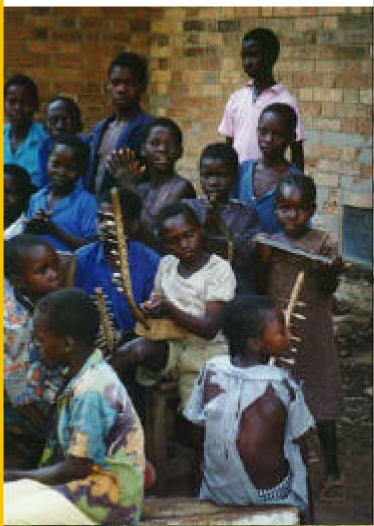
The Challenges of Maintaining Long-Term Debt Sustainability



AFRODAD

African Forum and Network on Debt and Development

The Case of Kenya

About AFRODAD

AFRODAD Vision

AFRODAD aspires for an equitable and sustainable development process leading to a prosperous Africa.

AFRODAD Mission

To secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD Objectives include the following:

1. To enhance efficient and effective management and use of resources by African governments;
2. To secure a paradigm shift in the international socio-economic and political world order to a development process that addresses the needs and aspirations of the majority of the people in the world.
3. To facilitate dialogue between civil society and governments on issues related to Debt and development in Africa and elsewhere.

From the vision and the mission statements and from our objectives, it is clear that the Debt crisis, apart from being a political, economic and structural issue, has an intrinsic link to human rights. This forms the guiding philosophy for our work on Debt and the need to have African external debts cancelled for poverty eradication and attainment of social and economic justice. Furthermore, the principle of equity must of necessity apply and in this regard, responsibility of creditors and debtors in the debt crisis should be acknowledged and assumed by the parties. When this is not done, it is a reflection of failure of governance mechanisms at the global level that protect the interests of the weaker nations. The Transparent Arbitration mechanism proposed by AFRODAD as one way of dealing with the debt crisis finds a fundamental basis in this respect.

AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). In this light, African society should have the space in the global development arena to generate its own solutions, uphold good values that ensure that its development process is owned and driven by its people and not dominated by markets/profits and international financial institutions.

AFRODAD is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of Seven programme and five support staff.

HIPC Debt Relief and Sustainability
The Case of Kenya

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Preface

In Kenya, debt service has crowded out funding for capital and social expenditures. After debt servicing and salaries, there is little left for core functions of the government, basic infrastructure, education, health and other essential services to create an enabling environment for the private sector. The government has resorted to occasional debt rescheduling and expensive short-term domestic borrowing to finance its expenditures. Fiscal policy is constrained by the need to service and pay public Debt. Debt has distorted the economy and complicated macroeconomic management.

Debts are only considered 'sustainable' when the debt service burden leaves the HIPCs with sufficient funds to meet their human rights obligations under the internationally agreed Millennium Development Goals (MDGs).Under the Enhanced HIPC Initiative, Kenya is among four countries (others are: Angola, Yemen and Vietnam) classified as having sustainable debt levels. This has denied it access to debt relief at a time when the country was experiencing a net outflow of resources over the past two decades. The main contributor to these outflows was and still is the heavy debt service burden.

Some academics have argued that Kenya is officially on the HIPC initiative list, but is considered to already have a sustainable debt burden according to the official HIPC initiative criteria. Debt is considered sustainable when the ratio of the Net Present Value (NPV) of debt to export is more than 150%, or when the NPV of debt to revenues is more than 250%. Therefore, since Kenya has an NPV of debt-to- export ratio of 'only' 148%, it is considered potentially sustainable. However, it is possible that Kenya's exclusion from receiving any benefit under the HIPC initiative has been due to concerns about governance in the country, particularly under the former president Daniel Arap Moi.

Kenya's case highlights the narrowness of the HIPC debt sustainability criteria that compares external debt to exports. Kenya's problem lies not only in the external debt, but also in the internal debt. The amount of Kenyan internal debt reached $3.1 billion in 2002, bringing the total level of public debt to $7.97 billion, almost 70% of the country's GDP. Since internal-debt service accounts for 13% of government expenditure, we believe it should be taken into consideration.[1] Kenya's Debt sustainability is not enough to help it attain the Millennium Development Goals by 2015. The country's Debt sustainability has the potential of been undermined by the HIV/AIDS pandemic.

Apart from the external problems created by donors in tackling Kenya's Debt crisis, several weaknesses in the planning and budgeting processes have contributed to Kenya's Debt unsustainability. Some of the factors that exacerbated Kenya's economic quagmire include the overvalued exchange rate, negative real interest rates as well as an import-substituting industrial strategy that characterized the country's overprotection. An overvalued currency reduces the price of imports and thus worsens the balance of payments, leading to higher capital inflows. This could also have raised expectation for devaluation leading to capital flight. Consequently depreciation can raise the stock of external debt.

The greater pervasiveness of the import licensing system and regulations on business activities created enormous opportunities for rent-seeking and for execution discretion. The mismanaged coffee boom of 1986 also left the economy with a high external imbalance. Kenya's debt burden can also be attributed to balance of payments, increased imports, low savings and loan capital. The report also notes that Kenya's debt sustainability problems and structural weaknesses have been well researched and analyzed in various policy documents but the development strategy has not incorporated them.

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AFRODAD Acting Executive Director

[1] Jubilee2000 Research, November 2003,http://www.jubilee2000uk.org/databank/profiles/kenya.htm

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This piece of work benefited greatly from discussions with and documents produced by officials from the Ministry of Finance, the Kenyan Central Bank, the IMF and World Bank. AFRODAD is proud to have associated with many colleagues and friends in various fora, including the African Social Forum and the World Social Forum where incisive comments on the HIPC Debt sustainability studies were given and have been taken on board in the finalization of this research report.

The production of this research report could not have been possible without the continued financial support from the Church of Sweden and United Church of Canada. AFRODAD is highly honoured to continue to secure their confidence in our ability to research and produce a document of such international importance. Needless to mention, AFRODAD assumes full responsibility of the contents of this report.

List of Acronyms

WB	World Bank
IMF	International Monetary Fund
HIPC	Highly Indebted Poor Countries
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Papers
CPIA	Country Policy and Institutional Assessment
GDP	Gross Domestic Product
NGOs	Non Governmental Organisations
NPV	Net Present Value
IDA	International Development Association
UNCTAD	United Nations Conference on Trade and Development
CADEC	Cancel Debt for the Child
DSA	Debt Sustainability Analysis
MDGs	Millennium Development Goals
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
IFIs	International Financial Institutions
TLK	Telcom Kenya Limited
KRC	Kenya Railways Corporation
KPLC	Kenya Power Lighting Corporation
ODA	Official Development Assistance
KACA	Kenya Anti-Corruption Authority
ACPU	Anti-Corruption Police Unit
KANU	Kenya African National Union
WTO	World Trade Organisation
EPAs	Economic Partnership Agreements
NEPAD	New Partnership for Africa's Development
AIDS	Acquired Immune Deficiency Syndrome

Table of Contents

List of Tables

1.0 Introduction

The World Bank (WB) and the International Monetary Fund (IMF), as the leading lending agencies, have been under mounting pressure to deal with a wide range of debt sustainability challenges. The challenges have refused to subside. Instead they continue to stimulate urgent need for a new debt sustainability framework and debt management orientation that can allow for the borrowing economies to break the vicious circle of unending distress. The framework so far suggested has yet to shake down into a coherent strategic compact (with the poor countries of the borrower economies) capable of addressing unsustainability challenges facing the debt burden of the poor economies of the South. The framework in question has been designed to provide sustainability measures and debt management orientations that are capable of guiding borrowing decisions of low-income countries in such a way as to match their need for funds with their ability to service debt. However, the frameworks so far constructed have left the vital question of debt justice unanswered. And this is where the problem hides as it surreptitiously haunts the economies of the debtor economies in a wide and sinister variety of ways. The situation holds for both HIPC and non-HIPC Third World economies. But whereas for the HIPC countries the exterior of the framework may still seem to hold some dim hope in the distant horizon, for those borrower economies operating outside the HIPC agenda it no longer hides deepening disquiet among those that have yet to benefit from a one-fits-all approach to debt reduction mechanisms that continue to be foisted on them by the creditor institutions and partners.

On a generic level the purported keenness to move away from externally imposed decision-making processes towards more country-specific, leave alone country-driven, debt-servicing mechanisms has resulted in the Bretton Woods Institutions coming up with various initiatives to resolve the Debt question. These include the introduction of the Poverty Reduction Growth Facility, the Poverty Reduction Strategy Papers (PRSPs) and the latest being the Country Policy and Institutional Assessment (CPIA).

The CPIA, also known as a policy scoreboard, is made up of 16 indicators under four broad categories of economic management, structural policies, policies of social exclusion, and public sector management and institutions. (See Appendix 1) Under economic management the issues of a country's monetary and exchange rate policy, fiscal policy and debt policy are considered. Structural policies cover trade, financial sector and the business environment. Policies for social inclusion cover issues of gender, equity in public resource use, building human resources, social protection and labour, and policies and institutions for environmental sustainability. Ratings for each of these 16 indicators covered under the four broad categories are prepared annually in all countries by Bank country teams and then subjected to a process of internal review. The exercise takes six months and is estimated to cost US$1.5 million. Each criterion is given a score on a scale from one to six.

The sixteen criteria against which the institutional performance of countries is measured within the CPIA entail a methodological preference that casts serious doubt on the objective meaning of the results in respect to the overall rankings. The Bank and the Fund have paradoxically demonstrated a generous willingness to admit the 'systematic over-optimism' of the previous IFI debt sustainability calculations and measures. Evidence abounds and, once in a good while, obtrudes everywhere with such stubbornness that is hard to wish away: growth projections, for instance, have registered five percentage points ahead of the stark reality on the ground; a fact that has actually stimulated and sustained the unrealistic need for excessive borrowing: drastically if not artificially undermining the rationality for debt relief efforts.

The entailed proposal is of special importance to Kenya, as it is intended to cover low-income countries outside the Heavily Indebted Poor Countries' initiative. Problems directly or indirectly related to the new framework have exposed the Kenyan economy to the all-pervasive risk of a new and largely multilateral debt management crisis as a direct consequence of the non-concessional loans fobbed off on its poorly performing economy. But whether a country – and specifically its government – will be able to service its debt depends largely on its existing debt burden as well as the prospective path of its deficits, the financing mix between loans and grants, and the evolution of its debt repayment behavior and capacity to manage the debt; namely the GDP, export of locally produced goods and government revenues. This means that any useful projections of the debt dynamics will need to provide a strategic linkage between micro-economic policies and debt sustainability options preferred by the debtor countries themselves.

Over the years, several criteria have been developed to assess debt sustainability in developing countries including Kenya. Some of the standard measures to assess debt sustainability include the Debt to GDP ratio, Debt Service to revenue and the use of the government balance sheet to ensure that there is enough assets to cover liabilities.

2.0 Debt Sustainability Analysis

Countries need to conduct a Debt Sustainability Analysis (DSA), whether it be for HIPC eligibility testing (*) or for determining whether a country is facing an unsustainable debt situation. The three key determinants of sustainability are: the existing stock of debt, the development of fiscal and external repayment capacity which is linked closely to economic growth, and the availability and concessionality of new external financing. Conducting a Debt Sustainability Analysis provides important data not only for improving specific debt management operations but also in formulating accurate and prudent macroeconomic policies (focusing on fiscal policies, economic growth and assuring access to adequate concessional flows from the international community). A Debt Sustainability Analysis serves to highlight linkages between a country's fluctuating debt service obligations and its revenue streams[1] .

In general, Debt Sustainability Analysis provides data vital to the creation of sound:

(a) Macroeconomic policies (including monetary, fiscal and exchange rates policies - supports prudent budgeting and reorienting of expenditures from nonproductive to growth enhancing activities.)

(b) Structural policies (including tax, customs and trade sector policies - addressing fiscal imbalances through strengthening of fiscal payments capacity and greater revenue generation) This includes maximization of benefits of borrowing and minimization of risks of defaulting on repayments.

By a curious method of categorization, Kenya is a non-HIPC country. But apart from this, its debt situation and the performance of its economy has, to a large extent, not helped distinguish it from the other African and underdeveloped countries that have been and continue to be classified as falling within the HIPC category of debt-relief deserving economies. This, in a way, exempts Kenya from some of the standard HIPC conditionalities and attendant patterns of debt management requirements with their peculiar implications for the economies in question. This explains, but only in part, why debt sustainability issues in Kenya may and cannot fit neatly into the standard battery of challenges facing the HIPC category of debtor economies. But by and large the spill-over effects of the debt sustainability framework mechanisms intended for the HIPC economies have hardly flown below the economic radar of the non-HIPC economies like Kenya's.

Having lost the strategic role it played in the cold war era as a staunch Western ally, Kenya has had to cope with difficult challenges of having to operate outside the category of the favored pack of so-called transition economies of the HIPC category on national economies. This has made it increasingly difficult to predict the extent to which Kenya can benefit from the new tools developed by the Fund to assess, in advance, the possible impact of some of the policy reforms imposed on it by the creditor agencies.

A critical look at the expenditure scenario of the Kenyan economy reveals a disturbing decline in revenue collection. This not withstanding, the bulk of fiscal strategy will need to focus on expenditure reduction, expenditure restructuring and expenditure reform. Whereas Kenya's revenue performance at over 21% of GDP has been above par for low income countries, Kenya's expenditure levels at over 26% of GDP have been significantly above that for low income countries, yet the public investments level at below 2.5% of GDP is below the recent sub Saharan African performance. The country also has a poor public expenditure management record with only 3 out of 16 indicators of public expenditure management being considered acceptable[2] .

1 Crown Agents (2005) Debt Management, Surrey, U.K.

2 The focus of the Public Expenditure Management Reform is in the three core areas of expenditure performance, namely, budget formulation, budget execution and budget reporting. 15 initial indicators were identified for measuring performance. A review carried out in 2003 found that Kenya found that only three of the 15 indicators were rated as acceptable. A 16th indicator has since been added.

3.0 Key Debt Management Achievements And Failures

As at 2003, Kenya's total debt stock stood at KSh 642.3 billion. Against the backdrop of the country's annual revenue of KSh 238 billion and Gross Domestic Product (GDP) of 1091.6 billion, the country's debt stood at about 65% of GDP and is more than 300% of annual revenue. Of this amount, domestic debt stock comprised KSh 289.3 billion.

By June 2003, Kenya's external debt comprised 57% multilateral, 35% bilateral and 8% commercial and export credit. NGOs maintain that irresponsible lending to previous governments in Kenya is the main cause of the debt burden -and that donors should be held accountable for this by being obliged to write off debts. Table 1 below shows the actual figures.

Table 1: Debt Composition by 2003: (KSh Billions)

	June 1999	June 2000	June 2001	June 2002	June 2003
Bilateral	150.46	138.57	132.27	134.49	105.30
Multilateral	223.17	230.74	228.50	222.71	233.61
Commercial and Export Credit	40.18	26.38	33.21	31.01	14.05
Total	413.82	395.70	393.98	388.21	352.97

Source: Ministry of Finance, 2004

Without the benefit of HIPC, the current debt servicing without related concessionary treatment by both the multilateral as well as bilateral lenders has exerted an inordinate strain on the capacity of the government to invest in such basic social services as health, education, water, sanitation and affordable housing infrastructure. Between 1997 and 2001, the country spent some KSh 490 billion (US$ 6.2 billion) in debt repayments. This amounts to 52% of the total government revenue for the same period, which amounted to Ksh 936 billion. Table 2 below shows government revenue collection for the period against debt service.

Table 2: Revenue Collection and Debt Service in Kenya, 1998-2003

	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
External Debt Service (billion)	31.2	33.98	16.12	29.26	32.26
Revenue (billion)	189.3	211.43	234.18	250.43	272.73
Debt service as % of revenue	16.49	16.07	6.88	11.68	11.83

Source: Economic Survey, 2004

Debt servicing has devalued Kenya's earning from the export of goods and services to an extent that the country basically produces and exports to service the loans contracted many years ago. Over the period 1997-2001, the external debt service to exports ratio averaged 16%. What this means is that for every US$10 worth of exports, nearly US$ 2 goes to repay the multilateral, bilateral or commercial debt or is taken up by export credit agencies.[3]

3 See CADEC (2003): Lift the Yoke, Cancel Kenya's Debt, The Chambers of Justice, Nairobi.

In 2001, the total export of goods and non-factor services was recorded at KSh 234.21 billion (or US$ 3.12 billion).[4] The amount spent on debt servicing during the year in question amounted to more than US$ 500 million. In a country where 17 million out of 30 million people are said to subsist on less than US$ 1 in a day, it means that if what is spent on debt servicing were to be invested in poverty reduction programs, each poor person would be better off to the tune of 167 dollars. This would be enough to lift more than seven million Kenyans out of poverty in that year alone. In 2001/2, the government spent KSh 80 billion servicing the debt. In the same year it allocated only KSh 16 billion (20%) to the health sector and only KSh 57 billion to the education sector.

The government has, in addition to other measures, embarked on a deficit financing strategy, the main objectives of which are: first, to reduce the overall deficit including grants to a sustainable level and secondly to externalize deficit financing to reduce pressure on domestic financial markets and increase private sector access to credit. Over the medium term the deficit is expected to decline to below 3% of GDP, while net domestic borrowing is forecast for rapid reduction and ultimate elimination.

Table 3: Deficit and Financing Strategy, 2003/04-2006/07

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Deficit before grants (commitment basis)	1567	-42800	-28825	-55249	-68501	-68945	-51148	-57966
Deficit before grants/GDP(%)	0.20	-5.10	-3.11	-5.45	-6.24	-5.84	-4.01	-4.18
Overall Deficit (Revenue+Grants-Exp.)	10061	-18720	-22002	-40210	-44393	-41918	-28630	-34609
Overall Deficit/GDP %	1.32	-2.23	-2.38	-3.96	-4.04	-3.55	-2.24	-2.50
Overall Deficit: cash basis	4026	-15608	-30286	-38005	-44393	-42918	-29630	-35609
Repayment of domestic principal	-48903	-45374	-38458	-36897	-55241	-55241	-55241	-55241
Repayment of external principal (current FY)	-31018	-7156	-21540	-17556	-24793	-19420	-16445	-15901
Repayment of external principal (arrears)	0	-5390	-4104	-3295	0	0	0	0
Net domestic borrowing	17536	616	47334	44025	14264	15201	948	389
As % of GDP	2.29	0.07	5.11	4.34	1.30	1.29	0.07	0.03
Total domestic debt	206127	213773	227655	296378	310643	325844	326792	327180
On lending		5701	5701					
Govt. deposits and Treasury advances	42722	38357	24880	49578	49578	49578	49578	49578
Net domestic debt	163405	164205	202775	246800	261065	276266	277214	277602
Net domestic debt/GDP %	21.37	19.56	21.90	24.33	23.77	23.38	21.73	20.03
Total external debt	409419	390971	376859	364582	387351	416602	449941	488672
Total External Debt to GDP (%)	54	47	41	36	35	35	35	35
Expenditure – Interest	147489	204077	193231	230782	263578	297771	308781	340645
Primary surplus	39448	12315	8099	-4984	-10651	-14837	-1154	-6599
Primary surplus/GDP %	5.16	1.47	0.87	-0.49	-0.97	-1.26	-0.09	-0.48
Expenditure – Capital	158291	197087	197591	221096	247874	259963	258466	274868
Current surplus	20152	-4775	-3084	-10337	-19055	-4056	26643	35821
Current surplus/GDP %	2.64	-0.57	-0.33	-1.02	-1.73	-0.34	2.09	2.58
GDP at market prices	764624	839534	926039	1014441	1098497	1181449	1275992	1385831

4 Ministry of Finance and Planning (2004), Economic Survey, 2004, Government Printer, Nairobi

With or without rescheduling the Kenyan debt repayment, chances are that the debt overhang will not allow Kenyan economy to respond sensitively to the demand for growth and equity. However, without rescheduling, the Net Present Value (NPV) of debt to export ratio is more than likely to deteriorate from 109 percent in 2003 to 132 in 2012[5]. Predictions to the effect that the situation might improve thereafter may remain a pipe dream. The predictions presume an increasing high borrowing on concessional terms in the coming five years, particularly when and if donor budgetary assistance resumes following conditional approval of a new fund supported programme.

5 See Kenya: Debt Analysis, IMF Country Report No. 03/400., December 2003

4.0 Kenya's Debt Burden

Kenya's burgeoning debt burden remains a defining feature of public finance management, often the painful testimony of prolonged plunder and senseless mismanagement of the nation's meager resources over the last four decades. Today, Kenya's debt stock stands at about US$ 9.3bn almost 70% of Kenya's GDP. External financing (or Development Assistance as it is famously called) remains one of the defining feature of Kenya's relationship with the rest of the world[6] .

In 2003/04 financial year, total external grants and loans stood at about Ksh. 35 billion, while in the 2004/05 financial year, the projected external finance support is estimated at about Ksh. 46 billion. This means that external resources account for about 11% of Kenya's annual budget needs. At the same time, Kenya's economy is suffering under the weight of a debt overhang. Yet the phenomenon of debt overhang is a rather recent occurrence in Kenya's short economic history. In fact, as recently as 1980 Kenya's external debt was a paltry 2% of GDP and a fairly healthy export cover; everyone believed that all was well.[7] By 1998 total external debt had reached US$7.01 billion. In this period more than half of the long term Debt was owed to the multilateral institutions, the largest amount due to the World Bank's International Development Association (IDA). Bilateral creditors are owed 35 percent of long term Debt with half this proportion due to Japan. Debt service payments in 1998 totaled US$545 million, around 80 percent of the total debt service due.

In terms of Kenya's current debt composition, multilaterals account for 57.9% while bilaterals account for 37.4%. Multilateral support has increased significantly from Ksh. 24 billion in the 2003 to Kshs 33 billion in the current financial year. On the other hand, bilateral support has increased only marginally from Kshs. 11 billion in 2003/ to Ksh. 13 billion in 2004/05. The World Bank, through the IDA, is the leading multilateral external financier accounting for nearly 60% of total multilateral support. On the other hand, the Federal Republic of Germany is Kenya's leading bilateral financier accounting for nearly 35% of total bilateral support resources. The country reportedly spends about 40 percent of its annual budget to pay interest on that debt.[8] . According to the Central Bank of Kenya, by April this year, Kenya's stock of external debt stood at a staggering Kshs. 411 billion, which is slightly above the national budget and almost double the total annual revenue of only Kshs. 230bn. See also appendix 2.

6 Achim Chiaji (2005)"lift the yoke campaign"http://www.cesta-foe.org/varios/Campaing/Cliftyoke.htm

7 Ibid

8 Jonathan Curiel 2005- "Peace Prize Winner Appeals to U.S. to Forgive Kenya's Debt-Environmentalist Says Poor are Paying for Funds that Former Leader Stole" *Wednesday, March 2, 2005 by the San Francisco Chronicle*

5.0 Kenya: “A HIPC with Sustainable Debt?”

According to UNCTAD (2004), the typical definition of debt sustainability for analytical purposes is based on the determination as to whether a country can meet its current and future debt service obligations in full, without recourse to debt relief, rescheduling for accumulation of arrears[9]. Kenya, as per this definition, does not qualify to be considered as non-HIPC. The definition is forward looking and takes into account many variables which cannot be predicted with much certainty. Domestic debt, although it can be small in some countries, must be included in the determination of the amount of overall HIPC debt relief since it influences fiscal debt sustainability.

The Heavily Indebted Poor Countries (HIPC) initiative which was meant to bring countries from an unsustainable debt situation to a sustainable debt situation has been the subject of a great deal of criticism from Non-Governmental Organizations (NGOs). One of the key criticisms is that analysis is being done by the creditors, the Bank and the IMF, who happen to be playing the role of judge and jury in the whole debt sustainability question. To a large extent, this explains why Debt Sustainability Analysis of the Kenyan debt situation presents such a challenge. Being a non-HIPC economy, Kenya’s debt management has operated under rather limited options[10].

Kenya, according to the HIPC framework, has a sustainable debt and therefore is not eligible for HIPC debt relief. Yet Were (2001) shows that, even ignoring domestic debt, the country‘s external debt has had a negative impact on its economic growth. Given that 62% of Kenya’s population (of about 30 million) live on less than $2 a day, and that more than one quarter lives below $1 a day, HIPC debt could have gone a long way towards reducing Kenya’s extreme poverty[11].

According to a series of studies conducted by the Cancel Debt for the Child (CADEC) campaign based in Kenya, every new-born Kenyan child automatically inherits a debt burden of at least Kshs 44,220 (US$ 547) which is almost 20 times the national minimum wage. Repaying enormous public debt thus remains Kenya’s most costly public expense, consuming over 40% of the country’s annual budget and supercedes the allocations to the education and health sectors combined. CADEC estimates that the amount allocated to debt repayment annually could be enough to provide the Kshs.6.5 bn required to establish classrooms and retain 9.2 million -Kenyan children in primary schools and the Kshs 4.2b required to hire at least 35,000 additional teachers for them.

Debt Sustainability as proposed in the new DSA-Country Policy and Institutional Assessment framework (CPIA) moves from the one-size-fits-all approach of the HIPC initiative with the single thresholds toward a more case-by-case analysis adapted to each country’s situation and taking into account in particular vulnerability to exogenous shocks. It also takes more into consideration revenues as a criterion as opposed to exports. Another positive is that lending institutions are themselves trying to develop a framework that prevents the over lending that has happened in the past.

However, the new DSA presumes no further debt relief. In its effort to take a forward looking approach, rather than a backward looking approach, it tends to ignore the huge impact current debt stock has on the country’s capacity to access credit and repay in the future, so more debt relief may be necessary. A second concern is that the framework doesn’t give enough consideration to the MDGs. Another point is that although case-by-case analysis is very welcome, judgment becomes more important; it gives more importance to the analysts themselves. Here the discretionary dimension is key, and there seems to be a conflict of interest between the Bank as an analyst and as a lending institution. The assumption that aid works better in good performers is not true. The poor in countries like Kenya need more aid despite the fact that their governing elites could be embroiled in corruption.

9 UNCTAD (2004) Economic Development in Africa-Debt Sustainability: Oasis or Mirage? United Nations, New York.

10 No options of dealing with such requirements as the Sunset Clause and its implication on debt management.

11 Were. M. (2001) The Impact of external Debt on Economic Growth in Kenya, UNU/WIDER Discussion Paper No. 2001/116

6.0 Debt Sustainability Analysis and Conditionalities

While accepted rhetoric says that donors respond to nationally-owned development plans, the reality is that these plans have little impact on either policy outcomes or the volume of loans a country receives. The debate over the content of the conditions continues, but there is admission on the part of the World Bank and the Fund that the two institutions have, in imposing conditionalities, extended their mandate and competency. Street battles, multi-stakeholder reviews and extensive advocacy efforts forced the institutions to introduce concepts like country ownership and participation. However much remains to be done to completely get rid of conditionalities.

The mostly used indicators of external debt sustainability are the ratio of exports earnings to the Net Present Value of all future debt servicing payments. Levels of 20 to 25 percent and 150 to 200 percent of these indicators have been considered as benchmarks. If these ratios were exceeded, the country would be facing imminent debt servicing problems. Recently a fiscal indicator was introduced as a measure of debt sustainability, the ratio of debt stock as a percentage of domestically generated revenues. The benchmark is between 250 to 275 percent. However, these are not the only indicators, as there are other factors that should be considered. These other factors range from a country's fiscal and foreign exchange reserve positions, the efficiency of foreign exchange markets, the pace and variability of exports and future financing gaps and the creditworthiness of the country.

Table 4: Debt Sustainability Indicators For Kenya.

Criterion	Original (%)	Enhanced (%)	Kenya (%)end 2000	
			/1	/2
NPV debt/exports	200 –250	150	145.5	114
NPV debt/revenue	280	250		135
Export/GDP	40	30		26
Fiscal revenue/GDP	20	15		25

/1. Before traditional relief

/2. After traditional relief

Based on the first above ratio of NPV of debt service to exports, in order to authoritatively determine that Kenya's debt is sustainable, the Government undertook a detailed Debt Sustainability Analysis in 2002. Consequently, according to the Evian approach Kenya's Debt was considered to be sustainable in the medium term. The Paris Club and the Kenyan government agreed that Kenya does not need debt reduction under the HIPC initiative or its enhanced program.

Though not a HIPC country the debt sustainability conditionalities that have been imposed on the typical HIPC countries have had nearly the same effect on the Kenyan economy. Over stringent criteria and privatization are the hobbyhorses of a neo-liberal battery of prescriptions; they have come in handy as the all-pervasive conditionalitties that has seen the Kenyan economy sacrifice some of the most strategic entities to the private sector interests of the multinational corporations. Procurement procedures have received renewed reform attention but without a corresponding decline in misappropriation of public resource. A recent spate of cases of corruption in high offices in the government has rekindled the urge by multilateral and bilateral donors to resuscitate the old methods of tying aid to performance on good governance.

On a positive note but not particularly deserving any form of praise, Kenya has been slow – compared to the neighboring HIPC countries of Uganda and Tanzania which have gone full throttle with privatization – in complying with the demands for privatization. Lack of the necessary legal frameworks for carrying out the agenda of liberalization has been partly responsible for this; thanks to a vigilant civil society that has exerted the necessary pressure on the government not to "sell our family silver for a nickel".

Under non-HIPC conditions, policy conditions attached to loans differ from country to country. What is relatively common to them all is that they do not and have not worked for many Third World economies in general and not for Kenya in particular.

Like elsewhere in the region, a perceptible shift has taken place in IFI's stance on conditionalities for Kenya. Both the Bank and the Fund, having grudgingly admitted that their conditions have extended beyond their mandates and competency, have been engaged in back-door review of their use of conditionalities. Though essentially cosmetic the strategic shift has been accompanied by a relatively positive change in their discourse; leading to a Post-Washington consensus embracing of local ownership as a brand new strategic touchstone. But even with the new nomenclature grafted on the mantra of " local ownership", the fundamental picture has hardly changed. Under the pretext of building institutions for the precariously globalizing market Kenya has been cajoled to:

(a) The Promotion of trade/market liberalization

As a result of trade liberalization, in the early 1990s trade liberalization reforms, price and exchange rate restrictions have been eliminated, tariffs lowered, and suspended duties scrapped, giving Kenya a high rank for openness. The government has also recently embarked on a comprehensive reform of its trade system within the context of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). By 2004, Kenya had reduced the number of nonzero tariff bands to four, the top tariff rate to 25 percent, and the duty on raw materials and capital goods. Focus was also put on building capacity to address trade disputes and dumping claims, and harmonize investment incentives. Imprudent reductions in tariff and non-tariff barriers are more than likely to result in floods of new imports that will undermine domestic producers.

(b) The Promotion of budget austerity

This has entailed indiscriminate slashing of social services, public infrastructure and other public investments, removal of subsidies, or price controls on basic food products or critical agricultural inputs. In the Kenyan experience, austerity in its wider meaning has not necessarily resulted from direct budget cuts. The social sectors have been the direct victims of the measures.

The recent implementation of Free Primary Education is definite move away from the dictat of the IFIs. It remains to be seen how this policy incompatibility with the conditionalities of the IMF/WB will influence future relationships with the multi-lateral as well as bi-lateral partners.

(c) The Promotion Privatization of state-managed corporations

Following the outcome of a recent study on reforms in the banking sector, the government is reviewing several options regarding state bank's restructuring and privatization. These options are:

- Partial restructuring of the Bank
- Full restructuring of the Bank
- Immediate sale of the bank to strategic investors
- Allowing the institution to resolve problems on its own.

The Kenya Government considers privatization as an integral part of the public sector reforms required to spur the recovery of the economy. In this respect, a number of privatization measures are scheduled to be implemented as part of the country's economic recovery strategy. These measures are outlined in a draft privatization strategy which is currently being finalized for submission to the Cabinet.

The legal and institutional framework for implementing the strategy is in the Privatization Bill approved by the Cabinet in June last year, published in the Kenya Gazette on 7 November 2003 and read in Parliament (First Reading) in December. Once the Bill is enacted it will entrench the privatization process in the law and, as widely expected, provide for establishment of the Privatization Commission that will, henceforth, oversee the process by which public resources and services will drift into private hands.

The privatisation program will include several modalities for private sector participation in water, energy, roads, transport, and communications. It is targeting key utilities and infrastructure service providers that are either the main providers in their sector or represent large portions of the market. Major candidates for privatization/private sector participation in infrastructure include Telkom Kenya Ltd (TKL), Kenya Railways Corporation (KRC), Kenya Power and Lighting Company (KPLC), KenGen, Kenya Ports Authority, and road financing, management and maintenance works (e.g. Mombassa-Nairobi North Corridor Road).

7.0 The Paris Club and DSA

It is generally expected that developing countries, facing a scarcity of capital, will acquire external debt to supplement domestic saving. The rate at which they borrow abroad—the “sustainable” level of foreign borrowing—depends on the links among foreign and domestic saving, investment, and economic growth. Unfortunately, countries in sub-Saharan Africa including Kenya have generally adopted a development strategy that relies heavily on foreign financing from both official and private sources. Consequently, the stock of external debt has built up over recent decades to a level that is widely viewed as unsustainable.

Kenya by the beginning of 2004 was indebted to the tune of US$1.9 billion to the Paris Club, whose members include Belgium, Canada, Denmark, France, Italy, Japan, Britain and the United States. On January 15, 2004, after Debt Sustainability Analysis prepared by the IMF, Paris Club creditors and the representatives of the Government of the Republic of Kenya agreed that Kenya does not require debt reduction within the framework of the enhanced initiative for the Heavily Indebted Poor Countries (HIPC). The Paris Club agreement followed the approval by the Executive Board of the IMF of the three year Poverty Reduction and Growth Facility arrangement on November 21, 2003 and is expected to fulfill the financing needs of Kenya over the period. This agreement reschedules US$ 350 million of arrears and maturities falling due between January 1, 2004 and December 31, 2006 on a total debt of US$ 484 million due to Paris Club creditors during this period.

This rescheduling will reduce the debt service due by the Republic of Kenya to Paris Club creditors between January 1, 2004 and December 31, 2006 to US$ 147 million (including moratorium interest). The rescheduling is conducted according to Houston terms: ODA credits are to be repaid over 20 years, including 10 years of grace, at interest rates at least as favorable as the concessional rates applying to those loans; commercial credits are to be repaid over 15 years, including 5 years of grace with progressive repayment, at an appropriate market interest rate (the repayment profile of the restructured amount is attached). Each creditor, on a voluntary and bilateral basis, may also undertake debt for nature, debt for aid, debt for equity swaps or other currency debt swaps.[12]

Although debt-service ratios have remained relatively low because of the highly concessional nature of external financing provided to Africa, countries like Kenya have been unable to service their debt without recourse to rescheduling under Paris Club arrangements or by accumulating arrears. Furthermore, there is now considerable evidence that the buildup in debt was accompanied by increasing capital flight from the region. In other words, sub-Saharan Africa was simultaneously an importer and an exporter of capital.

The external debt of Kenya and the indicators of the debt burden have been very high since 1980. The external causes of the debt burden are identified as the deterioration in the terms of trade and the world-wide recession, whereas the main internal causes are public sector deficits and exchange rate misalignment. During January 2004, the Paris Club of Creditors agreed to reschedule Kenya’s US$ 350 million of arrears and maturities for interest and principle falling due between January 2004 and 31st December 2006. The rescheduling was done on Houston terms. It is anticipated that on completion of this rescheduling, the county will graduate from future Paris Club rescheduling.

Kenya’s external debt policy is guided by the principle “that the country shall obtain and service her debt on a timely basis as per the signed loan agreements”. It is thus premised on the recognition that there is an optimal debt level above which the economy may not be able to sustain. Any variations to this premise have to be authorized by Parliament for which an adequate explanation based on macro-economic parameters has to be considered.

12 Paris Club Press Release, January 15, 2004

To ensure that the country is able to finance its deficits in a sustainable manner, the country's debt management strategy is being built around the following:

- Focusing on external concessional debt as a means of reducing the NPV of debt,
- Lengthening the term structure of debt and reducing servicing costs,
- Mitigating exchange rate risk through currency diversification and improving forecasting of repayments to ensure repayments do not undermine the foreign exchange reserves position,
- Refinancing to replace expensive debt with less expensive debt and, where necessary, rescheduling on Houston terms to mitigate cash flow problems.

8.0 Other Creditors' Participation

Taking cue from the World Bank/IMF's of the Kenyan debt situation, other multinational as well as bilateral creditors have relied on conditionalities set out by the Bank. Kenya government's performance on governance1 has been a major area of unremitting conditionalites attracting debt sustainability interventions which have seen the Kenyan economy reel under a wide range of budget deficit. In reality, therefore, there have been no major changes in the manner of participation in the debt management procedures as far as the non-Parish Club creditors are concerned. Of the many non Parish Club official bilateral creditors, quite a few have remained firm in their commitment to deliver their share of debt relief outside the HIPC initiative. In order to facilitate effective creditors' participation in the debt relief management, the Bank and Fund have kept tabs on the micro-economic policy actions by Kenyan government in order to update the status of debt management.

Even commercial creditors which, ordinarily are not directly affected by the conditionalities set out for Kenya by the World Bank and IMF have been extremely hard on Kenya regarding the need to recover their debt.

The tailoring of new lending decisions to the potential risk of debt distress that would ordinarily require an increase in the concessionality of borrowing by low-income (but non HIPC) economies like that of Kenya therefore attracting a higher volume of grants in order to avoid a corresponding reduction in net transfers, has not affected the categorization of Kenya as a non HIPC economy. Therefore, like in the cases of many HIPC economies, creditors have been reluctantly persuaded to consider new contingent lending instruments with a view to modifying the existing ones.

Being not a HIPC country places Kenya in a unique situation with regard to the extent of creditor participation in the debt sustainability initiatives in general and in the *enhanced* HIPC initiative. Whereas twenty-three 0f the thirty multilateral creditors of HIPCs have indicated their intention to participate in the initiative, those that are taking part in the Kenyan debt sustainability efforts can hardly be given any numerical value; the reason being that they come in when and if they feel like having to intervene. They are not bound by any HIPC related protocols. Bu recent observations indicate that many multilateral actors as well as bilateral lending agencies, leave alone local and foreign commercial banks, have been keen to engage the Kenyan government in negotiating resumption of all manner of aid, given the prolonged "dry spell" that Kenya has had to go through after several multilateral ad bilateral creditor partners had decided to withhold aid owing to the poor governance performance of the KANU government under president Daniel Arap Moi.These include the World Bank, International Monetary Fund and many bilateral lending partners like The Netherlands, Norway, Denmark etc.

Given the obvious lack of formal mechanisms through which to mobilize the participation of her creditor, the task of facilitating creditor participation will remain a hit-and-run affair; requiring persistent efforts by both Kenya and some of its creditor partners – moral suasion and diplomatic finesse to sustain creditor interest in helping Kenya come out of the woods.

- Rich countries must provide enough debt relief to help poor countries to meet the internationally agreed Millennium Development Goals;
- Debt relief must be accompanied by a new 'contingency financing' mechanism to help poor countries weather economic shocks;
- Heavily Indebted Poor Countries must no longer be forced to follow strict IMF conditionalities to be eligible for debt relief;
- The World Bank and the IMF must provide their fair share of debt relief under the initiative, funded by IMF gold sales and reductions in World Bank reserves;
- The international community must provide financial and technical assistance to HIPCs to help them fight litigation by private sector creditors;

The World Bank and the IMF must be more transparent in their reporting of progress on the HIPC initiative.

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13 Including corruption, human rights violation etc.

9.0 The Impact of Exogenous Factors in Kenya's DSA

The susceptibility of a country to external shocks has important implications for disruptions in repayment capacity. In other words, Debt sustainability can be maintained in the long run if there is adequate growth of income, revenues and exports. The extent to which external factors have and continue to influence the debt sustainability situation in Kenya can be traced back to the options organized around the fact of and perceived need for rescheduling debt repayment. This includes the vicarious relationship between the non-rescheduling option and the projected high borrowing, particularly on concessional terms, from multi-and bilateral sources. The potential decline of the ratio of debt-service-to-export[14] is assumed to be a direct function of the increased external borrowing on concessional terms.

The balance of payment of most of the debt sustainability options, which seems to have a direct impact of the cash flow, assumes, at the same time, availability of commercial financing which is expected to meet the higher debt repayment. The reality of the Kenyan debt situation is captured in the statistics of the structure of Kenyan debt.

The *stress tests* on Kenya's external debt revealed that Kenya's economy remains vulnerable a wide range of exogenous shocks. These, among others, include tower expert growth, heralding lower foreign exchange earnings and therefore smaller official transfers in respect to overall central government debt, the tests shows further that the economy is particularly vulnerable to real devaluation, including a weaker primary balance and inevitably a dramatic increase in debt-creating flows with conditions, more often than not, basing their priorities, objectives and risk-bearing.

Foreign direct investment in Kenya has been declining since the early 1980s. Although disinvestment figures from U.S. companies are not available, three U.S. firms pulled out of Kenya between 2001 and 2002. The companies are among about 140 investors who have pulled out of the country in recent years due to poor economic performance associated with corruption, poor governance, and unreliable/poor infrastructure, among other factors. The new government, elected in December 2002, enacted in May 2003 the Anti-Corruption and Economic Crimes Act and the Public Officer Ethics Act. The two anti-graft laws are key to fighting corruption although they have yet to be implemented with the deserved vigor.

On-going corruption has been a major reason for widespread disinvestment in Kenya. To address the problem the Prevention of Corruption Act was amended in late 1997 to create the Kenya Anti-Corruption Authority (KACA). The Act makes it a felony, punishable by up to 10 years in prison, to give or receive a bribe. KACA had a poor start when its first Director was sacked in 1998 and the Authority declared unconstitutional in 2000. The Corruption Control Bill 2002 established an Anti-Corruption Police Unit (ACPU) under the police Department. A new director was appointed and the Chief Justice appointed two magistrates to deal with corruption in the country. The government enacted the Anti-Corruption and Economic Crimes Act and the Public Officers Ethics Act in May 2003.

The Anti-Corruption and Economics Crimes Act sets rules for transparency and accountability including actions that would amount to graft and abuse of office. The Public Officers Ethics Act requires certain public officials to declare their wealth and that of their spouses within 90 days from August 2, 2003. The government is to operationalize the Anti-Corruption Commission and move forward with the implementation of the Anti-Corruption and Economic Crimes Act and launch full implementation of the code of Ethics Act for Public Servants, according to the June 2003 budget speech.

14 Envisaged to fall from 11.0 percent in 2003 to 7.2 percent in 2008 and possibly edge upwards thereafter to ca.8.9 percent 2015.

10.0 The IMF and Debt Sustainability

The IMF and the World Bank define external debt sustainability as its ability to "meet the current and future debt service obligations in full, without recourse to debt rescheduling or accumulation of arrears and without compromising growth. This definition focuses on the borrower's willingness and ability to repay its debt "in full" rather than on the lender's liquidity and investment alternatives. Likewise, their HIPC initiative defines Debt Sustainability as a situation where countries that had graduated from the scheme would make a "permanent exit" from the rescheduling process, assuming that they followed strong Macroeconomic policies in their post-HIPC years.

The IMF strengthened this approach for assessing public and external debt sustainability in 2002 by adopting a new framework, which was further enhanced in 2003. IMF now performs debt sustainability analysis under its framework for most countries in the context of Article IV consultations, and in many cases, depending on country circum stances. However, an important debate in this approach is on the best indicators for assessing debt sustainability. In this regard the HIPC concept and its indicators of Debt sustainability have been under scrutiny especially in the definition of the eligible countries and in the determination of the appropriate debt relief for poor countries like Kenya. Hjerthom (2000) asserted that the bank and the Fund have adopted HIPC targets in an 'ad hoc" manner without basis in analysis, or that they merely reflect a particular World Bank and IMF style of "common sense."

Some pitfalls have been identified in the Bank and Fund's standard debt sustainability analysis. First, the standard ignores the foreign exchange constraint in poor countries such as Kenya. It assumes that production can easily be shifted to exports to generate foreign exchange needed fro debt service. But such a reorientation is difficult in countries with a history of import substitution policies. The foreign exchange constraint is particularly relevant when borrowers' domestic obligations are denominated in foreign currency but their revenues whether government taxes or private sector receipts are in domestic currency.

Secondly, in emerging economies, the standard analysis does not acknowledge that it is difficult to change the variables that affect sustainability. Besides that the sustainability analysis and projections is not based on and excludes the interest rate a country will have to pay without official support. Thirdly, it is important for the sustainability analysis to consider that changes in the exchange rate can have a significant impact on sustainability. A devaluation of the currency can quickly worsen a country's debt-GDP ratio in domestic currency. Projections need to take into account the impact of exchange rate changes not only on foreign currency debt, but also on debt denominated in domestic currency that is foreign-currency indexed[15] .

15 Cohen.D. (2000) "The HIPC Initiative: True and False Promises," CEPR Discussion Papers, No. 2632

11.0 Debt Sustainability Key Issues

With debt having been brought under the purview of *harmonization and coherenc*e agenda of the powerful nations of the North, alongside traditional areas concern for coherence and harmonization e.g., trade (under the WTO) development assistance (under EPAS and NEPAD), and good governance, the stage has been set for the spreading of a grey cloud of conformity across the national specificities. By that very token debt, whether under HIPC or not has become an instrument through which the Washington Consensus acquires the universal hold on the global economy. Those who want remain comfortable under such an arrangement must begin to choose between unremitting servitude and self-determination.

In sum, debt sustainability challenges facing low-income countries - including Kenya – will remain formidable and therefore nearly insurmountable if the prescriptions for meeting them remain the monopoly of creditor agencies' self-interest. A critical look at the policy implications of the framework for debt sustainability as understood from the perspective of the creditor agencies, brings out the contours of a vicious circle which will be difficult to break if both creditors and borrowing countries are not bold enough to think outside the box of neo-liberal fundamentalism, particularly in respect to policy responses to the debt unsustainability crisis. Nothing short of unequivocal debt cancellation coupled with homegrown development policies geared towards sheltering the fragile post-debt-dependency economies from the vagaries of neo-liberal capitalism.

- As the failure of IMF/WB economic orthodoxy increasingly attract virulent challenges from a wide variety of social movements across the world the efficacy of their debt sustainability framework proposals will meet even stiffer opposition. To the extent that debt sustainability efforts remain mired in the unrealistic quest for better implementation of WB/IMF inspired reform measures rather than be informed by radical re-examination of the content and impact of policy and, more particularly, without changing the direction and meaning of development and progress the new debt sustainability framework and allied reform conditionalities, already having a debilitating effect on the debt burden, will not go away.
- And so long as real alternatives to policy conditionalities merely scratch the surface of the problematique of power relations the promotion of so called "good practice" in the institutional behavior of the borrower countries as a substitute for real country ownership will not make the required difference.
- Debt sustainability as defined by the Bretton Wood Institutions is clearly inadequate and has certainly failed as an approach to Kenya and the entire Africa's debt crisis. Even in those rare countries, where savings have actually permitted greater social expenditure, debt services still drain much-needed resources from social priorities and from efforts to address the devastating AIDS pandemic and other development challenges. In the majority of African countries including Kenya, annual debt repayments still exceed expenditure on education and health care. Recent moves by the World Bank and IMF to attach additional debt relief conditionalities only render Debt Sustainability analysis more complicated and accord these institutions an even more intrusive role in the economic and political processes of African countries.

12.0 Conclusions

Though the updated debt sustainability analysis (DSA) paints a relatively rosy picture for Kenya, the realistic prospects seem to point elsewhere. The scenarios presented as constituting Kenya's possible exit from the perpetual debt trap it has found itself in, i.e. a partial substitution of domestic debt by increasing inflows of external grants and concessional loans as well as rescheduling of external debt by the Paris and London Clubs, are only part answers to a more complicated challenge. Suggesting, as has been done by the Bretton Woods institutions, that the entailed measures could facilitate the achievement of the desired debt sustainability may obscure rather that provide a realistic picture of the debt sustainability prospects for the Kenyan economy.

The debt dynamics being acutely sensitive to the micro-economic environment and knowing well that Kenya's micro-economic policies are increasingly being driven by considerations which can hardly be said to be responsive to the domestic agenda for sustainable social development, one would be justified in concluding that factors such as excessive and untimely liberalization, unfavorable external trade relations etc., will end up undermining whatever gains, if any, such debt sustainability measures may achieve. No wonder the *stress tests*[16] conducted on the Kenyan economy reveal, with unmistakable clarity that the Kenya economy, going by its present performance and most of the relevant factors being held constant, is vulnerable to a wide variety of possible exogenous shocks, up to and including lower export growth, smaller official transfers and lower export prices. Moreover, the tests show that, with regard to overall central government debt, the Kenyan economy remains poignantly vulnerable, particularly in regard to the prospects of a real devaluation, a weaker primary balance and an increase in debt-creating flows.

16 Conducted by the Bretton Woods Institutions – the World Bank and the International Monetary Fund as contained in the IMF Country Report No. 03/400, of December 2003, Washington DC.

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Appendix 1: CPIA Rating Criteria

A. Economic Management

1. Monetary and Exchange rate policy
2. Fiscal policy
3. Debt policy

B. Structural Policies

4. Trade
5. Financial Sector
6. Business environment

C. Policies for Social Inclusion

7. Gender
8. Equity of public resource use
9. Building Human resources
10. Social protection and Labour
11. Policies and institutions for environmental sustainability

D.Public Sector Management and Institutions

12. Property rights and rule-based governance
13. Quality of budgetary and financial management
14. efficiency and equity of revenue mobilization
15. Quality of public Administration
16. Transparency, accountability and corruption in the public sector

Appendix 2: Creditors for Kenya's debt 1998 -2002.

Creditor	1998	1999	2000	2001	2002*
Bilateral					
Austria	37	40	34	16.1	24.3
Belgium	7	25	38	30.6	54.01
Canada	60	60	41	67.7	0.00
Denmark	49	53	40	32.4	27.6
Finland	3	3	2	2.5	3.4
France	282	307	179	219.6	196.0
Germany	109	112	109	98.1	92.0
Italy	125	120	82	125.8	124.4
Japan	825	984	1,031	922.2	924.27
The Netherlands	81	80	58	52.4	35.82
UK	66	66	37	35.8	26.85
USA	84	73	72	43.0	91.1
Others	92	106	54	49.7	122.36
Sub-Total	1,830	2,036	1,787	1,695.9	1,722.11
Multilateral					
ADB/ADF	308	333	308	328.4	289.6
EEC/EIB	149	138	115	156.7	129.3
IBRD	154	147	91	20.0	11.5
IDA	2,109	2,211	2,332	2,306.8	2,310
IMF	261	154	104	111.3	100.7
Others	92	106	54	49.7	122.36
Sub-Total	3,015	3,025	2,958	2,929.5	2,851.7
Commercial Banks	587	491	319	377.2	380.7
Export Credit	15	53	19	48.6	16.4
TOTAL	5,447	5,605	5,083	5,051.3	4,970.93

Source: Quarterly Budget Review (Ministry of Finance), June 2002, p.16
***March 2002. All the rest of the figures are for months of June**

Appendix 3: Kenya's Debt Structure

Table 1. Kenya: Structure of Central Government, Government Guaranteed, and Central Bank External Debt, Including Arrears, End 2002

	In Millions of US $	As a Percentage of Total
Central Government	4,772	92.0
Multilateral	2,970	57.3
Bilateral	1,361	26.2
Paris Club	1,295	25.0
Pre-cutoff date	1,062	20.5
Official Development Assistance (ODA)	789	16.9
Non-ODA	184	3.5
Post-cutoff date	233	4.5
Non-Paris Club	66	1.3
Pre-cutoff date	14	0.3
ODA	10	0.2
Non-ODA	3	0.1
Post cutoff date	52	1.0
Commercial	441	8.5
Government Guaranteed	328	6.3
Multilateral	13	0.2
Bilateral	315	6.1
Of which: Paris Club, Non-ODA	315	6.1
Central Bank (to the IMF)	88	1.7
Total	**5,187**	**100.0**
Memorandum Items:		
Central Government and Government Guaranteed		
Multilateral	2,982	57.5
Bilateral	1,676	32.3
Pre-cutoff date	1,076	20.7
ODA	889	17.1
Paris Club	1,610	31.0

Source: Kenyan Authorities