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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
FOURTH YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 17th April, 2024
Time: 11.30am – 1.30pm

KFI 404 - PUBLIC FINANCE

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

CASE STUDY

IMF APPROVES KSHS 150 BILLION LOAN FOR KENYA

([Kioko Nyamasyo](#) on Thursday, 18 January 2024)

The International Monetary Fund (IMF) on Thursday, January 17, approved a Ksh150 billion (USD941.2 million) loan for Kenya albeit with two conditions. President William Ruto's administration will receive with immediate effect ksh109 billion (\$684.7 million) of the total loan sum, with its usage closely monitored by the IMF. The disbursement was made [under the Extended Fund Facility \(EFF\) and Extended Credit Facility \(ECF\)](#) programs according to a statement from the international financial institution. One of the conditions of the loan is that it be used to implement the nation's economic reforms. IMF noted that this was key in maintaining macroeconomic stability, strengthening debt sustainability, and building buffers against shocks. "The Kenyan economy remains resilient against a challenging global backdrop even as it recovers from the legacy of the COVID-19 pandemic and the worst multi-season drought over the past two years," IMF noted. On the second condition, a [part of the sum will be used towards implementing climate policies](#) and the nation's preparedness towards pandemics. Ksh9.5 billion under the RSF arrangement will be used for the implementation of policies to mitigate the ravages of climate change.

Progress on the authorities' climate agenda, including RSF-supported reforms, will not only prepare the country well against future climate shocks but also help attract climate finance to support these further efforts," IMF stated. IMF commented on President Ruto for implementing austerity measures without jeopardising essential social and developmental projects. The body noted that Kenya was on the right path to bring down the debt burden toward the new debt anchor of 55 per cent of GDP in present value terms by 2029. The loan disbursement was made a few hours after Ruto castigated his predecessor Uhuru Kenyatta for taking a Ksh300 billion Eurobond in 2014 which must be paid in June 2024. He remarked that [this had thrown Kenya into a debt pitfall](#) making it hard to invest in development projects. Part of the sum disbursed by the IMF will go towards repaying the Eurobond.

You are required to answer the following questions:

- a) Apart from the IMF, outline other external organizations that government of Kenya may source loans (5 Marks)
- b) Give reasons why the IMF monitors usage/expenditure of loans extended to nations in the world (5 Marks)
- c) Explain conditions that may accompany a public loan from IMF. (5 Marks)
- d) Compute the interest payable to IMF if the concessional rate is 10% compounded yearly and payable at the end of the 5-year government cycle. The principal loan amount is Kshs 150 Billion. (5 Marks)
- e) Based on the case, examine specific areas of public expenditure. (5 Marks)
- f) Explain implementable austerity measures regarding public finance. (5 Marks)

QUESTION TWO (20 MARKS)

- a) The public debt has risen to over 60% of the GDP over the last decade. Discuss techniques of managing public debt (8 Marks)
- b) Illustratively distinguish public goods from private goods. (5 Marks)
- c) State reasons for the general increase of Public Expenditure over time. (7 Marks)

QUESTION THREE (20 MARKS)

- a) Explain why the government requires finance. (8 Marks)
- b) Illustratively discuss wastages in public spending in Government (8 Marks)
- c) Distinguish between ``Recession Period`` and ``Boom Period``. (4 Marks)

QUESTION FOUR (20 MARKS)

- a) You have been invited to a workshop for Members of County assembly as a Key Note Speaker. You are required to illustratively demonstrate the importance public finance in Kenya as a preparation aspect for the workshop (8 Marks)
- b) Explain the role of Development Expenditure in a developing economy. (6 Marks)
- c) Discuss Key Restraints to the Growth of Public Expenditure in any economy. (6 Marks)

QUESTION FIVE(20 MARKS)

- a) As per the Kenya Finance Bill 2023/2024, the government has a budget of 3 trillion while KRA is projected to collect on Ksh 2,100, 000,000,000. Discuss factors that cause government borrowing (5 Marks)
- b) Explain various criteria of evaluating a public investment (5 Marks)
- c) Discuss principles of public budgeting (5Marks)
- d) Besides taxation, illustratively describe other sources of revenue for the government of Kenya. (5Marks)