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(University of Choice)

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

MAIN/BUNGOMA/WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE
OF
BACHELOR OF COMMERCE

COURSE CODE: **BCF 352**

COURSE TITLE: **DEVELOPMENT FINANCE**

DATE: Friday 21st April 2023 **TIME:** 3.00-5.00 pm

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO (2)** questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

QUESTION ONE: (30 MARKS) COMPULSORY

Development budget set to hit Sh1.15 trillion in the next three years

"The government will increase development spending to Sh1.15 trillion in three years as the new administration seeks to sink more money into infrastructure, energy and ICT. The new Budget Policy Statement shows that the outlay will increase from Sh596.6 billion in the current financial year to Sh1.15 trillion in the next three years. In the projections, energy, infrastructure and information communication and technology (ICT) will take the largest share of the allocations at Sh276.7 billion in the current fiscal year expected to rise to Sh324.4 billion in 2025.

"In the financial year (FY) 2021/22, a total of Sh540.1 billion was spent on development expenditure. In the FY 2022/23, this amount is projected to increase to Sh596.6 billion and further increase to Sh1.1496 trillion over the medium term," the National Treasury said in the latest budget policy statement report. "The allocation to development expenditures is projected to increase to 35.8 percent in the FY 2023/24 and remain above the recommended threshold [of 30 per cent] over the medium term."

The report shows the spending is projected to rise to Sh796.4 billion in FY2023/24, to Sh901.5 billion, Sh1.07 trillion and Sh1.15 trillion in the next three years respectively. Kenya's ballooning public debt is projected to increase to Sh12.4 trillion in 2026 from the current Sh9.4 trillion. The debt stock represents 64.9 percent of Kenya's gross domestic product (GDP) with the domestic stock standing at Sh4.38 trillion as external debt amounted to Sh4.36 trillion. Kenya's debt is set to expand after the International Monetary Fund (IMF) approved a Sh81.7 billion loan a few weeks ago, paving the way for the immediate release of the funds for budgetary support. A raft of new tax changes and measures will see Kenyans bear the brunt of government infrastructural plans adding to the pain of inflation that has pushed up the cost of living to a five-year high."

(Source: Business Daily, Friday January 20th, 2023)

Required:

A. "A raft of new tax changes and measures will see Kenyans bear the brunt of government infrastructural plans adding to the pain of inflation that has pushed up the cost of living to a five-year high." Discuss some of the new tax measures that the government can implement to support its infrastructural plans. (10 Marks)

B. "Kenya's ballooning public debt is projected to increase to Sh12.4 trillion in 2026 from the current Sh9.4 trillion." Discuss other alternative innovative financing mechanisms the government can use to slow the ballooning public debt. (9 Marks)

C. Discuss the development finance institutions the government can use to source for concessional funds for development. (6 Marks)

D. "The debt stock represents 64.9 percent of Kenya's gross domestic product (GDP) with the domestic stock standing at Sh4.38 trillion as external debt amounted to Sh4.36 trillion." Briefly explain any non- fiscal measures which can be used to support development without reverting to debt. (5 Marks)

QUESTION TWO

A. External aid is one of the important sources of funds for financing development. Discuss some of the ways in which aid is an important source of development funds in developing countries. (8 Marks)

B. In order to raise overall investment, many developing countries offer incentive packages to external investors. Discuss financial and fiscal incentives used by governments to encourage FDI in LDC's. (12 Marks)

QUESTION THREE

A. Discuss how a well-functioning financial system acts as a requisite for raising the level of savings for development projects. (8 Marks)

B. Development success depends not only on a vibrant private sector and an efficient public sector, but on a vigorous citizen sector as well. Discuss. (12 Marks)

QUESTION FOUR

A. Humanitarian and certain social development programmes may merit financial and even economic analyses; but whether this is so needs to be considered on a case-by-case basis. Discuss in detail how you would evaluate such projects. (12 marks)

B. Explain the limitations of microfinance institutions as a development strategy. (8 Marks)