincentives against investment in the debtor countries created by debt crisis.

The analysis of the effect of the debt burden on investment reveals a mixed picture. What comes out clearly is the higher proportion of the variation in investment in Kenya explained by both the debt variables as well as policy variables in the model. The finding demonstrates that current debt-flows stimulate investment while past debt-flows deter investment. This reflects the effect of debt on investment in the short run. On the other hand, variations in debt service ratio adversely affect investment in Kenya. This confirms the crowding out effect of debt service on investment. Due to the inflationary pressure induced by increased inflows the previous level of inflation discourages current private investment. This implies that economic agents expect the previous high level of inflation to persist in the current period thus adversely affecting current private savings. Equally debt-induced high interest rates are found to adversely affect private investment in Kenya. This also confirms the expectation that high interest rates discourage private investment as the cost of borrowing is out of reach of many potential investors. Other variables analyzed demonstrate that public investment, human capital and real exchange rate (though for both public and human capital there is a need for enhanced allocation) have positive impact on investment. There is need therefore for both debt relief to enhance investment in the economy and also changes at the institutional front. Though observers recognize the seriousness of the reduction in investment rates, there is considerable divergence in views as to whether debt reduction is really a necessary condition for substantial improvement in investment rates. Equally worth noting is whether debt reduction could actually benefit the creditors by spurring enough investment to rise the eventual servicing of the debt. For instance, if Kenya were to be forgiven her debt today, what is the assurance that the resources released shall be put in areas that will enhance development? Surely, this is a case for structural and institutional reorganization. This calls for broader participation in the debt management and project as well as the budgetary formulation and monitoring.

### **Debt and Economic Growth**

Debt servicing pressure in Kenya has had significant adverse effect on the growth process of the country. In fact, much of the economic ailments the country has undergone owe their origin to debt servicing pressure. The need to service a large amount of external debt by an economy not strong enough to withstand the pressure can discourage both domestic and foreign investment as well as adversely affect economic performance through "crowding out" effects. Indeed, the debt dynamics and the subsequent adverse implications for the Kenyan economy can best be revealed by the expenditure outlay dynamics. All the development supporting expenditure profiles in the budgetary outlays have been systematically crowded out over time to give room for debt servicing. This was especially so in the decade of the 1990s. The consequences were clear and have been with us; no good roads, collapse in the entire infrastructure system, poor health care delivery, high rate of primary school children drop out, increased poverty and crime rate as well as a depressed economic growth. Such a breakdown of important public goods compelled the new government that ascended to power in 2003 to embark of a recovery programme, thus the formulation and adoption of the Economic Recovery Strategy for Employment and Wealth Creation (ERS).

The current debt flow in Kenya is found to have a negative effect on the growth process of the economy. The previous debt accumulation has adverse effect on economic growth thus confirming the problem of debt overhang. On the other hand, the effect of debt service on economic growth is positive. This is a surprising result though that can be attributed to the short run effects as well as the relatively declining external debt service costs. The effect of foreign financing on growth is however, negative. This means that rapid growth in external debt leads to increased fiscal deficit, as more resources have to be used to service and repay the debt. Equally, increased fiscal deficit further leads to increased external borrowing.

The terms of trade was also found to positively impact on the economic growth process. Private investment has a positive affect on the growth process through the accelerator mechanism. Any policy that reduces private investment for instance increased debt stock and debt service burden will generally adversely affect growth. Equally important for the promotion of growth within an economy is current public investment in both physi-

cal and human capital development. The recommendation by the joint mission of World Bank and IMF in its report titled an Assessment Report on Central Government Debt Management and Domestic Debt Market Development Program for a road map for the establishment of a Debt Management Office (DMO) at the Ministry of Finance is therefore welcome since it would, once operational, provide a policy framework for the coordination and management of external debt. All in all, the negotiation of all external debt, the implementation of the donor-funded projects and the monitoring and evaluation of the projects need to involve all the stakeholders to ensure that the projects reflect the society's needs and aspirations.

# CHAPTER FOUR

## CONCLUSION

Despite attempts to reduce debt stock and debt service of developing countries including Kenya, the debt situation continues to be an impediment to economic development. Although Kenya has improved from the 1996/97 figures when 39.5 per cent of government revenue was channeled into debt servicing to having 14.1 per cent of revenue taken by debt servicing in 2005/06, both domestic as well as foreign, this is still a substantial figure, way above expenditure in both the education and health sectors combined. It should be emphasised that although overall public debt service has reduced during the period 1996-2006, this has been mainly as a result of rescheduling of external debts through the Paris Club and the London Club.

The composition of public debt has changed significantly with the share of domestic debt increasing from 25.8 percent of total debt at the end of June 1996 to 45.3 percent at the end of June 2006. The external debt stock has fallen over the period, declining from 74.2 percent to 54.7 percent as a proportion to total public debt. The decline is attributed to reduced access to external funding from multilateral and bilateral agencies. Reduced access to external funding meant that government turned to the domestic market thus increase in domestic borrowing. This has implications on credit for local investment thus need for proper policies to ensure it does not negatively affect access to credit for local investors.

Indeed, the debt crisis of many countries has evolved from a complex combination of elements, some of which are external and thus beyond the control of individual countries, while others are the direct result of economic policies pursued. Internal factors such as poor or weak governance have been major contributors to the crisis of debt. Other than the oil price shock of 1973/74 blamed for debt pressure, debt burden can be attributed to various domestic policies and internal factors.

The role of budget implementation in enhancing development cannot be under estimated. If well formulated and implemented, the budget process can immensely enhance socio-economic development of the country. On the contrary, poor budget implementation can increase debt-servicing problem in a country. In fact, lack of proper formulation, monitoring and evaluation of the budget process in Kenya has been a major contributor to Kenya's indebtedness. Additionally, lack of transparency, accountability, as well as broad-based participatory budget process can be blamed for this indebtedness. The reforms adopted in budgeting since 1999/2000 through the Medium Term Expenditure Framework (MTEF) approach that aims to achieve budget credibility that assures of both technical and governance components of the budget is a welcome move. With such a wider and inclusive approach to budgeting, the previous habit of budget contributing to indebtedness may be overcome.

Donors have played a major role in the debt pressure in Kenya. In fact, in the 1990s decade of lending, it resulted in the economy being a net exporter of funds to donor organizations. In other words, the poor were subsidizing the rich instead of the other way round. The need to reverse and forestall this trend in future in order to enhance development becomes more apparent. Given the importance of Official Development Assistance (ODA) in enhancing the development process as well as adding debt pressure, its inflow management and coordination is crucial for sustained social and economic development as well as relief of debt burden. The success of this role, however, depends on the development of systematic review of the effectiveness and programming of the priority needs for ODA from all sources.

The Structural Adjustment Program in Kenya resulted into an increase in non-debt recurrent as well as inter-

est payment at the expense of capital and net transfer payments. Equally, the inability of the government to achieve overall reduction in its expenditure increased the tax burden significantly consequently depressing savings and investment in the economy. The cut in the capital expenditure outlay worsened this situation by further depressing capital formation that was important for the development process. Worse still, SAPs resulted in reduction of the social services delivery by the government especially in the vital areas of health care and basic education. SAPs as a policy was therefore among the destructive policies that raised the need for recovery, hence the ERS.

An effective debt management practice can ease debt service pressure tremendously and contribute to the development process. The reforms undertaken to create the Debt Management Office (DMO) are therefore welcome, in as far as they contribute to the setting up of a coherent legal framework and builds local capacity to enable it to advice on socio-economic ripple effect of debt contracted, choice of debt instruments, amount to be borrowed, maturity structure and currency composition, as well as terms of borrowing. Equally, the reforms at the DMO should target increasing capacity to restructure the existing debt stock in order to reduce debt service, minimize risk exposures, effect management of debt cycle as well as constantly review the debt portfolio. Ultimately, the envisaged DMO should undertake capacity enhancement and institutional development for effective debt management in Kenya

Despite the introduction of FPE in early 2003, indebtedness still has a negative effect on education, since government has to transfer substantial resources in the form of debt repayment and servicing instead of channeling it towards quality education. Recovering from the adverse effects of the SAPs period, the education sector is in need of resources to provide equipment, teaching material and other operation and maintenance expenditure outlays. There is need to target instructional-related activities (inputs), including textbooks, desks and feeding programmes in order to make education attractive and quality. Given the higher social rate of return of primary education, there is need for a policy framework and institutional setup to emphasize even increased resource allocation to the education sector.

Despite its importance in the development process, infrastructure development slowed down in the 1980s and 1990s, only to recover slightly in the new millennium. The share of infrastructure expenditure relative to national wealth (GDP) was 3.80 percent in the fiscal year 1980/81 and thereafter fell drastically to only 0.97 percent by 1993/94. By 2002 however, expenditure in the sector had began recovering to the initial 3 percent of GDP. The sector has received about 3.0 percent of the GDP and 14 percent of total government expenditure since 2002. Whether this increase is adequate to pay for the damage incurred in the 1990s when funding for the sector was at it lowest is not clear. Intra-sectoral analysis reveals that the road sector shouldered the greatest burden of the expenditure reduction over the 1990s period. The consequences of such a trend are not difficult to picture and include but are not limited to increased transaction and production costs in the economy, reduced investment and growth. To reverse this trend, there is a need to not only prioritize expenditure outlays in line with the development needs but also to increase funding to the sector to make up for the damage done. There is need therefore to advocate for debt cancellation in order to release resources for infrastructure development.

The changes in the investment behaviour in Kenya can be explained by both debt as well as policy variables. The empirical finding reveals that current debt flows stimulate investment while past debt flows deter it. On the other hand variations in debt service ratio adversely affect investment in Kenya. This confirms the crowding out effect of debt service on investment. Other policy variables like inflation and debt-induced high interest rates adversely affect investment in Kenya. Despite the need for debt cancellation to enhance investment in the economy, many contend that more need to be done on the restructuring and institutional reform.

## RECOMMENDATIONS

In cognizance of the complex adverse effects of indebtedness and the debt servicing difficulties on overall development needs of a country like Kenya and acknowledging the presence of institutional and structural weaknesses that exist, the following recommendations are made to the effect of enhancing debt management for sustainable development:

- That the country seeks debt relief from multilateral donors with a view to releasing resources for development.
- The main factors that have been blamed for the debt burden are the expansionary fiscal policies and the highly distorted trade policies. There is a need therefore to consolidate both political and economic frameworks that can support overall development. An important question to ask here is the effect of the neoliberal approaches to the country's debt
- There is a need to sensitize people so that they can be able to determine their personal and community aspirations in the budget. In this regard, the role of the civil society becomes paramount in unlocking the budget. Such an initiative would enhance the capacity of the people to shape their destiny through the budget and also to influence the budget process by creating checks and balances.
- From the foregoing, it is imperative that any solution to some of the causes of indebtedness must embrace the overhaul of the constitution through appropriate definition of powers and eradication of discretionary authority in the hands of individuals.
- The successfulness of this role, however, depends on the development of systematic review of the effectiveness and programming of the priority needs for ODA from all sources. This can be achieved through two important ways. First, through strengthening and developing institutional capacity involving all stakeholders and secondly, through establishing implementation, coordination, monitoring as well as evaluation mechanism as a national policy. Without these in place, ODA in flow will continue to be a major contributor to indebtedness in Kenya. Importantly, there is a need to involve all stakeholders in the coordination and management of donor funds and projects.
- Given the higher social rate of return on primary education, there is need for policy framework and an institutional setup to emphasize even more increased resource allocation to the education sector in general and primary in particular if the country is to benefit from human capital in the development process. A lasting solution to the development of human capital in the economy therefore lies with the institutional re-organization as well as debt cancellation that releases resources that are currently being transferred outside in debt service.
- The government should increase expenditure into health sector so as to produce a healthy people and productive human resource. There is need for debt cancellation in order to rejuvenate the health sector. Equally important is the institutional and capacity development in debt as well as in development project management.
- The consequences of debt are not difficult to picture – increased transaction and production costs in the economy, reduced investment and growth. To reverse them; there is need to prioritize expenditure outlays in line with the development needs and more importantly advocate for debt cancellation in order to release resources for infrastructure development.
- Despite the need for debt relief to enhance investment in the economy, and despite reforms in governance since 2003, more needs to be done on restructuring and institutional reform.
- There is need to speed up conclusion of a policy framework for the coordination and management of external debt as envisaged by the Debt Management Department in 2006/07 fiscal year. The negotiation of all external debt, the implementation of the donor-funded projects and the monitoring and evaluation of the projects needs to involve all the stakeholders to ensure that the projects reflect the society's needs and aspirations.

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#### Appendix 1: Kenya's External Debt and Debt Service ('000US\$)

Year	EDT	TDS	NTR	(TDS/EDT)%
1972	581200	48400	864	8.3
1973	844700	65300	25128	7.7
1974	1152600	97600	30992	8.5
1975	1290200	151000	52064	11.7
1976	1493300	169500	38328	11.4
1977	1658200	326000	-2600	19.7
1978	2177100	215900	45120	9.9
1979	2727400	299400	52220	11.0
1980	3398600	433400	24056	12.8
1981	3238700	484500	-42200	15.0
1982	3374900	497100	14628	14.7
1983	3637600	515200	27728	14.2
1984	3520700	579500	-58900	16.5
1985	4201000	621000	51300	14.8
1986	4724399	677900	-158400	14.3
1987	5697000	698000	34728	12.3
1988	5900900	771900	65400	13.1
1989	5902097	733600	36992	12.4
1990	7126398	812400	53256	11.4
1991	7156399	744300	-440900	10.4
1992	6691600	714000	-77900	10.7
1993	6993699	652000	-57700	9.3
1994	760000	888000	-597000	12.4
1995	7381000	765000	-64000	10.4

ETD - External Total Debt  
TDS - Total Debt Service

Source: World Bank Debt Tables, various issues

## External debt in Ksh Million (1996 2005)

1996	345,939
1997	307,729
1998	323,339
1999	407,792
2000	395,564
2001	393,978
2002	377,748
2003	407,053
2004	443,157
2005	434,453

Source: Treasury and Central Bank of Kenya

## Appendix 2: Composition of External Debt Outstanding and Relative Shares ('000 US\$ and %)

DEBT	BY		SOURCE			SHARES			
YEAR	MULTI	BILAT	PRIV	TOTAL	OFF CRE	MULTI	BILAT	PRIV	TOTAL
1972	78900	215000	96600	390500	293900	20.2	55.1	24.7	100
1973	117300	277900	121300	516500	471800	22.7	53.8	23.5	100
1974	142100	329700	124000	595800	471800	23.9	55.3	20.8	100
1975	192600	3374700	103300	630300	527300	30.5	53.1	16.4	100
1976	274100	354200	135300	763600	628300	35.9	46.4	17.7	100
1977	339800	411000	269800	1020600	750800	33.3	40.3	26.4	100
1978	419100	407300	420400	1246800	826400	33.6	32.7	33.7	100
1979	495600	528100	649100	1672800	1023700	29.6	31.6	38.8	100
1980	630200	572300	859800	2062300	1202500	30.6	27.8	41.7	100
1981	695800	632100	811400	2139300	1327900	32.5	29.5	37.9	100
1982	866900	698300	691800	2257000	156200	38.4	30.9	30.7	100
1983	971000	698800	598000	2267800	1669800	42.8	30.8	26.4	100
1984	1077900	780300	438400	2296600	1858200	46.9	34	26.4	100
1985	1321600	945300	423300	2690200	2266900	49.1	35.1	15.7	100
1986	1594300	1209200	627100	3430600	2803500	46.5	35.2	18.3	100
1987	1961400	1507300	84300	4311700	3468700	45.5	35	19.6	100
1988	1941600	1539100	786800	4267500	3480700	45.5	36.1	18.4	100
1989	2185000	1118200	914700	4217900	3303200	51.8	26.5	21.7	100
1990	2533200	1154800	1161700	4849700	3688000	52.2	23.8	24	100
1991	2631300	1271900	1088300	4991500	39032000	52.7	25.5	21.8	100
1992	2542000	1290900	1145100	4978000	3832900	51.1	25.9	23	100
1993	2659900	1395100	1066300	5121300	4055000	51.9	27.2	20.8	100
1994	2754000	2151000	746000	5651000	4905000	48.7	38.1	13.2	100
2001	227,250.00	108,176.40							
2002	230,780.53	101,738.50							
2003	233,910.01	105,298.62							
2004	254,898.33	166,873.18							
2005	255,412.35	157,668.62							

MULTI- Multilateral Creditors  
 BILAT - Bilateral Creditors  
 PRIV - Private Creditors  
 OFF CRE- Official Creditors

Source: as in appendix 1

Appendix 3: Long-term and Short-term Debt Outstanding and Public and Private long-term Debt ('000 US\$)

TOTAL						SHARE		
YEAR	PPGLAD	PNGLD	STDEBT	TOTAL	PPGLAD	PNGLD	STDEBT	TOTAL
1972	390500	106700	84000	581200	67.2	18.4	14.5	100
1973	516500	206200	122000	844700	61.1	24.4	14.4	100
1974	595800	351600	166000	1113400	53.5	31.6	14.9	100
1975	630600	392300	187000	1209900	52.1	32.4	15.5	100
1976	763600	414900	21600	1394500	54.8	29.8	15.5	100
1977	1020600	270500	303000	1594100	64	17	19	100
1978	1246800	433300	403000	2083100	59.9	20.8	19.3	100
1979	1672800	437600	429000	2539400	65.9	17.2	16.9	100
1980	2062300	437000	640400	3139700	65.7	13.9	20.4	100
1981	2139300	365500	470300	2975100	71.9	12.3	15.8	100
1982	2257000	384800	339600	2981400	75.7	12.9	11.4	100
1983	2267800	487200	408900	3163900	71.7	15.4	12.9	100
1984	2296600	428300	376000	3100900	74.1	13.8	12.1	100
1985	2690200	519000	470000	3679200	73.1	14.1	12.8	100
1986	3430600	462000	372000	4264600	80.4	10.8	10.8	100
1987	4311699	593000	591000	5495699	78.5	10.8	10.8	100
1988	4267500	648000	530000	5445500	78.4	11.9	9.7	100
1989	4218898	167000	597800	4983698	84.7	3.4	12	100
1990	4849699	880000	914600	6644299	73	13.2	13.8	100
1991	4991500	987000	684600	6663100	74.9	14.8	10.3	100
1992	4978000	579000	741300	6298300	79	9.2	11.8	100
1993	2121301	600000	909300	3630601	58.4	16.5	25	100
1994	5651000	530000	688000	6869000	82.3	7.7	10	100

PPGLAD - Public and Publicly Guaranteed Long Term Debt  
 PNGLD - Private non-Guaranteed Long Term Debt  
 STDEBT - Short Term Debt

**Appendix 4: Debt Burden Indicators and Debt Servicing Capacities (%)**

YEAR	EDT/XGS	EDT/GNP	TDS/XG	INT/XGS	INT/GNP	CON DEBT/EDT
1972	100	28	8	4	1	35
1973	120	35	9	4	1	32
1974	119	40	10	4	1	28
1975	128	41	15	5	2	26
1976	131	45	15	4	2	25
1977	104	39	21	4	1	26
1978	141	43	14	5	2	20
1979	167	45	18	7	2	20
1980	165	48	21	11	3	21
1981	180	49	27	13	4	24
1982	201	55	31	15	4	28
1983	289	63	34	14	4	27
1984	212	59	35	14	4	32
1985	262	71	39	15	4	31
1986	248	68	36	14	4	34
1987	339	77	40	17	4	33
1988	312	72	41	17	4	36
1989	305	74	38	15	4	34
1990	319	88	36	15	4	34
1991	324	74	34	15	4	38
1992	311	89	33	13	4	41
1993	300	137	28	11	5	44
1994	273	112	33	13	5	49
1995	248	98	26	9	3	54

Source: as in appendix 1

- EDT - Total External Debt ratio of Total Export of Goods and Services
- EDT/GNP - Total External Debt as a ratio of GNP
- TDS/XGS - Total Debt Service as a ratio of Export of Goods and Services
- INT/XGS - Interest Payment as a ratio of Export of Goods and Services
- INT/GNP - Interest Payment as a ratio of GNP
- Con Debt/EDT - Concessional Debt as a ratio of Total External Debt

### Appendix 5: Average Terms of New Commitments

YEAR	LDO Dvi	OC in %	mturity	Gracepe	Grant %	PRI in %	Maturi	Gracepe	Grant %
1970	22	2.4	37.9	8	63.7	7	11.2	1.7	12.4
1975	40	6.5	27.2	6.5	27	8.1	13.3	5.8	9.9
1980	27	3.5	31.5	8.1	53.7	8	5.9	-0.6	5.2
1985	20	4.4	29.1	9.2	45.5	9.9	12	2.1	1.8
1987	15	2.5	34.6	8	60.1	7.8	8.4	2.5	8
1988	18	2.1	28.2	9.3	63.3	7.7	12.3	2.4	9.3
1989	18	2.2	32.8	9.2	65.3	7.4	9.4	2.6	10.4
1990	19	3	29.9	8.4	57.7	7.4	13.2	4.9	13.5
1991	19	2.1	34.9	8.9	66.7	8.1	12.2	1.7	8.2
1992	13	0.7	39	9.3	79.6	1.8	2.7	1.7	15.1
1993	13	2.3	31.8	8.8	63.6	0	0	0	0
1994		2	30.1	6.8	62	0	0	0	0
1995		2.1	35.4	9.9	66.7	8.2	6.3	0.5	2.4

Source: as in table 1

### Appendix 6: Relative Shares of Expenditure Categories

YEAR	ADM	DEF	EDU	HEAL	WELF	ECOSE	OTHER	TOTAL
1976/77	15.3	10.5	19.7	7.2	2.2	31.6	13.5	100
1978/79	14.9	15.4	15.8	6.1	2	32.8	13	100
1980/81	16.9	9.2	18.1	6.7	2.2	30.4	16.5	100
1982/83	13.5	11.5	17.3	5.9	2.7	23.2	25.9	100
1984/85	14	7.5	17.5	5.4	3.4	25.9	26.3	100
1986/87	15.3	8	19	5.3	4	23.1	25.3	100
1988/89	13.8	4.8	18.1	4.8	2.5	20.9	35.1	100
1991/92	5.6	2.22	6.88	1.8	0.9	6.2	76.4	100
1992/93	5.86	2.15	6.78	1.84	0.83	6.7	75.87	100
1993/94	5.96	2.22	6.91	2.11	0.7	6.23	75.87	100
1994/95	12.62	1.67	7.48	1.88	0.87	5.97	69.51	100
1995/96	6.56	2.07	7.26	2.08	1.17	6.36	74.5	100
1996/97	8.24	2.16	7.1	2.75	0.91	7.31	71.53	100

Source: Economic Survey, Various issues

## Appendix 7: The Structure of Expenditure in the Education Sector

YEAR	ADMIN	PRIM	SECO	HIGHED	RECTOT	DEV	TOTAL
1978/79	4.6	62	12.9	11.2	90.7	9.3	100
1980/81	4.4	64.7	13.5	12	94.6	5.4	100
1982/83	5.2	63.2	14	8.3	90.7	9.3	100
1984/85	7.8	60	13.8	10.6	92.2	7.8	100
1986/87	10.5	56.3	14.3	12.3	93.4	6.6	100
1988/89	12.6	49.8	16.4	15.2	94	6	100
1991/92	6.8	55.7	15.7	15.7	93.9	6.1	100
1992/93	7.5	47.7	16.7	17.1	89	11	100
1993/94	4.5	59.2	16.7	15	95.4	4.6	100
1994/95	78.4	1.5	1.3	16	98	2	100
1995/96	79.2	1.5	1.3	16	98	2	100
1996/97	80.9	1.6	1.7	13.6	97.8	2.2	100

Source: Economic Surveys, various issues

RECTOT - Total Recurrent Expenditure  
 DEV - Total Development Expenditure of Education

## Appendix 8: Relative Shares of Education and Health to GDP

YEAR	EducExp	Educred	Health	Healthrec
1978/79	3.9	3.7	2	1.6
1980/81	5.7	5.3	2.5	2.1
1982/83	5.1	4.8	2	1.7
1984/85	5	4.7	2	1.7
1986/87	5.7	5.4	1.9	1.7
1988/1989	6.1	5.7	1.8	1.5
1991/92	5.6	5.1	1.9	1.6
1992/93	5.3	4.9	2.2	1.5
1993/94	5.5	5.1	1.9	1.6
1994/95	6.1	5.8	2.1	1.7
1995/96	5.6	5.2	2.8	1.7

Source: Economy Survey, various issues.

### Appendix 9a: Distribution of Health Facilities in Kenya

Facility	Hospital		Health Centers		Sub-Health Centers		RHTC/RHDC	
	GOK	NGO	GOK	NGO	GOK	NGO	GOK	NGO
Nairobi	7	9	27	3	6	0	0	0
Central	14	14	50	13	1	0	9	0
Coast	16	9	39	3	1	0	4	0
Eastern	16	18	50	9	3	0	7	0
N. Eastern	3	3	9	0	0	0	0	0
Nyanza	11	15	60	37	11	2	7	0
R. Valley	32	29	93	34	13	1	7	0
Western	8	10	59	12	0	0	4	0
Not Clear	0	0	0	0	0	0	0	0
TOTAL	107	107	387	111	35	3	38	0

Source: MoH, Health Information Systems Dept., Wasuna (1997)

### Appendix 9b: Distribution of Health Facilities in Kenya

Facility	Hospitals		Health Centers		Sub-Health Centers		RHTC/RHDC	
	GOK	NGO	GOK	NGO	GOK	NGO	GOK	NGO
Nairobi	56	91	47	73	4	21	3	6
Central	214	103	3	26	0	15	1	4
Coast	177	82	17	73	1	16	0	4
Eastern	272	214	4	174	0	16	4	14
N. Eastern	35	7	0	8	0	0	0	3
Nyanza	159	82	2	46	2	66	0	13
R. Valley	497	337	5	122	0	19	0	3
Western	58	51	0	20	4	24	0	3
Not Clear	2	4	0	0	0	3	0	0
TOTAL	1470	971	789	542	11	180	8	50

Source: MoH, Health Information System Department, Wasuna (1997)

### Appendix 10a: Regression result of the Growth Model

Variable	Coeff	Std Error	t-value	t-prob	Partial R <sup>2</sup>
Constant	-3.996	0.9018	-4.433	0.0044	0.7661
INFL	-0.053	0.013	-4.093	0.0064	0.7363
INFLt-1	0.101	0.016	6.285	0.0008	0.8681
GPUIV	0.727	0.1	7.283	0.0003	0.8984
GPUIVt-1	0.514	0.107	-4.809	0.003	0.794
PINV	0.303	0.036	8.417	0.0002	0.9291
PINVt-1	0.285	0.032	8.866	0.0001	0.9291
FFGDP	-0.045	0.007	-6.465	0.0006	0.8745
HDC	0.039	0.008	4.881	0.0028	0.7988
ΔEDTGDP	-0.055	0.014	-3.805	0.0086	0.707
ΔEDTGDPt-1	-0.064	-0.011	-5.79	0.0012	0.8482
ΔDSR	0.09	0.026	3.399	0.0145	0.6089
ΔSSR	0.085	0.028	3.056	0.0223	0.6089
ΔTOT	0.035	0.004	8.563	0.0001	0.9244
ΔTOT	0.049	0.004	11.757	0	0.9584
ECTt-1	-0.308	0.05	-6.158	0.0008	0.8634
D84	-2.966	0.407	-7.284	0.0003	0.8984

$R^2 = 0.0996$   $F[16,6] = 88.748[0.000]$   $\sigma = 0.2514$

DW = 2.45 RSS = 0.379 for 17 variables and 23 observations

Model tests:

AR 1 -  $2F[2,4] = 2.5724[0.1913]$

ARCH 1  $F[1,4] = 0.17225[0.6985]$

Normality  $\chi^2[2] = 2.368[0.3060]$

RESET  $F[1,5] = 0.29745[0.6089]$

### Appendix 10b: Regression of the Investment Model

Variable	Coeff.	Std Error	t-value	t-prob	Partial R <sup>2</sup>
Constant	11.139	3.696	3.014	0.0108	0.4308
INFLt-1	-0.278	0.074	-3.737	0.0028	0.4308
ΔEDTGDP	0.361	0.093	3.871	0.0028	0.5379
ΔEDTGDPt-1	-0.203	0.066	-3.068	0.0098	0.4396
HCD	0.06	0.044	1.351	0.2016	0.132
ΔINT <sub>r</sub>	-0.348	0.144	-3.421	0.0051	0.4939
FFGDPt-1	0.057	0.032	1.811	0.0952	0.2147
ΔDSR	-0.245	0.15	-1.632	0.1285	0.1817
ΔDSRt-1	0.366	0.158	2.32	0.0387	0.3097

$\Delta RER$	0.521	0.372	1.401	0.1867	0.1405
ECT t-1	0.936	0.22	4.264	0.0011	0.6024
GPUIV	0.335	0.426	0.786	0.4474	0.0489

$R^2 = 0.849$   $F[11,12] = 6.1471[0.020]$   $\sigma = 1.8098$   
 $DW = 12.54$   $RSS = 39.304$  for 12 variables and 24 observations

Model tests:

AR 1  $2F[2,10] = 1.5035 [0.2686]$   
ARCH 1  $F[1, 10] = 0.49461[0.4979]$   
Normality  $\chi^2[2] = 3.4464[0.1785]$   
RESET  $F[1, 11] = 0.93786[0.3536]$

## METHODOLOGY

### Direct Effect of External Indebtedness on economic Growth

The functional estimable model used in the regression for the study borrowing from the work of Elbadawi et al is specified as:

$$RGDP = \Omega_0 + \Omega_1EDTGDGP + \Omega_2EDTGDGPt-1 + \Omega_3DSR + \Omega_4FDGDP + \Omega_5FDGDPt-1 + \Omega_6PINV + \Omega_7PINVt-1 + \Omega_8TOT + \Omega_9RER + \Omega_{10}HCD + \Omega_{11}INFL + \Omega_{12}GPUIV + \Omega_{13}GPUIVt-1 + \varepsilon \text{-----}$$

-----  
-(8)

Where  $\varepsilon$  = the error term. EDTGDGP = the stock of external debt to GDP, EDTGDGPt-1 = stock of external debt to GDP lagged by one period (reflects debt accumulation); DSR = the debt service as a ratio of export earnings (reflects the 'crowding out' effect); FDGDP = the fiscal deficit to the GDP ratio; FDGDPt-1 = lagged fiscal deficit to the GDP ratio; PINV = current private investment as a ratio of GDP (captures the accelerator principle); PINVt-1 = lagged private investment as a ratio of GDP; TOT = Terms of trade (captures external shocks); HCD = Human Capital Development; INFL = Rate of inflation (reflects macroeconomic stability); RER = Movements in real exchange rate (reflects incredibility of policies); GPUIV = public investment; GPUIVt-1 = lagged public invest.

This study makes a few amendments to the model used by Elbadawi et al (1996). Real GDP growth is used in place of per capita GDP growth rate. Private investment is included in the model to capture the accelerator principle. Shock variable is captured by terms of trade. The policy variables are captured by inflation rate and by real exchange rate. These variables show the extent of vulnerability of the economy to the external factors and consequently to reliance on foreign resource financing. They also show the extent of credibility of policies and their effect on economic growth. The current study makes the assumption that human capital formation plays a crucial role in growth path of any economy (this view has been empirically shown in a number of works like Otani and Villanueva [1989,1990], and Nyamunga, forthcoming.

### 3.3.2: Indirect Effect of External Indebtedness on Growth via Investment.

The estimable model showing the crowding effect of indebtedness can be written as:  $PINV = \Psi_0 + \Psi_1EDTGDGPt-1 + \Psi_2EDTGDGP + \Psi_3RGDP + \Psi_4DSR + \Psi_5FDGDP + \Psi_6FDGDPt-1 + \Psi_7TOT + \Psi_8HCD + \Psi_9GPUIV + \Psi_{10}INT + \Psi_{11}INFL + \Psi_{12}RER + \mu \text{.....}$ (13)

Where  $\mu$  is the error term; INT = Interest rate (Treasury bill rate); other variables are as defined earlier. Private investment to GDP is estimated so as to capture the accelerator principle. This is justified in order to capture the effects of external debt on sustained economic growth through its impact on private investment, through the accelerator principle. Interest rate as a variable is included in the investment equation to capture its effect on private investment.



## ABOUT KENDREN

The Kenya Debt Relief Network (KENDREN) is a network of civil society organizations and individuals in Kenya concerned with the enormous debt burden which continues to cripple development and efforts to improve the living standards of the country's citizens.

The network was officially launched in 1999 with an emphasis to co-ordinate and facilitate civil society activities towards cancellation of the country's debt in the light of the Jubilee 2000 debt campaigns worldwide.

Before the formation of the network, Kenya's debt burden was a matter between the government and creditors with no input at all from civil society organizations and the general public. The network therefore sought to demystify and politicize the debt crisis in Kenya by involving interested stakeholders in debt cancellation campaigns and by proposing policies and mechanisms for its effective management before and after cancellation.

## VISION

Towards a Kenyan state that is accountable and responsive to an active citizenry living in a free, just and equitable society.

## MISSION

To establish an alliance between the civil society and the government, parliamentarians and other relevant stakeholders that would campaign through awareness, debate and advocacy for the elimination of the external debt and effective debt management as a means to achieve MDG's in Kenya.

## PROGRAMME OBJECTIVES

To be a platform for Kenyans to discuss the country's debt burden and its impact on development

To facilitate research, lobbying and advocacy in order to empower the public, civil society and the private sector on issues of debt and sustainable development

To formulate credible and sustainable economic and social policy alternatives which reflect the needs of Kenyans

To network with other social justice activists in and out of the country

## CORE ACTIVITIES

- Public Economic Literacy
- Networking
- Research
- Lobbying and Advocacy

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