

High rating opens credit doors for Kenya

BY MUNA WAHOME

Kenya could at last shift from securing credit from dodgy sources to internationally recognised financiers. Last week's rating by Standard and Poor's (S&P) paves way for the Government to list bonds in major financial capitals to raise money for infrastructure development.

The higher the rating, the lower the cost of money for countries. On top, local companies can now easily borrow from international commercial sources. "Such a rating will not only have a beneficial effect on foreign direct investments, it will also impact positively on the capacity of our private sector to access affordable financing from international markets," Finance minister Amos Kimunya told Parliament during the June budget.

Kenyan businesses have for years urged the Government to seek this kind of rating. Most of the reputable companies are indeed rated by renowned agencies, a status they are always keen to boast about.

Quite a number of African countries ranging from the A+ rated Botswana to Burkina Faso to Nigeria sought rating and got it well before Kenya. "With sovereign credit ratings, the governments of sub-Saharan Africa can signal to the international market their readiness to participate in the global economy by opening their books to public scrutiny, maintaining transparency, and adhering to liberalisation policies and reform efforts," says the US Bureau for Africa. The US has itself been involved in an initiative

where Fitch Ratings Ltd would rate African countries.

Perhaps the Kanu Government was fearful of coming out badly. Or they were more interested in seeking financing from other sources — a situation that is unravelling by the day as spurious projects end up in international tribunals, at times threatening prime assets of the country abroad and locally.

Much later after Kanu was gone, Mr Kimunya had promised the rating would be out in a fortnight from mid this June. It is not clear what delayed conclusion of the process to early September as he had announced at the time a rating mission was scheduled to fly in around that time.

Sovereign rating of a country is used as benchmark for lending companies — a State is assumed to be the least risky borrower in a country and other borrowers are lent money based on that. Companies and nations can easily issue bonds in the international financial market, a route many countries including the emerging markets dreaded for lack of predictability, have taken.

Companies are rated on a scale starting with the sovereign rate and their individual risks loaded (marked up) on top. S&P assigned Kenya B+ on long-term foreign currency, used to measure risk of a crisis when transacting. It granted a BB- for local currency-based risk.

Ironically, the Kenyan B+ rating came a day after Benin rating was dropped from B+ to B- following what the US agency termed "fiscal challenges". On the short-term rating, Kenya



got B for foreign/local currency.

The West African country was labelled "outlook negative". Kenya was labelled "outlook stable". "It helps us to have a benchmark. We think it is a fair rating, given where the country has come from. If we had done (in the past) what we have done in the last two years, I believe we would have got an A," said Finance PS Joseph Kinyua

Finance minister Amos Kimunya says it will also boost foreign direct investment.

PHOTO/FILE

last week. Kenya's rating to be sure is not bad at all at the B grade. Fitch Ratings and S&P issued Nigeria with ratings within weeks of each other early in the year — a long-term foreign currency rating of BB-. Nigeria's ratings

are on par with such countries as Turkey, Ukraine and Brazil.

Kenya, especially the Narc administration, which has chalked major economic gains, is certainly flattered with the assessment. That despite a qualification in the statement over vulnerability to external shocks and low economic development levels.

"The ratings are supported, however, by the government's continued progress in implementing economic reform and by the strengthening of macroeconomic and political stability," it says on a positive note.

Apart from S&P and Fitch, another widely recognised rating firm is Moody's. In its report, Standard & Poor's noted growth in Kenya had gone up from 0.4 per cent to nearly 6 per cent under President Kibaki's administration. "Although Kenya's political environment is often partisan, the Government has managed to pass a number of economic reforms," said the rating agency.

What is important now is how the country goes about using the rating, especially to raise money for improving its poor infrastructure. It has long been clear that local resources are insufficient to fund such huge capital expenditure. For companies with huge requirements of foreign capital goods and no foreign parent company, this will provide a useful benchmark singularly in fixing interest rates.

The rating is also expected to embolden Kenya's long-term domestic borrowing by benchmarking internationally. Right now, Treasury is about to issue an 11-year bond after issuing a 12-year instrument.