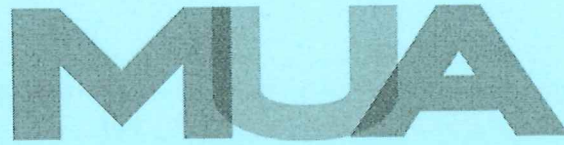


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF ARTS IN DEVELOPMENT STUDIES

BDS 320/EDV 302 : INTERNATIONAL FINANCE FOR DEVELOPMENT

DATE: 9TH DECEMBER 2024

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

WHOSE DEBT IS IT – AFRICAN DEBT CRISIS

Many African nations are defaulting on payment of loans they have utilised for funding climate-resilient infrastructure.

In December 2023, Ethiopia became the third African country in as many years to default on its global debt payment. It was supposed to pay \$33 million to holders of the country's only international government bond on December 11 but failed to do so even after the 14-day grace period ended on December 25. Zambia and Ghana are the other two countries to have defaulted on their debt since 2020.

Several African nations are faced with a debt crisis. Many of them have faced downgrades from prominent credit rating agencies in the past five years. These nations include Kenya, Morocco, Nigeria, Ghana and Egypt. Nigeria is in talks to secure as much as \$1.5 billion in budget support from the World Bank. Zambia's bilateral creditors have rejected a plan to restructure its \$3 billion in Eurobonds—a debt instrument issued in a currency other than that of the home country or market.

Kenya has secured \$685 million from the International Monetary Fund and raised a \$210 million loan from the Trade and Development Bank.

Ethiopia's default is largely attributed to climate change, apart from the COVID-19 pandemic and the Tigray region civil war. East Africa's worst drought in 40 years resulted in runaway inflation and rising food and fuel costs, exposing the country to multiple climate-linked crises. Experts are concerned that Ethiopia's default will have an economic ripple effect on neighbouring countries. Considering most countries in the region are in debt distress or on the verge of default, it is feared that the majority might have a difficult time accessing credit on international markets due to a loss of confidence in their capital markets.

Following the default, three globally-recognised credit rating agencies—Fitch Ratings, Moody's, and Standard & Poor's Global Ratings—have downgraded the country to a risky borrower that cannot meet debt obligations. Ethiopia's sad state of

affairs gives credence to assertions that besides factors like an increase in the annual adaptation financing gap (due to the failure of rich nations to fulfil their promises), the debt crisis across Africa is partly to blame for stalling climate action.

Source: Down To Earth, <https://www.downtoearth.org>, Tuesday 20 February 2024

Required:

- a) Based on the above case, identify two factors that are behind Ethiopia's debt default and describe them from your knowledge of Ethiopian current affairs. (5 Marks)
- b) Assess four likely adverse economic effects of the downgrade of credit rating on Ethiopia and other African countries cited in the above case. (8 Marks)
- c) Notwithstanding the criticisms leveled against the credit rating agencies in the above case by less developed countries, compose six globally accepted benefits of credit ratings on individuals, firms and countries. (12 Marks)

QUESTION TWO

- a) The banking sector in Kenya has been reporting high profits over several years compared to other sectors. Discuss four ways through which commercial banks generate their income. (6 Marks)
- b) Evaluate the level of achievement of six objectives of the International Monetary Fund (IMF) in a specific country. (9 Marks)

QUESTION THREE

- a) Financial systems are key drivers of economies. Justify this statement by describing five contributions of financial systems in the growth of economies. (5 Marks)
- b) Non-Bank Financial Institutions (NBFIs) have been mushrooming in Kenya, and have been filling in gaps in market niches not adequately served by commercial banks. Discuss. (10 Marks)

QUESTION FOUR

- a) Illustrate four problems that are associated with export-led strategy of economic growth in a country of your choice. **(6 Marks)**
- b) Examine six reasons that have made Structural Adjustment Programmes (SAPs) not easy to operationalize in less developed countries over the years despite the Bretton Woods institutions holding firmly to them. **(9 Marks)**

QUESTION FIVE

- a) Critique globalization from three perspectives of anti-globalizers. **(6 Marks)**
- b) Financial crises can have catastrophic effects on economies. Compose six factors that are responsible for breeding financial crises. **(9 Marks)**

QUESTION SIX

- a) Examine three objectives underpinning regulation of the financial sector by government regulatory authorities. **(3 Marks)**
- b) Assess six achievements of the Central Bank of Kenya in its regulatory and supervisory roles within the last ten years period. **(12 Marks)**