Acknowledgements

The Kenya Debt Relief Network (KENDREN) owes immense gratitude and appreciation to various people whose contribution in various ways made this endeavour a resounding success.

First, we owe a great sense of appreciation to Mr. Vitalice Meja, the consultant who steadfastly carried out this research work. For his time, diligence and incisive analysis, we thank him for using his competence and expertise to point us in the right direction.

Equally, we owe great appreciation to the participants at the validation workshop who subjected the initial draft of this research study to a rigorous analysis and critique. It is through their input that this research output became a coherent and admissible document for our consumption.

We must also thank the KENDREN staff: Programmes Coordinator, Kiama Kaara and Research Officer Tony Moturi, for their invaluable and diligent commitment to making this a success. From the inception level of conceptualizing the project, to every step of its management and liaison with the key actors, they have made this process less strenuous. Our Project Associates, Rita Obel and Diana Mochoge, for tirelessly running with the logistics and related coordination issues for the various stages of this project. Our Administrative department, Hillary Andalo, Finance Officer and Samson Mutinda, Administrative Assistant for ensuring that all needs were met at the opportune time.

We are eternally grateful to our project partners, Evangelischer Entwicklungsdienst (EED) for their unwavering faith in our work and their continued and consistent support for it. It is their financial resource support that ultimately made this project a reality.

To those who played key roles and are not mentioned, it is not deliberate omission. We take cognizant and profoundly appreciate their contribution.

It is our pleasure to present this research study report to you and hope that you will find the contents of immense usefulness and timely.

KENDREN SECRETARIAT

Acknowledgements

The Kenya Debt Relief Network (KENDREN) owes immense gratitude and appreciation to various people whose contribution in various ways made this endeavour a resounding success.

First, we owe a great sense of appreciation to Mr. Vitalice Meja, the consultant who steadfastly carried out this research work. For his time, diligence and incisive analysis, we thank him for using his competence and expertise to point us in the right direction.

Equally, we owe great appreciation to the participants at the validation workshop who subjected the initial draft of this research study to a rigorous analysis and critique. It is through their input that this research output became a coherent and admissible document for our consumption.

We must also thank the KENDREN staff: Programmes Coordinator, Kiama Kaara and Research Officer Tony Moturi, for their invaluable and diligent commitment to making this a success. From the inception level of conceptualizing the project, to every step of its management and liaison with the key actors, they have made this process less strenuous. Our Project Associates, Rita Obel and Diana Mochoge, for tirelessly running with the logistics and related coordination issues for the various stages of this project. Our Administrative department, Hillary Andalo, Finance Officer and Samson Mutinda, Administrative Assistant for ensuring that all needs were met at the opportune time.

We are eternally grateful to our project partners, Evangelischer Entwicklungsdienst (EED) for their unwavering faith in our work and their continued and consistent support for it. It is their financial resource support that ultimately made this project a reality.

To those who played key roles and are not mentioned, it is not deliberate omission. We take cognizant and profoundly appreciate their contribution.

It is our pleasure to present this research study report to you and hope that you will find the contents of immense usefulness and timely.

KENDREN SECRETARIAT

Foreign Debt & Development Financing:
The Kenyan Experience

Published by
Kenya Debt Relief Network (KENDREN)
P.O. Box 5252-00100 GPO Nairobi, Kenya.
Tel: 254-20-2637028/ 0725 32 66 93
Email: info@kendren.org
Website: www.kendren.org

KENDREN
THE KENYA DEBT RELIEF NETWORK

Printed by: Doublesight Services
P.O. Box 4845-00200
Nairobi, Kenya
Tel: 0733 919024

TABLE OF CONTENTS

ACRONYMS vi
1.0 EXECUTIVE SUMMARY 1
2.0: INTRODUCTION 5
- Nexus between Debt and Development.....................................5
- External Debt and Economic Development 8

3.0: KENYA'S PUBLIC DEBT..16
- Kenya's External Debt in Perspective 18
- Structure and Composition of External Debt 18
- Sources of External Debt...19
- External Debt Structure 20
- Government Borrowing Policy 22
- External Debt Service...24

4.0: LEGAL FRAMEWORK AND INSTITUTIONAL STRUCTURE FOR EXTERNAL 27
DEBT CONTRACTION 27
- Legal Framework...27
- Institutional Framework 29
- Recording, Reporting and Dissemination of External Debt Information 31
- Debt Management Strategy 33

5.0: THE ROLE OF OTHER STAKEHOLDERS 38
- Parliament 38
- Civil Society Organisations 39
- International Financial Institutions 40

6.0: RECOMMENDATIONS 41

Foreword

Africa continues to experience a reversal in almost all development indicators. Pundits and commentators have over many years of engagement on the discourse of the Africa developmental path, isolated ***Debt*** as one critical issue that continues to visit debilitating effects on Africa's pro – poor development agenda.

From the Lagos Plan of Action (1980), through the Africa Charter on Peoples and Human Rights (1986), right up to the mainstream New Partnership for Africa Development (NEPAD, 2001), the nexus of debt as a challenge to Africa's socio-economic development trajectory cannot be gain said. At every epochal moment, the banner proclaiming the challenge of the Debt Crisis has been hoisted. This is best amplified by the *"Cancel the Debt"*, *"Drop the Debt"*, *"Jubilee 2000"* campaigns of the turn of the century, that have now won themselves a space in the mainstream discourse, spurning numerous scholar-activist linked think tanks, NGOs and social movement typologies that are committed to research, analysis, networking, campaigns and advocacy on the issue of Debt and Development.

Subsequently, the issue of debt has managed to imprint itself with the mainstream and alternative discourse around socio-economic

development trajectories. Notably, due to the intrinsic and marked nature of country by country basis, each country across the developing South continues to seek lasting solutions to the challenges of debt and development.

2005 was a landmark year for the international debt campaign. In the backdrop of Britain's chair of the G8, the UN Summit on the Review of the MDGs and the Africa Union marked summit on Government Financing, a global conversation around the division of labour around financing and the challenges thereof was underway. The Tony Blair inspired Commission of Africa set the stage for reaching a bigger and deeper impacted approach to commitments on support for Africa countries to achieve the MDGs. The centrality of this was reinforcing the ***Goal No. 8: "commitment to renewed partnerships for development."*** At the G8 summit in Gleneagles-Scotland, key outcomes revolved around an increased effective aid modality, keeping to the global commitment by the G8 countries for a 0.7% towards aid and an enhanced debt relief mechanism beyond the HIPC II initiative, with a British backed MDRI (Multi Lateral Debt Relief Initiative), that offered a more flexible completion phase for debt relief consideration.

Whereas this was acclaimed as a concerted global onslaught in addressing poverty in Africa and as a new framework of partnerships between the North and South, a larger majority in the civil society/activist front saw this as an opportunity to deepen the campaigning and critic on debt and development as relates to the international division of labour within the economic architecture. Though not much was done on this front, the debt crisis continues to have a debilitating effect on the national economic governance agenda and especially the ability to invest in the social infrastructure development and hence promote peoples development.

Within a national Kenya context, the implosion of the Global Financial Crisis of 2007/2008, the attendant Food and Fuel Crisis and the Post Election Violence (2008) saddled Kenya with a potent triple crisis of immense proportions. This coupled with the Government infrastructure development programme, the related costs of the constitution implementation process and the emergent governance framework, government expenditure is bound to rise remarkably. To address this crisis, new modalities of resource mobilization have had to be harnessed and in a quick succession. With the economy dipping to the south of single digit projections, a massive borrowing (external

and domestic) phase has ensued. We certainly are witnessing a new cycle of debt increase.

At the Kenya Debt Relief Network – KENDREN, the issue of a debt crisis has continued to be a poignant point of concern. In commissioning this study, we sought to assess the impact of the global financial crisis and to an extent the triple crisis on Kenya's external debt and the resultant effect on the national budget execution.

This study has endeavoured to present the link between debt and its role in our economic development and especially as relates to the infrastructural tangent.

This study critically examines the need for an effective management of external debt the and indeed identifies the legal and institutional bottlenecks thereof. It recommends a process of external debt management that enlists other stakeholders including Parliament, Civil Society Organisations and Development Partners.

The policy path envisaged will govern responsible borrowing and lending as a long term measure in handling the management of external debt. It is therefore our collective action to make these recommendations a reality.

It is our considered hope and aspiration that this study will seek to inform and catalyze a deeper conversation and dialogue both in and across the various facets of our national policy development, implementation and coordination levels, to ensure that we indeed put in place a robust debt management policy and framework that will effectively in build a lasting and credible economic framework that unlocks the potential for our nation's development.

Wahu Kaara,

Coordinator, KENDREN

LIST OF ACRONYMS

AfDB	– Africa Development Bank
AG	– Attorney General
ATM	– Average Time to Maturity
BoP	– Balance of Payments
CBK	– Central Bank of Kenya
CSO	– Civil Society Organization
DGIPE	– Department of Government Investment and Public Enterprises
DMD	– Debt Management Department
DMO	– Debt Management Office
DRS	– Data Reporting System
ERD	– External Resources Department
ESF	– Exogenous Shock Facility
GDP	– Gross Domestic Product
HIPC	– Highly Indebted Poor Countries
IDA	– International Development Assistance

IFIs	– International Financial Institutions
IMF	– International Monetary Fund
KENDREN	– Kenya Debt Relief Network
MDRI	– Multilateral Debt Relief Initiatives
MoF	– Ministry of Finance
MTDS	– Medium Term Debt Strategy
ODA	– Official Development Assistance
PA	– Payment Advice
Paris Club	- an informal group of financial officials from 19 of some of the world's biggest economies, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries and their creditors.
WB	– World Bank

1.0 EXECUTIVE SUMMARY

While external debt stock has over the years reduced in relation to the GDP, it is increasingly playing a key role in Kenya's economic development. It has become the main financier of Kenya's infrastructural development as well as a key ingredient in financing budget deficit. Kenya however remains one of the few countries in Africa where foreign debt stock remains sustainable.

At the same time this study has unearthed issues that need to be addressed if external debt is to continue playing an important role in the country's vision 2030. Issues ranging from legal and institutional still compound the effectiveness of external debt in facilitating economic development. Addressing these factors will be crucial if the country is to tame the runaway interest rates charged on it. Fundamentally the government must institute new measures to finalise the external resource mobilisation policy, as well as boost up its infrastructural and human resource base to facilitate an efficient and effective external debt management framework across all the government ministry and parastatals.

Among the key issues the study has observed, few are raised below;

External debt remains an important tool for financing infrastructural development including roads, energy, water and sanitation, agricultural development and many others.

External debt has been overtaken by domestic debt. Domestic debt rose from Ksh 360 billion (23.4 percent of the GDP) at the end of June 2005 to Ksh 659.6 billion (or 26.6 per cent of the GDP) while external debt declined to Ksh 565.5 billion (22.6 per cent of the GDP) in 2010 from Ksh 434 billion (32.2 per cent of GDP) by the end of June 2005. The shift has largely attributed to reduced access to external funding from multilateral and bilateral agencies and increased domestic borrowing to close the shortfall. External debt however remains an important tool for financing infrastructural development including roads, energy, water and sanitation, and agricultural development.

External debt service has been rising despite the multiple crises facing the country: Total external debt service increased by nearly 20 percent from Ksh 18,317 million in 2007 to Ksh 21,776 million in 2007/08 as shown in Table 6. Principal repayments increased from Ksh

13,884 million in June 2007 to Ksh 15,815 million while interest payments increased from Ksh 4,433 million to Ksh 5,961 million during the period.

Kenya has no comprehensive debt management policy for external debt management. There is a medium terms debt management strategy which is not linked to any written policy framework

There exists fragmentation and lack of harmonisation at policy level. Just like the fragmentation at the policy level, the External debt management at the ministry of finance is characterized by weak institutional arrangements with debt functions spread across departments at the MoF. These include the Debt Management Department (DMD), the Department of Government Investments and Public Enterprises (DGIPE) and Attorney General. In addition, debt management functions within MoF and CBK are guided by weak debt policy framework and *ad hoc* debt management strategies. Coupled with these are the human resource issues the department is under-staffed and high staff turnover is still evident particularly within DMD, undermining operational efficiency.

No legal requirements for an inclusive process in external debt management. There are no legal requirements with regard to transparency and accountability with regard to external debt management aside from those that require the minister to report annually on the status of external debt. "Report to the National Assembly in writing, the amount of indebtedness outstanding at the end of each financial year in respect of each manner of borrowing specified in the External Loans Act'.

2.0: INTRODUCTION

NEXUS BETWEEN DEBT AND DEVELOPMENT

Debt has crippled many developing countries. Leaving people living in poverty more vulnerable to food insecurity, diseases and illiteracy as precious resources are diverted to debt repayment. Kenya is among the countries that have been hit by net transfer financial resources at the expense of development expenditure. The causes of debt are a result of many factors, including those of colonialism[1]. A sum of US$ 59 billion external in public debt was imposed on the newly independent States in 1960. With the additional strain of an interest rate unilaterally set at 14 per cent, this debt increased rapidly. Before they had even had time to organize their economies and get them up and running, the new debtors were already saddled with a heavy burden of debt. (South Centre 2004)

Other causes of debt crisis were due to loans given to non transparent and accountable regimes that acquired money which was used in ways contrary to the people's interest, with the knowledge of the creditors making such loans odious[2] . The creditors may be said to have committed a hostile act against the people and are responsible for such debts.

While external debt has both historical and current facets in its understanding, its impact in the economy and the livelihood of people living in poverty is explicit and recurrent. It has high leverage with regard to how available resources are distributed across the board including the provision of social services, investments towards social and economic infrastructure.

At the same time low levels of a country's revenue mobilization set a fertile ground for greater borrowing from development partners to fill the budget deficits. Over the years, faced with recurring budget deficits, the Kenyan government has relied on external funding to meet its budget targets from both the bilateral and multi-lateral donors.

The bilateral creditors (donor countries) make up the bulk of these external funds. These funds have been used to provide basic services such as health, education, water and infrastructure development. Notably, the figures have been increasing over the years.

In the wake of the global financial crisis, we continue to experience a new reality in relation to both private financial flows and aid flows to Kenya. There is no doubt that one of the important consequences of

the financial crisis for Kenya and other developing economy is the reduction of external finance. The expected decline of Official Development Assistance (ODA) flows has a devastating effect on economy like ours.

Resultantly, since Kenya ultimately depends heavily on aid-funded social protection programmes, any considered reduction in aid flows will certainly have a considerable effect especially on the poor and in the end result increasing their vulnerability and capacity to secure their livelihoods.

As such a direct correlation exists between a drop in external funding and a continued commitment to Kenya's socio-economic development, on which it's centrally premised. With the reduced commitment from the donors due to the changing global financial architecture and External pressures to reorganize economies in the home countries, the government will be faced with an uphill task of funding the budgetary gap.

It is with this in mind that the Kenya Debt Relief Network commissioned a study to understand the linkage between external debt and development financing as well as the status of regulatory and institutional framework. The study among other things covers the:

1. Review the Kenya's financial reports 2005 – 2010 and specifically the statistics and debt servicing trends in Kenya;
2. Evaluate and assess the reality of debt management in the country; and,
3. Make recommendations with regard to key areas of the research findings.

EXTERNAL DEBT AND ECONOMIC DEVELOPMENT

Kenya like many other developing countries relies on external support to finance its national budget. The development component of the national budget continues to be heavily dominated by the foreign aid even though this trend has been reducing. In 2002 foreign support accounted for 88 percent of the development budget, this was however since been reduced to 50 percent by 2009. A lot of work will have to be done if this trend is to continue. We however postulate that with the arrival of the new constitution and its demands for new economic structures, including the implementation of vision 2030 and creation of new counties, the demand for an expansive development budget would be high.

For many years the country heavily depended on foreign support to invest in various public enterprises and public infrastructure. This can be seen as following from table 1. Where the debt guarantee to parastatals show how much the government has invested in the public parastatal through external debt.

At the same time the government has greatly shifted its expenditure pattern to critical infrastructure that will (i) reduce the cost of doing business and (ii) crowd in private sector investment in the key sectors identified under Vision 2030 medium term strategy paper.

Table 1. Examples of Debts and their Purpose

Creditor	Purpose	Interest	Commencement / Payment completion
World Bank	Fisheries Project No. 1051-KE (1980011)	0.75	Loan of US$10,000,000 repayable in 80 semi-annual instalments commencing on 15th August, 1990 ending on 15th February, 2030. The first 20 instalments to be repaid at a rate of 0.5% of the loan amount and at a rate of 1.5% thereafter
World Bank	Paratatal and Privatisation Technical Assistance Project No. 2440-KE (1992002)	0.75	Loan of USD4,200,000 repayable in 60 semi annual instalments commencing on March 1st 2003 and ending on September 1st 2032
World Bank	Privatisation & Private Sector Development Project No. Q 235-KE (2000001)	0.75	Loan of USD 2,000,000 repayable in 10 instalments commencing 1stOctober and ending 1st April 2010.
USA	Rescheduled Loans II(2000) Exim Bank - 615X026R (2000316)	Variable	Loan of USD 13,032,254.79 repayable 26 semi annual instalments commencing on June, 30th 2006 and ending on December, 31th 2018.
Italy	Cashewnut Plant Rehabilitation Factory Kilifi EXP/AID 88/033 (1988023)	1.5	Loan of US$ 999,987 repayable in 20 equal semi annual instalments commencing on January 19, 2000 and ending on July 19, 2009
Spain (Comm-ercial) Deutsche Bank Espaniola	Rural Electrification Programme - II Deutsche Bank Espaniola (2001002)	6.7	Loan of USD 5,430431 repayable in 17 equal semi annual instalments Commencing on 19th January 2004 and ending on 19th January 2012
Germany	Reinstatement of Garshen -Lamu road I & IIAL9866930 - 1999008	0.75	Loan of EUR7,541,555.25 repayable in 80 semi annual instal. commencing on 31st December 2009 and ending on to 20th June 2049.
Germany	General Overhaul &Rehabilit of Locomotives 9566688- 2001128	0.75	Loan of EUR 4,601,626.93 repayable in 81 semi-annual instalments commencing from 30th June 2008 and ending to 30th June 2048.
Nether-lands	Rehabilitation and Modernization of Sugar Factory Muhoroni (1987-01) -2001112	2.5	Loan of NLG 14,087,791 (EUR 6,392,761) repayable in 23 equal annual instalments commencing on 1st January 1996 and ending on 1st January 2019.

Belgium	Supply & Installation of PABX Systems in Kenya)Loan no 12 - 2001138(199702)	5	Loan of EUR 16,550,807.69 repayable in 20 equal instalments of Eur 827,540.38 commencing on 31st August 2002 and ending on 29th February 2012
EUC	Turbo Webuye - Road Project 8.0221 - 1986021	1	Loan of ECU 10,000,000 repayable in 60 semi-annual instalments at commencing on 15th October 1996 and ending on 15th April 2026
China Exim Bank	Rural Telecommunication Project No GCL2006(03)(145) - 2006008	2	Loan of CNY 196,000,000.00 repayable in 26 equal semi annual instalments commencing from 23rd September 2012 and ending 23rdMarch 2025
Govern-ment of China	Kipsigak - Serem - Shamakhokho Road 2 LoanNo 9 - 2001007	0	Loan of CNY 50,000,000.00 repayable in 10 equal instalments commencing 1st September 2011 and ending 1st September 2020
Midland Finance	Administration Police Telecommunication Equipment (2003010)	5	Loan of EUR 49,650,000 repayable in 19 instalments. The 1st instalment to be a down payment of EUR 4,000,000 on 29 May 2003 followed by 17

			instalments of EUR 2,536,000 every four months commencing 29 October 2003 with the final instalment of EUR 2,538,000 on 29th June 2009
Sound Day Corpora-tion	Kenya Police Equipment Addendum 3 (2002007)	6	An Addendum loan of USD 31,846,500 repayable in nine instalments every four months. Eight equal instalments of USD 3,750,000 will be paid commencing 30thJune 2002 and final instalment of USD 1,846,500 on 28 February 2005.
Apex Finance	Kenya Police Airwing Support II (2002011)	3	Loan of USD 12,800,000 repayable in 13 instalments. The 1st instalment to be a down payment of USD 1,544,000 on 30th July 2002 followed by twelve quarterly instalments of USD 938,000 commencing 30th October 2002 and ending 30th July2005.

Source: treasury 2009

Table 1 shows that Kenya has for over decades borrowed external funds for various development projects if the country covering all the sectors of the economy. It was however difficult to establish the true impact of the debts to the overall economic development of the country as there were no impact assessments carried out over the various projects funded by the external loan. It also difficult to show during the periods preceding 2003, to establish the direct linkage between the debts incurred and the achievement of the overall development strategy as most debts were project related and not program related.

Furthermore as will be illustrated in other sections of the study, (see table 2) publicly guaranteed loans appeared to have created an extra burden to the government as many parastatals were not able to reimburse the government debts guaranteed by government. This raised the question around the actual economic benefit of such loans as they continued to be burden on the ordinary tax payer.

Table 2 Cumulative GoK Payments of Guaranteed Debt in Ksh Million

PARASTATAL	PRINCIPAL	INTEREST	TOTAL	REIMBURSEMENT TO GOK BY PARASTATALS	BALANCE
KENGEN	1,487.4	1,156.5	2,643.9	2,609.7	34.1
Tana & Athi River Development Authority (TARDA)	727.1	713.4	1,440.5	0.3	1,440.8
TARDA (Loan taken over by KENGEN)	1,001.3	1,154.3	2,155.6	2,148.4	7.2
Kenya Posts And Telecommunication Corp.	675.8	691.5	1,367.3	1,080.7	286.6
Kenya Railways	1,151.0	203.9	1,354.9	715.1	639.8
Nzoia Sugar Co.	4,605.8	1,523.5	6,129.2	1.5	6.127.7
Nairobi City Council	1,598.1	2,120.6	3,718.7	124.7	3,593.9
National Housing Corporation	9.2	42.4	51.5	31.9	19.7
East African Sugar Industries (Muhoroni)	226.7	75.8	302.5	0.0	302.5
Kenya Broadcasting Corporation	2,075.7	2,263.0	4,338.7	44.0	4,294.7
South Nyanza Sugar Company	53.3	2.7	56.0	80.6	NIL
Development Finance Company Of Kenya	92.4	39.9	132.3	45.0	87.3
Kenya Ports Authority	89.6	19.1	108.7	109.5	NIL
Indust. & Com. Dev. Corporation	484.9	181.4	666.2	0.0	666.2
Kenya Fibre Corporation	0.0	14.7	14.7	0.0	14.7
Agricultural Dev. Corporation	106.7	72.9	179.6	0.0	179.6
Telkom (K) Ltd	580.6	87.1	667.7	0.0	667.7
Agro Chemical And Food Company	540.2	41.7	581.9	785.0	NIL
Total Ksh	**15,505.8**	**10,404.4**	**25,910.2**	**7,776.4**	**18,133.8**

Source: Treasury 2009

As can be seen on table 3 the government incurred heavy losses from publicly guaranteed loans as many of them were not able to reimburse the government the amount due to them. The government has been left with a total of Ksh 18 billion of unpaid amount from the parastatals. Nzoia Sugar Company, Kenya Broadcasting Corporation, and the

Nairobi City Council owe the government about ksh 6.1 billion, Ksh 4.3 billion and Ksh 3.3 billion. The unpaid balances raise the question over the initial assessment of financial viability and the ability of such institutions to service such loans before guarantees were issued by the government.

Table 3. Public guaranteed Debt

	Organization	Year Loan contracted	Obligation Guaranteed	Creditor	Loan Balance	
					June 07	June 08
1	Nairobi City Council	1985	Umoja II Housing Project.	USA	452.60	384.93
2	Telkom Kenya	1988 & 1990	Purchase of Equipment	Italy & Canada	815,80	506.07
3	Tana & Athi River Dev. Co.	1990	Tana Delta irrigation project	Japan	2,060.00	2,154.10
4	East African Portland Cement	1990	Cement Plant Rehabilitation	Japan	2,560.20	2,677.70
5	KenGen Ltd	2007	Sondu Miriu/Sangoro Power project	Japan	12,431.90	14,401.34
6	Kenya Broadcasting Corporation	1989	KBC modernization	Japan	4,873.90	5,291.20
7	Kenya Farmers Association (KFA)	2005	Reival of KFA	GoK	unutilized	unutilized
	Total				**23,194.30**	**25,415.34**

3.0: KENYA'S PUBLIC DEBT

Over the five years, Kenya's public debt stock has been rising. The country's public debt increased from Ksh 750 billion (or 56.6 percent of GDP) at the end of June 2005 to Ksh 1225 billion (49.5 percent of GDP) at the end of June 2010 (see table 1). Despite the rise in the stock of debt during the period, the proportion of overall debt to GDP decreased by 6.4 per cent due to a faster growth in GDP particularly over the last five years compared to the periods preceding 2002. Domestic

debt rose from Ksh 360 billion (23.4 percent of the GDP) at the end of June 2005 to Ksh 659.6 billion (or 26.6 per cent of the GDP) while external debt declined to Ksh 565.5 billion (22.6 per cent of the GDP) in 2010 from Ksh 434 billion (32.2 per cent of GDP) by the end of June 2005. The shift in the composition of debt during the period is attributed to reduced access to external funding from multilateral and bilateral agencies and increased domestic borrowing to close the shortfall as shown in table 4.

Table 4 Public Debt Stock 2005 - 2010

	2005		2006		2007		2008		2009		2010	
	Ksh	%	Ksh	%	Ksh	%	Ksh	%	Ksh	%	Ksh	%
External Debt	434	32.2	431.2	27.9	396.6	23.1	440	21.2	535.3	22.4	565.5	22.6
Domestic Debt	316	23.4	357.8	23.2	404.7	23.6	430	21.6	518.5	21.7	659.6	26.6
Grand Total	750	55.6	789.1	51.1	801.3	46.7	870	42.8	1053.8	44.1	1225	49.2

Source: Treasury and CBK 2010

The current status of debt stock implies that every Kenya irrespective of their income level owes approximately Ksh 30,627.50.

Kenya's External Debt in Perspective

Structure and composition of external debt

About 61 percent of this debt was to multilateral creditors (including 47 percent owed to the World Bank). About 39 percent of the debt is owed to bilateral creditors (largely the Paris Club), and a small share (under 2 percent) is owed to commercial creditors, some of which was for disputed security-related contracts, and in arrears

Kenya's external debt increased by 5.2 percent, from Ksh 537.4 billion (US$ 6.9 billion) in June 2009 to Ksh 565.5 billion (US$ 7.0 billion) in June 2010 following the weakening of the Kenya shilling against the Euro, the dollar and the sterling Pound (Table 5). Similarly, the proportion of external debt in GDP fell from 24.0 percent to 22.8 percent in the period while that of external debt to total debt fell from 50.8 percent to 49.2 percent. The multilateral share of total external debt has increased due to a disbursement of Ksh 16.3 billion (USD 209 million) from the International Monetary Fund (IMF) under the Exogenous Shock Facility (ESF) for Balance of Payments (BoP) support.

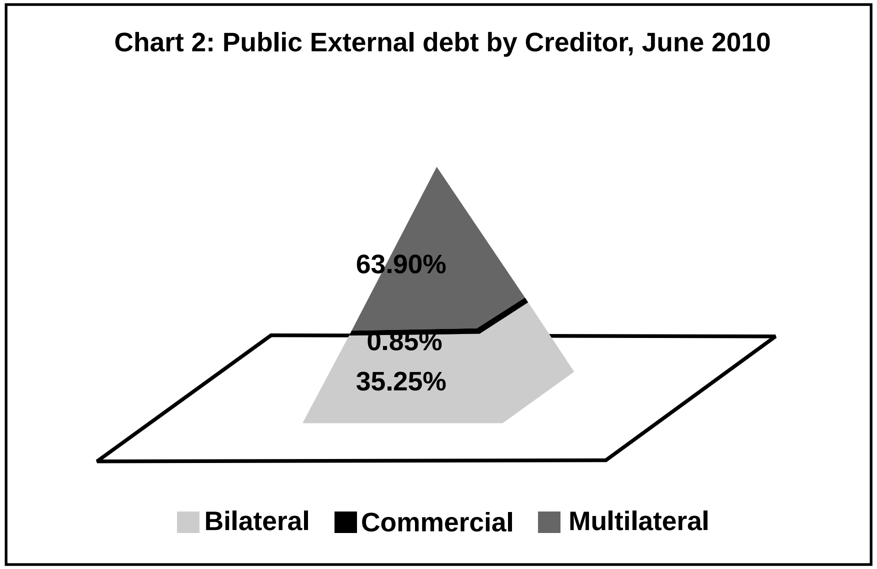
Table 5 External Debt Stock

	June 06		June 07		June 08		June 09		June 10	
	Kshs	%	Kshs	%	Kshs	%	Kshs	%	Kshs.	%
Bilateral	154.9	35.9	137.9	34.8	153.2	34.6	185.9	34.6	196.3	34.7
Multilateral	255.3	59.3	240.3	60.6	268.2	61.0	327.6	61.0	348.6	61.7
Commercial	1.3	0.3	0.3	0.1	0	0	0	0	0	0
Export Credit	19.5	40.5	18.0	4.5	18.5	4.2	23.8	4.4	20.5	3.6
Total	431.2	100	396.6	100	440	100	535.3	100	565.5	100
As % of GDP	27.6		21.7		21.6		24.0		22.9	
As % of Total debt	54.7		49.5		50.5		50.9		46.2	

Sources of External Debt

The main external sources of financing are multilateral and bilateral creditors. Multilateral concessional debt amounts to 64 percent of total external debt while bilateral creditors account for 35 percent. Commercial debt (100 percent in dispute) represents less than 1 percent of total public external debt (Figure 1).

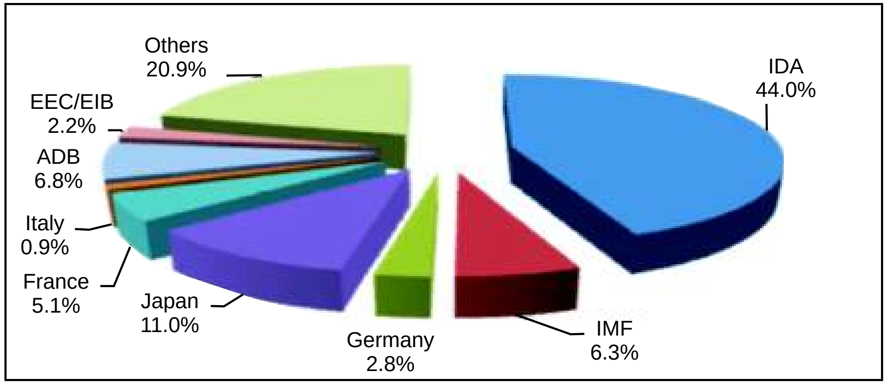
Figure 1



External Debt Structure

The structure of external debt by creditor type has remained relatively unchanged over the last ten years (see chart 1). As at end of June 2010 the leading multilateral creditor was IDA (44 percent of total external debt), followed by the African Development Bank Group (6.8 percent) and the European Investment Bank (2.2 percent). In terms of bilateral creditors, Japan, France and Germany are the main creditors accounting for 72 percent of the bilateral debt. Japan is the largest bilateral donor, accounting for over 49 percent of the bilateral debt (see chart 1).

Chart 1 External Debt by Donors

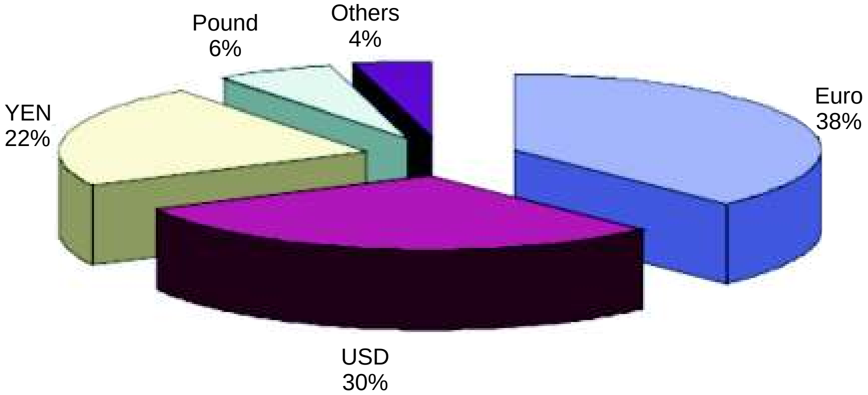


Source: Treasury and CBK

Currency Composition

The currency composition of the external debt as shown in chart 2 was in Euros (38 percent), US dollars (30 percent), Japanese Yen (22 percent) and Sterling Pound (6 percent) while about 4 percent of the debt is denominated in other currencies. The composition of external debt in foreign currency has been largely responsible for the increase in external debt in shillings terms due to depreciation of the Kenya shilling against other currencies over the last few years.

Chart 2 Currency composition of External debt



Source: Treasury and CBK

Government Borrowing Policy

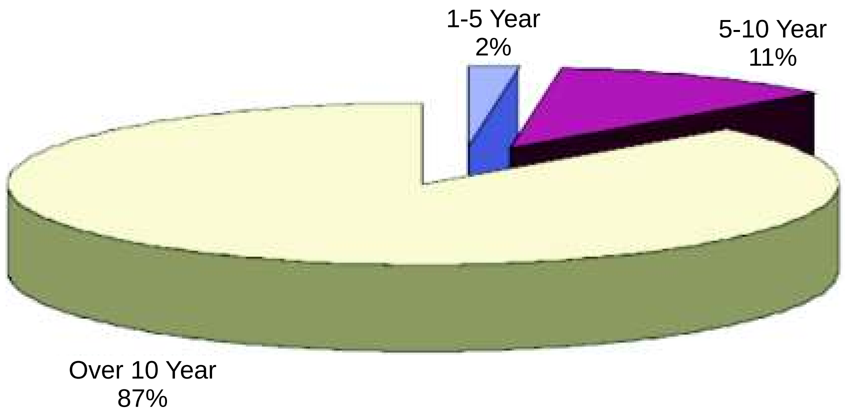
The Government's external borrowing policy specifies a grant element of at least 35 percent as the main criteria for approval of loan agreement and the table demonstrates the hardening of terms for new external commitments.

Terms	June 2009	June 2010
Interest rate (%)	1.1	1.4
Maturity (Years)	33.1	30.5
Grace period (Years)	7.8	6.1
Grant Element (%)	57.0	45.0

Debt Maturity

Refinancing risk remains significant, but manageable. The Average Time to Maturity (ATM) of the total debt portfolio is 8.9 years up from 8.6 years at end June 2009. The average maturity profile for external debt has declined to 11.8 years from 12.9 years. (Treasury 2009). It must however be noted that the longer maturity period has encouraged the passing of the heavy debt burden from one generation to the next.

Chart 3 Debt maturity



Source: Treasury and CBK

External Debt Service

Table 6 External Debt service in millions

Payments	Multilateral		Bilateral		Commercial		Total	
	June 07	June 08	June 07	June 08	June 07	June 08	June 07	June 08
Principal	8,102	7397	5184	7846	598	572	13,884	15,815
Interest	2,021	2,424	2372	3511	39	26	4,433	5,961
Total	10,124	9,821	7556	11357	637	598	18,317	21,776

Source: Treasury

Total external debt service increased by nearly 20 percent from Ksh 18,317 million in 2007 to Ksh 21,776 million in 2007/08 as shown in Table 6. Principal repayments increased from Ksh 13,884 million in June 2007 to Ksh 15,815 million while interest payments increased from Ksh 4,433 million to Ksh 5,961 million during the period. The increase is attributed to the commencement of principal repayment of 2004 Paris Club debts following the end of the Consolidation Period. Government revenue (including grants) amounted to Ksh 511.4 billion in the fiscal year 2008/09 compared with Ksh 457.7 billion in a similar period in the fiscal year 2007/08 (Table . However, as a percentage of GDP, the revenue and grants declined from 22.5 percent to 21.4 percent during the period. Even though the revenue performance improved in the fiscal year 2008/09, it was still below the target set for the fiscal year. It must however be noted that during this same period, the country like the rest of the world was faced with multiple crisis, including the food crisis. The government instead borrowed a stimulus package from the IMF to deal with the crisis, while at the same time increasing its expenditure on debt servicing.

However, it should be noted that over the last two years external debt service to commercial creditors decreased significantly following the Government's decision to suspend payments of external commercial debts pending the outcome of a special audit and investigations by the Controller & Auditor General and Kenya Anti-Corruption Commission respectively. This has generated an external arrears of $91million. The authorities are disputing the validity of the claims based on the contracts not being fulfilled, have obtained an external audit to determine the value of the goods and services provided, and intend to renegotiate the amounts owed based on the completed audit results. Kenya has also devised other means of dealing with its debt burden as illustrated in the table below.

Debt Management Mechanisms

Kenya rescheduled its bi-lateral debts three times through the Paris Club, in 1994 (USD 540 million), 2000 (USD 288 million) and 2004 (USD 350 million). It also rescheduled its commercial debts in 1998 (USD 43 million) and 2001 (USD 10 million) through the London Club. Although Kenya does not qualify for debt relief under both the HIPC and Multilateral Debt Relief Initiatives (MDRI), Government policy has been to seek for deeper relief on bilateral basis by seeking debt-for development swap arrangements and debt cancellation.

Fiscal Policy

The government has over the last four years adopted an expansionary monetary policy. This can be seen in the continuously expanding deficit financing approach adopted by the government. Budget deficit on cash basis as a per cent age to the GDP expanded to 5.1% in 2009 from 2.1% in 2007. At the same time the revenue mobilisation has almost doubled since 2007. On the expenditure side, development financing has increased by almost three fold (see table 7) moving from Ksh 80.4 billion in 2007 to Ksh. 255.4 billion in 2010. Appropriation in aid and external grant however does not seem to measure up to the amount spent on debt servicing in the period of 2007. While Kenya spent Kshs 18.7 billion in 2007 in debt service, she only received Kshs 15.5 billion. Implying that in 2007 every shilling Kenya received Ksh 1.35 left the country. We therefore conclude that there was a net outflow of resources during the periods shown.

Table 7 Budget Financing

	2007	2008	2009	2010 (target)
Revenue	388.5	457.1	506	619.5
Revenue	373	432.2	487.9	588.3
Tax Revenue	322.3	381.1	417.4	517.9
Non – Tax Revenue	17.7	15.4	13.0	22.9
Appropriation in Aid	33.0	35.7	31.1	47.5
External Grants	15.5	25.4	18.1	31.2
Expenses	419.6	534.8	595.7	791.9
Recurrent Expenditure	339.2	403.4	435.5	536.4
Development Expenditure	80.4	131.5	160.2	255.4
Deficit on a commitment basis	-31.0	-77	-69.9	-172.3
Deficit on a commitment basis as a % GDP	-1.8	-4.5	-3.8	-6.8
Deficit on a cash basis as a % of GDP	-2.1	- 4.0	-5.0	-6.8

4.0: LEGAL FRAMEWORK AND INSTITUTIONAL STRUCTURE FOR EXTERNAL DEBT CONTRACTION

Legal Framework

Kenya currently has a new constitution that is meant to provide the legal framework for external loan contraction. However in its current form, it is not sufficient to lay out legal and institutional framework to guide the contraction process. Various pieces of legislation are yet to be tabled in parliament to provide procedures and frameworks for loan contraction.

In this current scenario, the government still relies on the old constitutional framework to operationalise loan contraction process. The External Loans and Credit Act
Cap 422 provides the Ministry of Finance with the authority to borrow externally to finance approved estimates and to provide to Parliament detailed reports including the parties involved, circumstances leading to the transaction, amount of transaction and currency, attendant terms and conditions and the credit to date. The Act limits the total sum of the external debt to Kshs 800bln and is silent on the issues of country's debt sustainability levels, or government revenues vis a vis debt servicing.

In the context of the implementation of the current constitution, it is important that key issues are addressed to carter for the gaps that existed in the old constitutional dispensation. The role of parliament within the loan contraction and debt management will have to be clearly defined within the new dispensation. The new constitution will also have to clearly define who should borrow on behalf of government and who may sign debt instruments on behalf of government. At the institutional level it will be important for the constitution to offer guidance with regard to foreign borrowing by counties and cities and municipalities. At the same time regulations on borrowing by public entities such parastatals their purpose for borrowing will have to be elaborated.

Institutional Framework

A Debt Management Division (DMD) was established in 1987 within the Fiscal and Monetary Affairs Department. However by 2001, the Division's core function had been reduced to recording of external debt and determining concessionality of external loan proposals through computation of the grant element as most of the well trained staff had left for better paying jobs.

The Division was upgraded to a department status in July 2002. Public debt management in Kenya over the years was characterized by weak institutional arrangements with debt functions spread across departments at the MoF and CBK. Besides DMD, the other departments/institutions involved in public debt management activities include;

External Resources Department (ERD): Sources for external finance, negotiates and contracts loans. It monitors disbursements of external loans and grants and, liaises closely with project coordinators in line ministries.
The Central Bank of Kenya: As a Banker to the Government, CBK effects payments to external creditors on specific instructions from the Treasury.

The Department of Government Investments and Public Enterprises (DGIPE): Facilitates on lending of donor funds to public enterprises. It also monitors and receives repayments by these enterprises on behalf of the Government.

The Attorney General's Office: Principal legal adviser to Government and is responsible for reviewing draft loan agreements to ensure conformity with the relevant legislation.

The ministry of finance has since created a debt management department. Debt Management is responsible for the management of Kenya Public debt. The department is currently being transformed into Debt management Office within the Ministry of Finance. Among the key objectives of the department are to develop debt policies that are consistent with macroeconomic policies and manage other sources of sovereign risk. The department has a front, middle and back offices which have different responsibilities with regard to debt management.

The Debt management department has three sections. The front office, the middle office and the back office. The front office is responsible for the primary issuance of external debt while the middle office conducts strategy and portfolio analysis and produces regular reports and statistics for the information of senior management and other stakeholders within and outside the treasury. The back office for external debt operations is set in the Accounting and Finance department and their main purpose is to process settlements. Because of the way the functions are structured within the ministry, debt recording is done in the Book-Entry system by the Primary Issues section (Front office).

Recording, Reporting and Dissemination of External Debt Information

A prerequisite for effective public debt management is the development and maintenance of a comprehensive accurate and reliable debt database. Kenya has in this regard installed software CS-DRMS 2000+ (Version 1.3) to facilitate among other things data capturing, accurate debt recording, analysis and reporting. Kenya remains one of the first few countries in the continent to use the software for debt management. It has been installed in the ministry of finance and the Central Bank of Kenya. The software among other things seeks to

Provide a convenient repository of both public and private sector debt

- Assist debt managers in undertaking detailed debt analysis
- Data Export links, that allow transfer of debt data to other systems such as Budget and Treasury (IFMIS) systems, third party Debt Sustainability Analysis software such as Debt Pro and the World Bank Debt Strategy Module (DSM+) as well as the World Bank's Data Reporting System (DRS)

It can be observed that through the application of this software there has been improvement in the quality in accuracy and reliability of debt statistics, timely payment of external debt obligations, Production of quality analytical reports and improved debt data sharing and dissemination to the public and other stakeholders.

Debt data and reports are circulated to senior management and other stakeholders within the Bank for input into other economic or market analysis and for policy decisions. These reports are produced and circulated on weekly, monthly, quarterly, annually and on ad hoc basis. Similar reports are submitted to Government departments and other stakeholders like market players and the International Monetary Fund.

The ministry has a website where it regularly publishes information on public debt. These include medium term debt management strategies, debt registers, and annual debt reports, quarterly bulletins. Additional information is also available from the government printer

While the measures taken by the government to disseminate information to the public is commendable, more efforts need to be towards simplification of information for public consumption. The current package seems too technical for the general public and is largely in English. Furthermore the country does not have universal access to internet, limiting access to information to those who only have internet.

From information front, the information is heavily statistical and does not offer any information with regard to the assessment to the impact of various loans taken by the government.

There seems to be coordination and some level of understanding between the agents interested in fiscal policy, debt management as can be

seen in the consistent application of the medium term debt strategy since 2009. The installation of the -DRMS 2000+ (Version 1.3) to facilitate among other things data capturing, accurate debt recording, analysis and reporting seem to facilitate closer collaboration between different agencies in the government responsible for both fiscal and monetary policies with regard to debt management.

While previously there was shortage of qualified staff in the debt department due to retention problem, the government has moved to consolidate the functions of the debt management department by among other things boosting and retaining the number of staff, strengthened the back office through Computerization of debt Payment Advice (PA) preparation through in-house developed system, Strengthened Back office payment and settlement operations. They have also moved to strengthen the front and middle office through their participation in the development of external borrowing strategy design and implementation, and

Debt Management Strategy

Kenya has no national debt management policy. In June 2009, the Debt Management Department (DMD) of the Ministry of Finance (MoF) prepared and published a formal debt management strategy, the *2009 MTDS* which outlined the Government targeted MTDS for the period 10-12. It has developed a medium term debt management strategy which captures both domestic and external debt aspects of the public debt.

The objective of the external borrowing strategy is to minimize costs by maximizing concessional borrowing. To achieve this, the Government contracts debt with grant element of more than 35 percent. However, the currency composition is determined by the lender and is subject to exchange rate gains and losses.

To institutionalize the production of a debt strategy, the publication of the MTDS is provided for in Section 4 of the proposed External Loans and Credits Regulations to be gazetted by the Minister for Finance.

Main Principles of Government Debt Management Strategy

1. The overall objective of Government debt management policy is to meet the Central Government's financing requirements at most optimal borrowing costs with a prudent degree of risk. It also aims at facilitating the Government's access to the financial markets as well as supporting development of a well functioning domestic financial market.

2. Consistent with the stated policy objectives, Government borrows externally on concessional terms. As a strategy for minimising borrowing costs, external loans must have a minimum grant element of 35 percent to be considered for borrowing.

3. The strategy of domestic debt issuance is reviewed on a continuous basis and agreed upon between the Treasury and CBK. To ensure transparency and credibility of Government debt policy, the annual net domestic borrowing target is announced in the Budget Speech each year in June.

4. The CBK issues Treasury bonds and Bills as determined by the Government's current revenue and expenditures. To meet temporary shortfalls in cash-flows, the Government may access the overdraft facility at the CBK up to the statutory set limit of 5 percent of the latest audited Government annual ordinary revenue.

5. The Government plans to issue project specific or infrastructure bonds to finance projects in the roads, water and energy sectors, all of which impact positively on the economy. It will also contribute to the deepening of the domestic financial markets.

6. In its continued efforts in restructuring domestic debt, the Government plans to address bond market fragmentation by implementing a well structured benchmark bond programme. This will be done through reopening benchmark bonds as well as consolidating small illiquid bonds or issues.

7. The Government may consider issuing a sovereign bond when global markets stabilize The rationale for the bond issuance include supplementing domestic savings with external resources, diversify funding sources and provide a benchmark for corporate borrowing.

8. The Government undertakes borrowing within limits set by Parliament. Under the External Loans and Credits Act (Cap 422), the limit set in January 2009 for external debt is Ksh 800 billion. Under the Guarantee Loans Act (Cap 461), the limit for all guaranteed loans set in 1993 is Ksh 80 billion. The domestic borrowing is contracted under the Internal Loans Act (Cap 420). The Central Bank of Kenya Act (Cap 491) provides for the Government overdraft at the CBK.

9. The Minister for Finance is empowered by law to mobilise resources on behalf of the Government. However, the Permanent Secretary, Treasury has the overall responsibility over the national debt management functions which are operationalized through the Debt Management Department. The Central Bank of Kenya borrows on behalf of the Government in the domestic market under an agency agreement.

10. An important element of Government debt management is to promote transparency in its operations. To this end, the Government publishes various reports in its efforts to disseminate information to the public on debt management operations. A wide range of information is currently published in the CBK's *Monthly Economic Review* and *Weekly Bulletin, MoFs Annual Public Debt Management Report, Monthly Debt Bulletin, Quarterly Budget Review, Budget Outlook Paper and Budget Strategy Paper* and in the *Annual Economic Survey* published by the Kenya National Bureau of Statistics. This information may also be downloaded from the respective websites.

The development of The Medium Term Debt Strategy (MTDS) has been in consultation with the central bank, IMF and the World Bank. It provides a logical framework for evaluating the proposed financing option for the Budget. It highlights the optimal risk / cost trade-off adopted within a medium term context. The strategy among other things seeks to guide government's borrowing decisions on the basis of cost and helps to identify, monitor and manage key financial risks in the debt portfolio to ensure that debt remains at sustainable levels while at the same time seeking to meet the Government's financing requirements at the lowest possible long term borrowing cost.

The strategy however does not seem to be anchored on any form of debt management policy, making it difficult to discern the written guiding framework for the choice of the strategy.

While it is commendable that the treasury has taken prudent step to manage external debt, the lack of a policy framework puts it at vulnerable position with regard to political influence with regard to external public borrowing. Relevant borrowing institutions including that of the office of the president could push the treasury to accept loans that may not be in line with its debt management strategy.

In light of the current constitutional dispensation, including those that cover the powers of counties to borrow through guarantees from the treasury, it will be important that a policy guide line is developed.

5.0: ROLES OF OTHER STAKEHOLDERS

Parliament

The old constitution limited the role of parliament with regard to the approval and authorisation of external loan borrowing. The Constitution did not put any obligation on the Minister to first seek parliamentary approval or conditions for contracting debt. The External Loans and Credit Act only provided that the Minister reports on outstanding amounts periodically to parliament.

Under the current scenario, the parliament can play an important role in debt management. Parliament should create relevant Acts to provide an institutional framework that promotes an inclusive and prudent public debt management. The Act should provide legal and institutional

framework for public debt ceiling, and debt sustainability, as well as the application of the Act at both central and county level with regard to borrowing, approval and signing of debt instruments.

Civil Society Organizations

Kenya appears to have a strong CSO group that can ably engage with issues of debt management. However they have been relegated to being consumers of statistics on public debt. Their input on policy documents including the medium terms debt management strategy is non existent. This is also true in the development of legal and institutional framework that is currently underway within the ministry of finance. CSOs have no role in the current debt management and loan contraction process.

CSOs have a role to play in the development of debt management policy, external resource mobilisation policy and medium term debt management strategy. This will be key in promoting national ownership of the documents as well as receiving alternative views that neither the government nor the international financial institutions have given their practical experience with policy impact at the grass root level.

CSOs could also play a key role in assessing the suitability of projects funded by external loans as well as assist with monitoring and evaluating of development impacts of various loan projects.

Closer collaboration with the government could also provide an impetus for resolving the currently stalled repayments of arrears of suspicious security based loans. CSOs could campaign for their total and unconditional cancellation.

International Financial Institutions

The international financial institutions including the World Bank and the international monetary fund have played an important role in providing technical assistance to the government to establish the debt management department. The fund and the bank were responsible for the debt management capacity assessment of the government and provided a loan of USD 1.5 million to establish the debt management office and strengthen the domestic market. The government has also benefited from the support of the macroeconomic and financial management institute for East and Southern Africa. Some of the areas these institutions have assisted the government with include

- Establishment of a comprehensive and reliable public debt database supported by an effective back office.
- Consolidation of debt management functions currently spread within MoF and CBK under one unit, the DMO.
- Capacity building
- Preparation of debt objectives and strategies to guide the operations of DMO.
- Develop a legal framework for public debt management.

While the initiatives the government has taken to strengthen its debt management system through the international financial institutions, it is important that the government takes the lead in ensuring the sustainability of the debt management reform process. In this regard, entrenching an internal capacity building program for the department, preparation of debt objectives and development of legal framework for public debt management should be internally driven through consultation with broad stakeholders from within rather than through technical assistance from the international financial institutions.

6.0: RECOMMENDATIONS

Strengthen the Legal and Regulatory Framework

There is a need for the government to strengthen the legal and the regulatory framework in order to enhance it transparency, accountability and inclusiveness of the domestic stakeholder.

A new legal framework needs to be instituted within the framework of the current constitutional dispensation. In this regard, the laws should define a framework for setting a ceiling on the country's foreign indebtedness as well as those for debt servicing. Also important would be to provide a new legal framework that would capture both central and county level with regard to borrowing, approval and signing of debt instruments.

The new legal framework should broaden the roles and responsibility of parliament in the acquisition and management of foreign debt. This must move beyond the current debriefing by the minister of finance. Parliament ought to be involved at the loan contraction process and the project monitoring and assessment of various loan projects.

At the same time it will be important for non state actors including CSOs to involve in debt management including loan assessment, policy formulation as well as monitoring and evaluation effectiveness of a loan project.

Above all is the need to strengthen the role of parliament in the process of debt management. Parliament ought to be given both infrastructural and human capital to facilitate its involvement on external debt management. In this regard, there should be a creation of a strong research office to support the work of various relevant committees including those of public investment committee and public accounts committee.

Develop an External Debt Management Policy

The current system and procedure though appearing to working, the study observes that they are not anchored within a policy framework which makes it difficult for other stakeholders to know government official policy focus. Furthermore it also fails to give the officers guidelines, formulas and methodologies officially agreed by the government as the framework of operation. This is likely to be abused and create confusing in scenarios where there is no consensus around the true state of affairs on domestic debt. The study therefore recommends that apart from the current formal document on medium term debt management strategy, the country develops and external debt management policy that should contain among other things, guidelines for acquisition of external debt, principles of debt management, formula and methodologies for thresholds and ceilings, relevant institutions for debt management with clear roles and responsibilities and other relevant aspects.

Debt Management must include Monitoring and Evaluation Process

Current external debt management strategy seems to be limited to the management of data with regard to inflows and outflows. A framework

for measuring the impact of every external debt is important if Kenyans are to get value for their money. The study recommends a multi stakeholder approach to monitoring and evaluating the impact of a loan. These should include parliament and civil society organisations.

References

Government of Kenya, Ministry of finance Management Department Annual Public Debt Management Report July 1996 – June 2005

Government of Kenya, ministry of finance Debt Management Department Annual Public Debt Management Report July 2005 – June 2006

Government of Kenya, Central Bank of Kenya Annual Report of the Central Bank of Kenya for the Fiscal Year 2008 / 09

Government of Kenya, Central Bank of Kenya Annual Report of the Central Bank of Kenya for the Fiscal Year 2009 / 10

Third World Debt a Continuing Legacy of Colonialism, South Centre, Bulletin 85, August 2004