THE POLITICS OF PUBLIC ENTERPRISE PRIVATIZATION: THE ROLE OF CLIENTELISM WITH SPECIAL REFERENCE TO KENYA

BY

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DECLARATION

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DEDICATION

This thesis is dedicated to my parents Mr. and Mrs. C.N. Mwangi, whose love and respect for education made me understand the value of education.

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ABSTRACT

Privatization of public enterprises is increasingly becoming a topical issue in many developed and developing countries. Privatization in many developing countries, has been initiated as a donor conditionality for various socio-political and economic reasons. Kenya is one such country that has adopted this privatization strategy. However, the process of implementing the privatization of public enterprises has been rather slow.

The central purpose of this study therefore, is to investigate the factors accounting for the slowness on the part of the government in implementing the privatization of public enterprises. The major proposition forwarded is that, clientelism plays a role in affecting privatization of public enterprises. In other words, there is a relationship between clientelism and the privatization of public enterprises. Using clientelism, in particular the patron-client approach as a conceptual framework for analysis, it has been pointed out first and foremost that clientelism affects privatization of public enterprises in developing countries. Drawing examples from various developing countries of Asia, Latin America and Africa, it has been demonstrated that there is a relationship between

clientelism and privatization, with regard to political patronage gains and losses. Where political patrons perceive political patronage losses accruing from the privatization of certain public enterprises, then their governments are not willing to privatize such public enterprises. Where political patrons perceive no such losses, then their governments are willing to privatize such public enterprises.

With regard to Kenya, it is demonstrated that through clientelism, public enterprises are used for political patronage purposes. Through clientelism, political patrons in Kenya have been able to gain direct and indirect access to public enterprise patronage resources, which are thereafter dispensed to clients in return for political support. Political patrons use public enterprise resources to reward or punish clients, in return for political support. Public enterprises are therefore sources of political power for political patrons. It is in this context that those political patrons responsible for the implementation of privatization, especially the politicians and political bureaucrats, are unwilling to facilitate the implementation of privatization for they perceive major political patronage losses accruing from privatization, which will subsequently affect their political power. This is particularly so for those public enterprises that command vast resources of political patronage. Hence, the unwillingness or lack of political commitment on the part of the government to privatize such public enterprises.

The minor proposition forwarded in this study is that profit performance of an enterprise also affects its privatization. Though the theoretical proposition is that governments are not willing to privatize those public enterprises that make a profit, as profit is an important source of revenue, it has nevertheless been demonstrated that in Kenya, the emphasis by the government is to privatize those public enterprises that make profit.

In this regard, it has been recommended that a State Corporations Services Commission be established to reduce political interference in the appointment of public enterprise chief executives. With reference to the privatization process, it has been recommended that a "non political" privatization committee, legal measures, compensation schemes and an enabling political environment be established to minimise political interference and facilitate a transparent process.

LIST OF ABBREVIATIONS

ADC	Agricultural Development Corporation
AFC	Agricultural Finance Corporation
AVA	Associated Vehicle Assemblers
BCCI	Bank of Credit and Commerce International
CAP	Campaniâ de Acero del Pacificio
CBK	Coffee Board of Kenya
CMA	Capital Markets Authority
CORDE	Corporation Dominicana de Empresas Estates
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICDC	Industrial and Commercial Development Corporation
IDB	Industrial Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
KANU	Kenya African National Union
KBC	Kenya Broadcasting Corporation
KCB	Kenya Commercial Bank
KIE	Kenya Industrial Estate
KPA	Kenya Ports Authority
KPTC	Kenya Posts and Telecommunications Corporation
KR	Kenya Railways
KTDC	Kenya Tourist Development Corporation
KTN	Kenya Television Network

NCPB	National Cereals and Produce Board
NSSF	National Social Security Fund
PAC	Parastatal Advisory Committee
PRPC	Parastatal Reform Programme Committee
SAL	Structural Adjustment Lending
SONY	South Nyanza Sugar Company
TSC	Teachers Service Commission
UK	United Kingdom
USA	United States of America
USAID	United States Agency for International Development
ZIMCO	Zambia Indurstiral Mining Company

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CHAPTER ONE

INTRODUCTION

1.1 FOCUS OF STUDY

Africa's economic crisis since the late 1960s has continued to worsen. This crisis has many dimensions. It is a crisis of stagnant or declining production, a crisis in internal and external economic balance, an agricultural crisis and institutional crisis (Berg, 1986: 44). As such, many African countries continue to adopt measures aimed at improving the situation.

Such strategies include those of structural adjustment. Structural adjustment refers to steps taken to make a country's public and private sector organizations more productive for the effective management of the economy in order to contribute positively to the country's development goals. These are also steps taken to bring domestic policies more in line with world prices, trade patterns and investment opportunities. These are reforms worked out by borrowing countries and the World Bank (IBRD), the International Monetary Fund (IMF), and in some instances other bilateral or multilateral agencies. The lending agency normally specifies conditions which are to be met as integral parts of the loan agreement.

Privatization of public enterprises is one such type of structural adjustment programme strategy. Public enterprises are wholly owned or partially owned government organizations. They are established for the purpose of engaging in commercial and non commercial activities. They may be thus set up for both profit and non-profit purposes. Public enterprises are supposed to represent the government's active participation in the economy. However the profit performance of public enterprises in developing countries is and continues to be pathetic. This has resulted in loss-making loan defaultment and continued indebtness, raising doubts about their economic efficiency to generate surplus capital for developing countries.

It is due to this general poor profit performance and continued indebtness, that multilateral financial and aid-giving agencies have recommended privatization as a panacea for improving the efficiency and hence profitability of public enterprises. It is assumed that, if privatized, the enterprises will yield a higher return on capital invested and will thus accelerate economic progress. Privatization of public enterprises may take the following forms: complete divestiture, partial divestiture, contracting out and partial privatization. This study deals with complete divestiture, that is, the complete transfer of an enterprise from the public to the private sector.

Kenya has embarked on a program of structural adjustment of its economy. The privatization of public enterprises is part of that strategy. Since 1980, efforts have been underway to implement certain changes necessary to adjust the economy to the realities of donor assistance and the world economy. The government in its Sessional Paper No.4 of 1982 on Development and Policies, declared its commitment to structural adjustment of the economy.

Privatization of public enterprises in Kenya was first recommended in 1979. The Committee on Review of Statutory Boards appointed in 1979 recommended that those public enterprises which had outlived their usefulness be abolished. However, privatization of public enterprises was essentially initiated as a donor conditionality type of structural adjustment programme. In compliance with donor conditionality, the Working Party on Government Expenditures appointed in 1982, also recommended privatization of public enterprises as a way of reducing some government investments. The committee pointed out in its report that it was a matter of high priority for the government to work out a viable programme for divesting itself of some of its enterprises to Kenyan investors who were prepared to take entreprenuerial risks in pursuit of the profits that could be earned. A Diverstiture Advisory Committee was also appointed by the President in the same year, whose terms of reference included advising the government on which of the public enterprises to privatize. This privatization policy became embraced as one of the long-term development strategies in the Fifth Development Plan of 1984/88.

However, almost a decade since privatization was recommended, the privatization process has hardly began. Despite donor conditionality and policy declaration by the government regarding privatization by December 1990 no operationally intact enterprise had been completely sold off. Instead, the government has continued to issue certain statements and to make policies which seem to contradict the privatization policy.

In its Policy Framework Paper for 1990-1992, the government declared its intention to strengthen the economic efficiency and financial performance of public enterprises by placing more emphasis on restructuring the enterprises rather than selling them. In the same year, 1990, the government also announced that ailing public enterprises would not be sold but instead, would be revamped through injection of private sector equity. The government also announced that public enterprises would go back to the direct supervision of their parent ministries for more effective management. A year later, in 1991, the government announced that it would now privatize what it considered non-strategic public enterprises, and retain those it considered as strategic.

The question then becomes: Why this half-hearted commitment to privatization of public enterprises? It would seem that there are certain factors that affect the privatization of public enterprises.

This study will examine certain socio-political and economic factors and attempt to establish how and why they affect privatization of public enterprises in Kenya.

1.2 OBJECTIVES OF STUDY

The main objective of this study is to examine the role of clientelism in as far as it affects privatization of public enterprises in Kenya. By affects we mean, how it facilitates and inhibits the implementation of privatization.

.1 SPECIFIC OBJECTIVES

1.2.1(a) To examine the nature of relationship(s) between public enterprise, political patronage resources and the privatization of public enterprises.

1.2.1(b) To examine the nature of relationship(s) between financial performance of public enterprises and their privatization.

JUSTIFICATION AND SIGNIFICANCE OF STUDY

Several reasons can be offered as justification of this study. These can be grouped into two types: the policy justification and the academic justification.

Policy justifications are those sought to demonstrate the policy importance of the study. These are justifications that point out the contribution of the study to policy planners and subsequently towards national policy issues. Academic justifications are those that point out the academic importance of the study. These are those justifications that point out the importance of the study in contributing additional and new knowledge to scholarship.

Certain social, economic and political factors exist in developing countries which obstruct policy reform. These factors are also to be found in Kenya. The factors which affect policy reform and implementation also affect the privatization of public enterprises. An analysis of the socio-political and economic factors that affect the privatization of public enterprises would thus provide policy makers with important information pertaining to identifying clearly, who the likely actors, beneficiaries and losers of privatization would be. It would also identify the risks associated with privatization, especially with regard to the provision of social services, control and allocation of resources and employment among others. It would thus provide policy makers with information regarding the socio-political consequences of privatization _viz-a-viz_ the indigenous population and the public sector.

The study at the same time is expected to provide new insights into the problems facing public enterprises in Kenya. Among other things, the study hopes to propose solutions to problems that hinge upon the strengthening of institutions which will be capable of defending resultant changes that may arise from the implementation of privatization. The knowledge generated will thus serve other source of reference to policy makers, when formulating and implementing similar policies related to public enterprise reform strategies and structural adjustment.

The study is also of academic significance in that it will add new knowledge to an area where relatively little literature exists, namely on privatization of public enterprises in Kenya. In particular, little literature exists on the socio-political dimension of privatization of public enterprises and other structural adjustments programmes. This study hopes to contribute knowledge on the socio-political dimension of structural adjustment programmes. The study of structural adjustment programmes is becoming increasingly important in the discipline of political science. The study also hopes to identify new research areas on the privatization of public enterprises in Kenya.

4 SCOPE AND LIMIT OF STUDY

The privatization of public enterprises in developed and developing countries is increasingly becoming a topical issue. Multilateral financial and aid giving agencies are increasingly urging developing countries especially to privatize their public enterprises. A study covering many developing countries would be an interesting venture. However, due to time constraints, unavailability of funds and manageability, this study has covered only one country, namely Kenya.

As noted earlier, privatization of public enterprises may take many forms. This study deals with complete divestiture. Complete divestiture is the complete sale of an operationally intact public enterprise. This particular form of privatization of public enterprises was chosen primarily because this was the form originally and still preferred by the Government of Kenya and many developing countries.

1.5 THEORETICAL FRAMEWORK

Various conflicting approaches and theories of development exist. This is due to the fact that development studies continue to be of academic and public importance. In this study, we shall adopt the patron - clientelism approach derived from modernization theory to describe, analyse, explain and predict the role of clientelism, in as far as it affects public enterprise privatization. It will however be necessary to first and foremost examine some other development theories so as to justify why this particular approach has been adopted.

The dependency theory, which emerged in the late 1960s has its roots in the Latin American historical experience. According to Theotonio Dos Santos, dependency means a situation in which the economies of certain countries are conditioned by the development and expansion of another economy to which the former is subjected (Dos Santos, 1970: 231-6). Its central premise is that it is impossible to comprehend the process and problems of development in developing countries, without treating this within the wider socio-historical context of the expansion of Western European mercantile and industrial capitalism and the colonization of the developing countries by these advanced economies. It attempts to link rural poverty and underdevelopment to historical forces, world capitalism, North-South trade and surplus extraction (Claude Ake, 1981: 162). According to this theory, development is thus best understood as a long-term historical process. This theory while useful in explaining historical and other macro-development phenomena is perhaps itself too macro in nature to explain the the kind of phenomena this study seeks to investigate. It, for example, gives little attention to the role of clientelism in politics and the development process.

Relatedly is the underdevelopment theory, which points out that the condition of underdevelopment is best explained in terms of international capitalism environment. According to scholars such as Paul Baran (1957), Walter Rodney (1989), Richard C. Bath and Dilmus D. James (1976), Colin Leys (1976) and Andre Gunder Frank (1972), the condition of underdevelopment is produced when the dominant economies of industrialized capitalist countries, expand and maintain self-sustaining growth while the dependent economies of the non-industrial countries can only expand and grow as a reflection of the expansion of the former. Underdevelopment is a product of capitalist-imperialist and colonial exploitation. The theory traces both the short and long-term effects of this unequal relationship which characterises both the colonial and post colonial periods. These include the extraction of surplus from the peripheral countries for use in the metropolitan countries, and also the emergence of new social strata or classes engaged in production, as a result of common elite interests between those in the metropolitan countries and peripheral countries (William Tordoff, 1985: 21-2). The theory thus offers a rational explanation to the continuing predicament of underdevelopment. This theory is not useful to explain the kind of phenomenon this study seeks to investigate as it lays too much emphasis on the cause and effects of underdevelopment, which is not our primary interest.

The modernization theory from which we derive clientelism, is based on the assumption that social, economic and political development follows an evolutionary process towards its final goal, which is modern society, as it exists today in the industrialized societies. Traditional peasant dominated societies are considered "not modern". They are thus unable to progress at the speed required to reach modern society. According to scholars such as David Apter (1967), Samuel H. Huntington (1968), W.W. Rostow (1971) among others, this theory assumes that the initial spark and support for change must come from outside traditional society, that is from the industrialized countries. This will stimulate the creation of a modern sector. The modern sector will then support the traditional sector, whose economy will be promoted through an active resource distribution policy of the government, hence allowing for proper participation in the development process (Helmut Schmidt, 1989: 17). As modernization occurs, so does the development of many new organizations, be they economic, social or political. This in turn facilitates the establishment of clientelism, as such organizations may command many new resources. While this theory is useful for this study as it pays attention to the role of public and private institutions in the development process, as well as factors affecting policy formulation and implementation for purposes of this study, we shall derive an aspect of modernization that is clientelism, from which we adopt a framework.

1.5.1 Clientelism

The concept of clientelism according to various scholars, denotes an interpersonal relationship. Rene Lemarchand (1977), James C. Scott (1977), Richard Sanbdrook (1982), Vicky Randall and Robin Theobald

(1986) have argued that, although there is ambiguity in the meaning given to the term, clientelism denotes an interpersonal relationship. Rene Lemarchand and Keith Legg for example, view clientelism as "a more or less personalized relationship between actors, (i.e patrons and clients) or sets of actors, commanding unequal wealth, status or influence based on conditional loyalties and involving mutually beneficial transactions" (Lemarchand, 1977: 100). James C. Scott also argues that clientelism may be seen as "a special form of exchange relationship between individuals, one relatively more powerful than the other, which serves as the basis for networks" (Scott, 1977: 487). Scholars such as Vicky Randall and Robin Theobald also view clientelism as a relationship which involves an exchange between a superior patron or patron group and an inferior client or client group, whereas to Richard Sandbrook clientelism refers to a form of interpersonal relationship (Randall and Theobald, 1986: 52; Sandbrook, 1982: 195). From these definitions, we can deduce that clientelism is a form of interpersonal relationship between unequal actors. In this study therefore, clientelism shall refer to an asymmetrical or unequal interpersonal relationship between individuals or groups of individuals, that is patrons and clients based on loyalties and reciprocities.

Clientelism as a relationship involves three basic features. Scholars such as Alex Weingrod (1968), J.D. Powell (1970), Rene Lemarchand (1977), Njuguna Ng'ethe (1979) and Richard Sandbrook (1982) argue that, it is firstly a relationship between two persons unequal in status, wealth, power and influence. The superior person of such a relationship is called a patron, whereas the inferior person is called client. Secondly, the formation and maintenance of such a relationship depends upon reciprocity in the exchange of goods and services, which are ususally non-comparable. The patron offers material assistance to his client, while the client normally reciprocates with less tangible resources such as deference, esteem, loyalty or political support. Thirdly, the development and maintenance of the relationship is also based upon face to face contact between the two parties.

Clientelistic relationships are of varying degrees of complexity and magnitude. There are certain terms used to denote such varying degrees. These are: patron-client link; patron-client cluster; patron-client pyramid and patron-client networks. In order to understand clientelism more fully, it is necessary to examine in turn the meaning of these terms.

A patron-client link is a vertical dyadic relationship between two persons of unequal status, wealth, power or influence. A dyadic relationship in the social science sense refers to a direct relationship involving some form of interaction between two individuals. The key word in this definition is direct, as it connotes personal attachment. As pointed out earlier, the superior member of such a relationship is called a patron, whereas the inferior member is his client. A patron-client link is therefore a micro-level entity (Carl Lande, 1977: xiii). A patron-client cluster is an enlargement of the basic patron-client link. The cluster refers structures in which many clients directly attach themselves to one patron. A patron-client pyramid is a further enlargement of a patron-client cluster. A patron-client pyramid is said to be formed when a patron-client cluster is enlarged, but still focuses on one person and his vertical links. This is simply a vertical extension downward of the cluster in which linkages are introduced beyond the first order. Patron-client clusters and pyramids are combinations consisting of sets of dyadic relationships linked together for limited purposes of time. Patron-client networks on the other hand, refer to the overall pattern of patron-client linkages, joining actors in any given area, community or socio-political system (Scott, 1977: 128; Ng'ethe, 1979: 147-8).

Although clientelism was originally developed by anthropologists for the study of informal small group interactions, it has become increasingly useful in political science as a tool of analysis. Clientelism has become useful in the study of peasant politics and in the study of political patronage as a feature of government. The two major models or types normally used are patron-clientelism and party-directed clientelism. Party-directed clientelism refers to the way in which political parties seek to secure and hold office for their leaders, and distribute resources for those who work and vote for them (Weingrod, 1968: 379-384). This form of clientelism exists where competitive party politics or multipartyism exists. In many developing countries such as those of Africa, competitive party politics is non-existent, or only in the process of restoration. Rene Lemarchand has argued that this form of clientelism existed in many African countries during the immediate period following independence when competitive party politics existed

(Lemarchand, 1977: 108). However, following the erosion of competitive party politics, this form of clientelism ceased to exist. Certain scholars such as Scott (1977) have therefore argued that the party-directed clientelism model is not relevant for the study of many developing countries as they are characterized by non-competitive or non-electoral politics. This model will be relevant at a time when competitive party politics or multipartyism in developing countries is fully restored. This model is not suitable for one party political systems and as such is not suitable as a tool of analysis for our study. This is because our study basically deals with a period when Kenya was a one party state. The sole political party was the Kenya African National Union (KANU). We therefore adopt patron-clientelism. The role and significance of a clientelism shall be discussed more fully in Chapter Two.

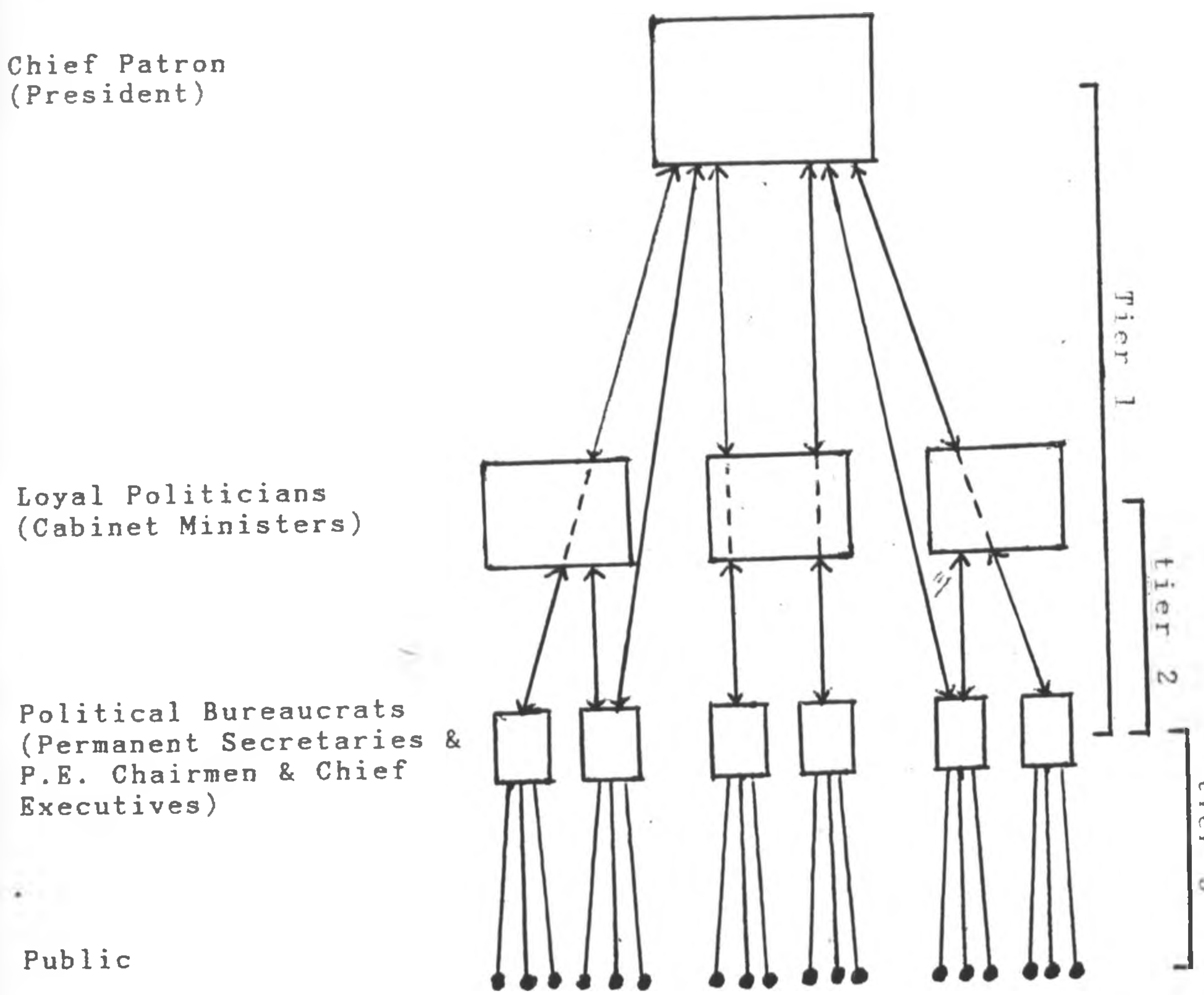
1.5.2 Clientelism and Public Enterprise Privatization

The fact that many scholars such as Lemarchand (1977), Scott (1977) and Ng'ethe (1979) have emphasized that clientelism is best suited in the analysis of politics at the micro-level, they have nevertheless argued that clientelism can be applied to analyse the macro aspects of a political system. This, as Ng'ethe points out, is by focussing on patron-client pyramids and applying such macro-level entities to the macro aspects of a political system. Ng'ethe argues that a patron-client pyramid is formed when leaders of various patron-client clusters themselves establish clientele bonds with higher status polical actors (Ngethe, 1979:147-8).

We will make use of a patron-client pyramid and apply it to the macro aspects of the political system. We shall therefore propose to construct a patron-client pyramid, which describes and explains the structure of clientelism in the public enterprise sector in Kenya. This will also help us describe, analyse and explain the role of clientelism in as far as it affects privatization, that is the relationship between clientelism and public enterprise privatization.

Our patron-client pyramid shall consist of three tiers as illustrated in Figure 1.1 pp. 20.

Figure 1.1: The Structure of Clientelism in the Public Enterprise Sector in Kenya



Though a detailed examination of the structure of clientelism, that is the level of clientelistic linkages and how they occur and operate in Kenya will be made later in Chapter Four, it is important at this point also to briefly explain the patron-client pyramid above. At the apex, is the President of the republic who is the chief patron. The President as the head of the government, awards governement ministries and their key posts to loyal politicians and bureaucrats respectively. The key ministries and the resources of patronage they command, are normally awarded to those loyal politicians who have demonstrated their ability to mobilize their regions or ethnic groups in support of the government and the President. Cabinet ministers are appointed by the President. Permanent secretaries are also appointed by the President, whereas public enterprises chairmen are also appointed by the President. Public enterprise chief executives are appointed by the relevant ministers and are thus indirect appointees of the President. Cabinet ministers are thus clients of the President, whereas public enterprise chairmen may also serve as clients of the President. Cabinet ministers on the other hand, are patrons of these political bureaucrats, especially the chief executives. On the other hand, the political bureaucrats, in particular the public enterprise chairmen and chief executives may also serve as patrons of small segment of the general public. The role of permanent secretraries with regard to clientelism and privatization shall be examined later in relation to policy formulation and implementation. Tier 1 therefore consists of the President and his cluster, tier 2, consists of ministers and their clusters, whereas tier 3 consists of public enterprise managers, that is chairmen and chief executives and their clusters.

Clientelism is useful in this study as it will first and foremost explain the way in which public enterprises are used for political patronage purposes. It is also useful in that it will analyze and explain the role of clientelism in as far as it affects the implementation of privatization. By this we mean that, clientelism will explain how and why political patrons and clients may facilitate or inhibit the implementation of privatization with due regard to the benefits or losses that may accrue from privatization and how such benefits and losses will in turn affect them. Clientelism thus explains why political patrons may implement or oppose privatization if it will positively or negatively affect their political power, and why clients may demand or oppose privatization if it will positively or negatively affect their livelihood. Studies on privatization conducted in Asian and Latin American countries point out that, clientelism has played a role in the implementation of privatization. Where patrons and clients have viewed benefits accruing from privatizations, then privatization has been implemented. Where patrons and clients have viewed losses accruing from privatization, then there has been inapposite or resistance to privatization. The relationship between clientelism and privatization is examined more fully in Chapter Two.

1.6 OPERATIONALIZATION OF TERMS

Clientelism

Clientelism shall refer to an asymmetrical or unequal interpersonal relationship between individuals, that is political patrons and clients, based on loyalties and reciprocities. Patrons are the superior members of such a relationship, whereas the inferior members are their clients. In our case, as we are dealing with a patron-client pyramid, the patron shall be the leader of each cluster, whereas the clients shall be the members of the cluster. Thus in our case, the chief patron is the President. Other patrons include cabinet ministers or political bureaucrats, depending on each particular patron-client cluster or situation. The clients are cabinet ministers or political bureaucrats, again depending on each particular situation.

Political Patronage

Political patronage shall refer to the distribution of public enterprise resources by political patrons to their clients, through clientelism in return for political support or services. By public enterprise patronage resources, we are referring to employment opportunities, both at the managerial and lower levels, credit facilities such as loans offered by public enterprises, contracts and commissions which may accrue from procurement methods and large scale investment programmes, licensing and welfare services offered by public enterprises. By political support or services, we mean any form of tangible service that is geared towards containing and suppressing political dissent or any physical demonstrations of political loyalty, such as economic support, joining political factions, loyalty pledges, acts of espionage, etc.

Political Power

Power is the ability to do something through the use of positive and negative sanctions. Political power therefore shall refer to the ability to acquire and maintain political office, through the use of positive or negative political sanctions. By positive political sanctions we mean rewarding clients using political resources. By negative political sanctions we mean punishing clients using political resources.

Public Enterprise

A public enterprise shall refer to any organization that is wholly owned by the government or in which the government has a controlling interest. It also refers to any organization in which a wholly owned government enterprise has a controlling interest. By controlling interest we mean that, the government or a wholly owned government enterprise holds at least 51 per cent shares of that organization. It is an organization established to conduct commercial or non-commercial activities and as such it is set upon for profit or non-profit purposes.

Public Enterprise Privatization

Privatization refers to the transfer of an activity or organization from the public to the private sector. Public enterprise privatization shall therefore refer to the complete transfer of an enterprise from the public to the private sector or to private interests

1.7 HYPOTHESES

Two hypotheses, a major and a minor one, have been formulated to guide this enquiry. The major hypothesis shall be:

1.7.1 The greater the amount of political patronage resources possessed by a public enterprise the less the willingness of the government to privatize it.

The minor hypothesis shall be:

1.7.2 The greater the profit performance of a public enterprise, the less the willingness of the government to privatize it.

1.8 METHODOLOGY OF RESEARCH

1.8.1 Data Collection

In carrying out the investigations, this study will employ documentary research. Use will be made of Government documents, such as Auditor General Reports, Committee Reports, Economic Surveys, Sessional Papers, Statistical Abstracts and Policy Papers. Public enterprise documents such as annual account reports will also be used. Use will also be made of various multilateral financial and aid giving agencies including research organizations documents, such as discussion papers, staff working papers, policy papers and technical papers. Other sources will include academic journals in the social sciences, magazines, books and news papers.

1.8.2 Data Analysis

In analysing the data, the patterns of relationships between the variables under investigation are examined and the findings are subsequently interpreted to asses their effect on privatization.

The data analysis involves a combination of the descriptive, historical and analytical method. The descriptive and the historical analyse the phenomena on the basis of present and past experiences respectively. Emphasis, however, is on the analytical method or approach which examines the cause and effect relationships. The aim here is to explain causal relationship between variables so as to draw causal inferences or conclusions.

1.9 CHAPTER LAYOUT

Chapter One introduces us to the problem under investigation and as such the main focus of this study. The research objectives, justification and significance of this study are also stated. An analysis of the theoretical framework to be adopted has also been carried out. Two hypotheses, a major and minor one have also been presented. This chapter also examines the methodology of research used.

Chapter Two carries a review of literature. This is an extensive review of literature on the research issues raised in this study. The literature reviewed covers the role and significance of clientelism, clientelism and public enterprises, structural adjustment and privatization, objectives and methods of privatization an the relationships between clientelism and privatization. This is mainly an issue-oriented chapter, as several theoretical issues are raised.

Chapter Three deals with public enterprises and privatization in the developing countries. This chapter first and foremost examines how and why public enterprises are used for political patronage purposes.

The chapter then examines in detail, privatization experiences, with regard to clientelism. Arguments are thus raised as to the factors that affect privatization.

Chapter Four deals with a general survey of public enterprises in Kenya. The chapter begins by examining the role of public enterprises in the development process. The chapter then examines how and why public enterprises are used for political patronage purposes. As such, the chapter anticipates which types of public enterprises are good candidates for privatization.

Chapter Five deals with clientelism and privatization experiences in Kenya. The privatization policy and strategies are examined. It also examines the socio-political and economic implications, risks or consequences associated with privatization with regard to clientelism.

Chapter Six contains the summary, conclusion and recommendations. In this chapter the general issues and arguments are once again raised and the hypotheses are examined, validated or even disapproved. This chapter gives recommendations to policy planners on the public enterprise and privatization problem. The chapter also indicates possible further research areas for researchers and scholars interested in privatization.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter is divided into four sections. The first section examines the literature regarding the role and significance of clientelism and patronage. For emphasis and purpose of this study, we have made an attempt to differentiate between clientelism and political patronage. These have then been examined in relation to the quest for augmenting political power.

The second section examines the literature on the relationship between clientelism and public enterprises. The section examines how and why public enterprises are used for political patronage purposes. The section therefore examines how political patrons distribute or allocate public enterprise resources to their clients, in return for political support.

The third section outlines the literature on certain aspects of privatization. These include structural adjustment and privatization, objectives of privatization and methods of privatization. The purpose of this section is to help us understand more fully, privatization.

The fourth section examines the literature as regards the relationship between clientelism and public enterprise privatization. The role of clientelism in as far as it affects privatization is examined. The section therefore deals with the problem under investigation. By reviewing literature, several issues regarding the relationship between clientelism and public enterprise privatization will have thus been raised.

2.1 CLIENTELISM AND POLITICAL PATRONAGE

The terms clientelism and political patronage have often been used synonymously by various scholars. However, for purposes of this study and emphasis, we have attempted to differentiate the meaning of the two terms. In the preceding chapter, we defined clientelism as an asymmetrical or unequal interpersonal relationship between individuals or groups of individuals, that is patrons and clients, based on loyalties and reciprocities. Political patronage on the other hand was defined as the way in which political patrons allocate or distribute political resources or favours to their clients in exchange for political support. Thus, clientelism may be said to refer to a relationship or relationships, whereas political patronage is a system. Political patronage is thus founded or based on clientelism. Clientelism can therefore be used to describe and explain the structure and function of political patronage. In this section, we shall elaborate further on the meaning and political significance of both these terms.

The term patronage is frequently and widely used in social sciences, particularly in anthropological and political science analysis. The meaning given to the term, is usually ambiguous as it designates quite different situations. Nevertheless, there are certain similarities in the definitions given by various scholars in the field of anthropology and political science. In the anthropological usage, scholars such as Jeremy Boissevan (1966), Adrian Mayer (1966), George Foster (1961), Eric Wolf (1966) and Julian Pitt-Rivers (1954) among others, point out that patronage refers to the way in which persons of unequal status, yet linked together through bonds of interest and friendship manipulate their relationships in order to attain their ends. To the anthropologists, therefore, the unequality aspects of social relations are also important (Weingrod, 1968: 380). In the political science sense, scholars such as F. Sorauf (1961), V.O. Key (1964), Weingrod (1968), Theodore J. Lowi (1972), James C. Scott (1977), Rene Lemarchand (1977), among others, argue that patronage refers to the way in which politicians or political leaders seek to turn public institutions and resources to their own ends and how favours of various kinds are exchanged for various political services. Such scholars, however, argue that political patronage exists where competitive or semi-competitive party politics exists, as favours are usually exchanged for votes. Nevertheless, political patronage can exist in situations where competitive or semi-competitive party politics or electoral competition is non existent or subject to manipulation. Scholars such as Goran Hyden (1985), and Vicky Randall and Robin Theobald (1986) emphasize that political patronage may exist in situations where electoral competition is non-existent as political favours may be exchanged purely for political services such as espionage, militia activities, economic support, etc. These political services are aimed at destroying or containing any political dissent.

Political patrons assemble clients on the basis of their ability to assist them. The resource base political patrons have at their disposal may vary widely. Scott has argued that, one useful basis for distinguishing such resources is the directness with which they are controlled. He further argues that patrons in this sense may rely firstly on their own knowledge and skills, secondly on direct control of personal real property, and thirdly, on indirect control of public property, authority or office based property. In this latter sense which we are particularly interested in, patrons build a clientele on the strength of their freedom to dispense rewards placed in their trust by some third party or parties. These include, for example, office holders whose discretionary powers over employment, promotion, assistance, welfare, licensing and other scarce values which can serve as the basis of a network of personally obligated followers. Scott points out that politicians and administrators who exploit their office this way to reward clients while violating the formal norms of public conduct, are of course acting corruptly (Scott, 1977: 129). The resource base of clients, on the other hand, Scott further argues include labour services, economic support, military or fighting duties and political services. Political services include both electoral and non-electoral political services (Scott, 1977: 130).

Through clientelism, political patronage may thus help keep an authoritarian regime in power. Clientelism in the modern African state, is politically significant as it not only facilitates political patronage, but may in the wider context facilitate national integration. Lemarchand has argued that, clientelism may contribute to the process of national integration in three ways. Firstly, since clientelism is a device through which the demands of patrons are channeled into the political system and converted into policy outputs in return for political support, it may lead to consensus formation at the national level. Secondly, clientelism creates reciprocities among otherwise unrelated ethnic groups. This may help reduce the saliency of ethnic loyalties. Thirdly, through the vertical links it creates among hierarchically distinct groups and communities, clientelism may supply the critical link between the rulers and the ruled. This may help bridge the gap between the elite and the masses (Lemarchand, 1977:102-3). However, it is important and worthwhile to note that clientelism may not necessarily lead to national integration. It may also lead to ethnic fragmentation and class formation. Richard Sandbrook has argued that depending upon the situation in a particular country or region, clientelism may reinforce or impair ethnic identities as well as weaken or occasionally strenthen the process of class formation. Sandbrook asserts that if patron client networks are confined within ethnic categories, then this linkages will tend to enhance ethnic identities and loyalties. However, if these networks link the politically relevant members of various ethnic groups, on the other hand, then the overall effect will probably be to augment national integration. Clientelism may contribute to class

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formation through unequal exchanges, thus fostering social differentiation (Sandrook, 1982: 196).

As Sorauf (1961) and Peter G. Richards (1963) argue, political patronage is best thought of as an incentive system, that is, a political currency with which to purchase political activity and political responses. As such, political patronage is of great importance as it is a major force which may help keep a regime in power (Sorauf, 1960: 309; Richards, 1963:16).

2.2 CLIENTELISM AND PUBLIC ENTERPRISES

In many developing countries, public enterprises are sources of political patronage as they constitute patron-client networks. In this section, we shall examine how public enterprises, through clientelism are used as sources of political patronage, as they provide many political patronage resources and opportunities.

We shall focus mainly on public enterprise employment opportunities, provision of credit and welfare services, large scale investment programmes, procurement polices and methods and also interventionist policies.

The starting point of analysing clientelism and public enterprises is first and foremost to exmaine how public enterprises come about to constitute patron-client networks within the macro aspects of a political system. In other words, how clientelism or links are established between political leaders and public enterprise officials, especially the top level management. In many developing countries, public enterprise managers, in particular chairmen and chief executives are appointed by the president or relevant minister, as laid down by statutes governing appointment procedures of top or key managerial posts. Public enterprise managers are thus usually political appointees and as such, serve as clients of political leaders who are their political patrons. Once such clientelistic links or relationships are established, political leaders or politicians, as political patrons, normally have direct and indirect access to desired public enterprise patronage resources or opportunities. Public enterprises resources are thus used by political patrons to purchase political activity or support from clients. It is in this sense that we focus our literature review on clientelism and public enterprises.

Various scholars such as Hyden (1985), William Tordoff (1986), David Heald (1990) and Jeffery Herbst (1990) have argued that in many developing countries, public enterprises are a good source of political patronage as they provide employment opportunities. This normally operates at two levels. Firstly, there are the few key or top managerial posts in which, as pointed out earlier, appointments are normally made by politicians as stipulated in the various statutes. Secondly, there are the mass employment opportunities at the lower levels which are usually for unskilled labour. Employment regulations for the lower cadre in the public enterprise sector is normally less strict than the civil service. Heald has pointed out that as such, it is usually the case that a good number of these employees are hired on the basis of their ethnic or political lineage without necessary regard for genuine manpower requirements (Heald, 1990: 6). The ethnic and political group of such employees is usually that of the immediate political patron as well as the chief patron.

Through clientelism, public enterprises can be used for the development of a "crony capitalism" and hence contribute to the process of class formation. By "crony capitalism" we mean a group or class of persons formed on the basis of mutual or intimate political and economic interests. These are normally public enterprise managers, who as politcal patronage appointees also have mutual political and economic interests with politicians or political leaders (Heald, 1990: 5-6; M.A. Ayub and S.O. Hegstad, 1987: 88). As pointed out earlier, clientelism can contribute to the process of class formation in that a patron's greater bargaining power foster social differentiation through unequal exchanges. Therefore, classes are normally formed at the higher levels of patronage.

With regard to the impact on public enterprise performance, particularly profit performance such political appontees tend to have a negative effect. As John B. Heath argues, where political and ethnic lineage is the basis of appointment for public enterprise managers at the expense of merit considerations, public enterprise may be lacking in business acumen and as such, may not have a sound understanding of business, management roles and the ability to motivate subordinates (John B. Heath, 1985: 112). W.N. Wamalwa arguing along the same lines adds that, in many cases, the prime interest of such appointees are normally the material benefits of office (Wamalwa, 1985:118-119). Lack of business acumen coupled with personal interests on the part of such managers tends to result in negative financial rates of return.

Public enterprises that offer credit facilities to members of the public or organizations in general are also sources of political patronage. Credit facilities such as loans, grants, insurance schemes, seasonal crop credit schemes, among others provide patronage opportunities for political patrons. Scholars such as

Goran Hyden (1986), Colin Leys (1976) and Barbara Grosh (1988) have argued that in many developing countries, especially those of Africa, political leaders as patrons through clientelism are able to offer such credit facilities to clients in return for political support. Such credit facilities or services are normally given to targeted groups such as small and large scale farmers, small and large businessmen who are usually clients of such political patrons. Cabinet ministers as clients of the chief patron who is usually the president and as patrons of public enterprise managers, are able to secure large loans

from these public enterprises in order to build their political and economic base. Hyden points out that in many instances, public enterprise managers as political appointees are expected to toe the political line and as such, readily succumb to political pressure to offer such loans or credit services (Hyden, 1985: 101). Leys has also argued that public enterprise managers as patrons of segments of the general public, provide credit facilities or services to members of the public on the basis of political or ethnic lineage (Leys, 1976: 150 - 159).

This too, has had a negative impact on the financial performance of such enterprises usually due to loan defaultment. In many cases, poor clients who are normally political beneficiaries of such loans are unable to pay back these loans. Legal action cannot be taken against them as this would be seen as harassment which is also politically sensitive. The rich clients on the other hand, normally politicians, do not pay back these loans, not because they are unable to do so but because they enjoy protection. As such, many such public enterprises have written off loans given to various members of public as bad loans. This has resulted in a general state of loss-making. In Kenya, for example, the issue of loan defaultment by clients is well documented in various reports of the Auditor General of State Corporations.

Related to the issue of provision of credit facilities or services, is the provision of social or welfare services. Certain public enterprises provide certain services such as communication, education, health, electricity, marketing, transportation at subsidised rates to members of the public. According to Yash Ghai, it is the basic responsibility of the government to secure the public interest. By public interest, Ghai means a policy leading to equitable income distribution and redistribution, equitable or balanced regional development, subsidization of prices to assist consumers, among others (Ghai, 1981: 71).

This is based on the assumption as Peter Wanyande argues that, if the government has the welfare of all its citizens at heart irrespective of their place of origin (Wanyande, 1981: 94-95). However, such services also provide patronage opportunities for political patrons. Political leaders as patrons have been able to make use of public enterprises that provide such services to reward or punish clients. Scholars such as Ghai (1985), George Philip (1985), Moses Kiggundu (1989), Jeffery Herbst (1990), among others have argued that political patrons may provide such services to a targeted clientele in particular regions where members of their ethnic group reside or where members are considered politically loyal to the political leaders. In regions where members are considered disloyal or a threat to the political leadership, political patrons may apply political pressure to such public enterprises to reduce or withdraw such services as a form of punishment. According to L.A. Whitehead, this is a common practice in Mexican politics where the allocative criteria for such services, is based on political loyalty and the maintenance of social control (Whitehead, 1980:843-864). This normally has a negative effect on public enterprise profit performance as political considerations in the provision of such services, usually override economic considerations.

Public enterprise procurement methods and large scale investment programmes also provide patronage opportunities. Procurement methods such as contracts for the supply, construction and maintenance of public enterprise equipment and facilities provides patronage opportunities. Various scholars, among them William Glade (1991) and W.N. Wamalwa (1985) have argued that such contracts are usually awarded on the basis of ethnic or political consideration. This is normally done through clientelism. Major contracts are awarded to senior politicians, usually the cabinet ministers as they serve as clients of the president. Small contracts may be awarded to public enterprise managers who serve as clients of ministers, whereas the very minor contracts, may be awarded to certain individuals or groups of individuals who normally serve as clients of public enterprise managers. The ability to affect large scale investment programme is also a source of power for politicians or political leaders who have control over public enterprises as they normally receive commissions from those parties concerned before approving such large scale investment programmes. Herbst has pointed out that this is a common practice in African countries such as Sierra Leone (Herbst, 1990: 954).

Through their interventionist policies, public enterprises provide patronage opportunities. John Ravenhill argues that, interventionist policies such as licensing, provide opportunities for political patronage (Ravenhill, 1986: 11). Through clientelism, political patrons may provide specific licenses or permits for specific purposes to certain clients in return for political services. Such clients are usually selected on the basis of ethnic and political considerations. Political patrons on the other hand may withdraw, terminate or deny such licenses or permits to certain groups or segments of the general public who do not or refuse to toe the political line. It is in this regard, Scott argues, that those politicians and administrators who act this way are of course acting corruptly (Scott, 1977: 129).

Ravenhill has also argued that, public enterprises in Africa especially the agricultural marketing enterprises have on occasion been used for patronage purposes. He continues to assert that agricultural public enterprises are used as a means of extracting surplus from export agriculture, as it remains the most viable short-term means of generating a surplus which can be used for economic diversification (Ravenhill, 1986: 11-12). Financial resources generated this way, may be used for diversified purposes such as the payment of public sector salaries and wages, to prevent any dire political consequences which may be expected to arise from non-payment.

Clientelism also facilitates the use of public enterprises for other latent political objectives. Such objectives include the use of public enterprise financial resources for personal and political purposes. Hyden for example has argued that, in countries where government revenue from income tax is limited, direct income from public enterprises has been looked upon as an important ingredient for various personal and political purposes (Hyden, 1985: 99). Public enterprise managers are able to misappropriate public funds and channel such funds to their political patrons for personal, political or factional purposes (Ghai, 1985: 64-68). These funds or resources are normally used to build the economic and political base of political leaders. In the process, public enterprise managers are able to misappropriate funds as they enjoy political protection against the exactions of the relevant authorities. As Heath points out, in many developing countries, personal relationships between public enterprise managers and the ruler of the country are often very close and understanding. As such, public enterprise managers can manipulate matters to their own advantage as the relevant law enforcing or legal authorities may be powerless to intervene (Heath, 1985: 112).

Excessive political interference facilitated by clientelism has led to the poor performance of public enterprises in many developing countries. This in turn has led to a worldwide outcry and consequently a search for appropriate policy alternatives and strategies that will improve the performance of these enterprises. The alternatives cover a wide range and variety of issues. However, in this study we are interested in only one policy alternative namely, privatization. This policy option has recently received wide attention as part of the World Bank (IBRD) and International Monetary Fund (IMF) structural adjustment measures which have been prescribed to developing countries in recent years.

2.3 STRUCTURAL ADJUSTMENT AND PRIVATIZATION

Privatization is increasingly becoming a topical issue all over the world. Much attention is being given to privatization, not only in the narrow context of public enterprise reform, but also in the wider context of private sector development.

As privatization strategies continue to be an issue of serious academic, professional and public debate, so does the meaning of privatization.

privatization has come to assume different meanings to different scholars, organizations and countries. E.S. Savas, for example, has pointed out that although the term privatize was coined in 1948, it did not appear in a dictionary until 1983 and as such, it is often misunderstood. To Savas, privatization broadly means relying more on the private sector and less on the government to satisfy people's needs (Savas, 1990: 4). Seiji Naya defines privatization as 'a process within the overall strategy of enterprise reforms and private sector development' (Naya, 1990: 65). This definition associates privatization with the wider context of enterprise reform and private sector development. Heald on the other hand has argued that the term privatization has become predictably a problem because sometimes it is taken to mean in the narrow context divestiture, whereas at other times, it covers a wider range of initiatives such as contracting out, leasing, liberalization, among others (Heald, 1990:4). Kiggundu gives a more detailed definition of privatization. Kiggundu defines privatization as 'a comprehensive economic, social and political strategy designed to increase competitive market forces and to reduce or eliminate market imperfections by reducing the role of the state and increasing that of the private sector in the ownership control and management of the economy's productive resources' (Kiggundu, 1989: 270). However, a simple and precise definition and from which we adopt our definition for purposes of this study is that given by the United States Agency for International Development (USAID). USAID defines privatization as the 'transfer of a function, acitivity or organization from the public to the private sector' and '... it brings together policy reforms, institutional development and utilization of the private sector (USAID, 1986: 2).

Privatization policies and strategies are part of structural adjustment. Structural adjustment in general refers to steps taken to bring domestic economic institutions and policies more in line with world trends in such areas as prices and investment opportunities. Structural adjustment specifically refers to reforms worked out by borrowing countries with the World Bank (IBRD) and the International Monetary Fund (IMF), their client organizations and other bilateral and multilateral aid-giving agencies. The World Bank has a specific loan programme called Structural Adjustment Lending (SAL). The IMF engages in short-term lending and medium term extended fund facility lending. In both these loan programmes which have similar objectives of reform, the lending agency usually specifies "conditions" which are to be met as integral parts of the loan agreement (Walter Hecox, 1988: 191).

According to Kiggundu, the common elements of structural adjustment programmes include: a clear redefinition of the core responsibilities of the state in the management of the economy; public service reforms to improve national and sectoral economic management; improved management of public sector organizations, programmes and projects; enhanced active participation in international trade; the reduction of the indigenous private sector; improving human resource development and utilization in both the formal and informal sectors and; assessing the role, structure and performance of public enterprises for improved management or privatization. A careful observation of all these programmes reveals that they are geared towards improving the efficiency of the public sector and enhancing the development of the private sector.

2.3.1 OBJECTIVES OF PRIVATIZATION

Privatization has several socio-political and economic objectives. Each country, therefore, selects its own privatization objectives. This depends on what it wants to achieve as well as its level of development.

2.3.1.1 <u>Socio-Political</u>

Privatization is intimately linked with the process of creating a civil society. Various scholars, among them Dennis A. Rondinelli (1987), Kiggundu (1989), Savas (1990) and Naya (1990) have argued that the socio-political objectives of privatization are related to the need for more democratization of the political process under a free enterprise economic and political system. By transfering activities and organizations from the public to the private sector, privatization tends to create diverse centres of power. There is thus a division of power between the state and other institutions. A highly centralized government not only destroys democracy, but is also cumbersome and wasteful as it is not subject to efficient competition. As Savas argues, an interventionist government, that absorbs a large fraction of a country's gross national product, may pose a serious threat to individual liberty and this may interfere with the fundamental rights and freedom of the individual. Savas therefore argues that, privatization may be used to reduce the size, scope and role of the state, hence eventually leading to limited government (Savas, 1990:6).

By transfering activities and organizations from the public to private sector, privatization may contribute to the process of institution building. Rondinelli, John R. Nellis and G. Shabbir Cheema have argued that, privatization can contribute to the process of institution building. By distributing and redistributing equitably income, wealth and opportunities in a country, privatization may encourage participatory development. It is assumed that this will empower people and strengthen institutions such as families, churches, voluntary associations, co-operatives, political parties, etc. which in turn will not only safeguard development, but also democracy (Rondinelli, Nellis and Cheema, 1984: 23).

Decentralising power and empowering other institutions within the state to perform certain functions or activities enhances individual and collective human rights and freedoms. Kiggundu and Naya argue that, privatization creates opportunities for the enhancement of property rights, through ownership transfer, whereas liberty is also founded on the division of power between the state and other institutions. Individuals may thus have the right or choice to formulate common needs without undue reliance on the government (Kiggundu, 1989: 271; Naya, 1990:66). Savas adds that the process of formulating common needs and working through local institutions to satisfy their needs will also reinforce a much needed sense of community (Savas, 1990: 6).

2.3.1.2 Economic

The economic objectives of privatization can be summed up under three sub-headings namely: fostering competition; reducing budget deficits and public debts and; increasing public sector efficiency and productivity.

The first objective, that is fostering competition, can be achieved through the implementation of various liberalization measures. Such measures include among others, the removal of monopolies, the removal or reduction of trade barriers and controls. This will create an economic environment conducive to investment and as such, encourage industrial development and foreign investment, hence fostering competition (Naya, 1990: 67-68). Kiggundu has also argued that transfering the country's productive resources from the public to the private sector, will foster competition between the public and private sector organizations as this increases competitive market prices and reduces market imperfections created by an interventionist government (Kigggundu, 1990:271).

The second objective of privatization is to increase public sector efficiency and productivity. Many public sector organizations in developing countries are inefficient and unprofitable. This can be attributed to a number of factors such as inefficient managers, financial indiscipline, overstaffing, low staff morale and motivation, among others. Naya has argued that privatization can increase efficiency and productivity of public sector organizations such as public enterprises as they will be expected to run like commercial entities, with cost minimization and profit maximization as the main objectives. This will entail measures such as removing inefficient managers, reducing the number of employees, instilling financial discipline, etc (Naya, 1990: 67-69).

The third objective of privatization is to reduce budget deficits and public debts. According to Heald, privatization may eliminate the government's legal obligation to continue bailing out or subsidzing loss-making enterprises as they would no longer be government entities. This in turn may eliminate claims on the budget, as there would be a reduction on budgetary subventions, which are normally used to offset unplanned losses of public enterprises (Heald, 1990: 8). From proceeds of sale, government may reduce budgetary deficits, public debts or financial expenses through receipt of immediate or promise of future cash income or foreign exchange (Kiggundu, 1989: 271).

The relationship between clientelism and privatization can be viewed from different or various perspectives. However, before we examine this relationship, it is necessry to examine methods of privatization in order to help us understand privatization more fully.

2.3.2 METHODS OF PRIVATIZATION

Privatization can be achieved through several options. These can be grouped under two broad and common methods which are; complete divestiture and partial divestiture.

2.3.2.1 Complete Divestiture

Complete divestiture is the complete transfer of an enterprise from the public to the private sector or private interests. The public enterprise may be sold operationally intact to private interests or it may also be wound up and its assets or equity liquidated. The complete sale involves several options. Shares may be sold to employees through employee stock ownership plans. The sale may also involve leveraged buyouts. Leveraged buyouts are arrangements whereby the new buyer raises money from a third party, who also takes some equity in the new firm. The enterprise can be disposed of through floatation of shares, placing through financial institutions tendering system and auctioning (Kiggundu, 1989: 272; Naya, 1990: 73).

2.3.2.2 Partial Divestiture

Partial divestiture is the partial transfer or sale of a public enterprise to the private sector or private interests. This involves several options. These include joint ventures, contracting out, leasing, franchising, among others.

Joint ventures are whereby the host government enters a joint venture with either private domestic or international investors. The government retains only a minority equity position and allows control to pass on to private hands. The enterprise then operates as a private entity. In contracting out, the government retains the enterprise while it contracts out certain functions to the private sector through a tendering system. The private sector then performs the work according to the government's specifications. The functions of the enterprise may also be divided into purely private and public functions. The public functions are retained by the government, whereas the private functions are contracted out or sold to private interests. For example, a marketing board may loose the monoploy of buying, collecting, storage and processing of a commodity, but retain export and international marketing functions. The government may also sell off the unprofitable subsidiaries of a public enterprise, for example a public airline that owns hotels, tour operations and travel agencies (Kiggundu, 1989: 272-274; Savas, 1990: 5).

Leasing involves a process whereby a government may wish to discontinue operations of an enterprise and lease out its assets to the private sector on the basis of competitive bidding for a specified period of time. The private sector operator pays rent on the leased assets and may enjoy an option to buy the assets when the lease comes to an end. Thus, the government can avoid using assets it might have acquired in the past but currently finds too expensive or difficult to operate (Naya, 1990: 75).

Franchising is also an option of partial divestiture. In this case, when an economic activity involves increasing returns to scale and may lead to monopoly if allowed to operate unhindered, the government may choose to offer up regulatory agencies to determine and monitor prices. In this case, the government refrains from direct production of the good or service, uses the private sector to do the necessary operations and regulates the market to ensure the consumer's well being (Naya, 1990: 74).

According to Kiggundu, complete divestiture is the preferred approach by multilateral and bilateral donor agencies as it relieves the host government of the burden of unproductive assets, eliminates the need for subsidies and incentives for loss-making public enterprises and also reduces the role of the state in the economy, hence contributing to greater market allocation of resources (Kiggundu, 1989: 272).

2.4 CLIENTELISM AND PUBLIC ENTERPRISE PRIVATIZATION

Clientelism may facilitate and inhibit the implementation of privatization in many ways. In this section, we shall examine the role of clientelism in as far as it facilitates and inhibits the implementation of privatization.

Scholars, such as Tony Killick and S. Commander (1988), Paul Cook and Martin Minogue (1990) and Heald (1990) have argued, that in developing countries one of the motives behind the implementation of privatization is also the desire to promote a 'crony capitalism'. This class is formed as result of irregular deals emanating from lack of transparency in privatizations. Public enterprises are normally sold to individuals, groups of individuals or companies, who are clients of those political patrons who are not only responsible for the implementation of privatization, but who are also in political leadership. As such, Killick and Commander argue, the chief beneficiaries of such privatization deals, which lack transparency are the friends, relatives and members of the ruling group (Killick and Commander, 1988: 1472-3). The irregular sale of public enterprises, to particular clients of certain political patrons, due to lack of transparency has been a common ocurrence in certain Latin American countries, where privatization is already well under way. (William Glade, 1991: 4-17)

The development of a 'crony capitalism' through privatization, may further entrench clientelism. As these public enterprises are sold to clients of particular political patrons, new sources of resource distibution as private entities are created. This also opens new opportunities for patronage. This in turn creates further patron-client clusters in the private sector, which are incorporated within the overall patron-client network operating at the marco aspects of the political system. The incorporation and solidification of such new patron-client clusters with the overall patron-client network is likely to augment the political power of the political leadership. This is because a strong political leadership is also based on the backing of a strong economic class.

Related to the desire to develop or promote a 'crony captalism', which in turn will support the political leadership, is the desire to harmonize interests between the public and private sectors in a country, for purpose of political stability. Scholars such as Oscar Humberto Vera Ferrer (1991) and Naya (1990) have argued that where disharmony of interest exists, between the political class and the economic class in the public and private sector respectively, that is the politicians and bussinessmen, privatization may create or restore harmony. In such situations businessmen have usually demanded privatization, so as to reduce the role of the government in the economy (Ferrer, 1991: 52-6, Naya 1990: 76-7). The harmony of interests created between politicians and businessmen, in the public and private sectors respectivity develops through clientelism. This clientelism is based on a symbiotic relationship between these sectors. The political class offers protection to the economic class, in return for political support. Therefore where there is need to develop an alliance between several patron-client clusters that exist within the private and public sectors so as to form a major patron-client pyramid, then the implementation of privatization may be carried out. The pyramiding of such patron-client clusters is likely also to augment the political power of the political leadership, as political stability is also founded on the existence of harmony between the private and public sectors.

Where certain public enterprises do not constitute any or important patron-client networks, privatization is likely to be implemented. Such public enterprises are those that operate in highly competitive markets, with limited patronage resources and are normally loss making. These are likely to be candidates for privatization. This is because the transfer of such public enterprises to the private sector very likely to affect clientelictic linkages, as they may be non existent in the first place or they may not be of much importance to the overall patron-client networks. This of course as noted above, is due to the possibility that they may have little or few patronage resources or opportunities. Moreover the sale of such enterprises may be used as a political campaign or strategy, to prove the government's commitment towards the privatization process for public sector efficiency. This strategy has been adopted in certain countries such as Mexico (Ferrer, 1991: 45). Thus where governments want to demonstrate that they are committed to more democratization of the political process under a free enterprise economic and political systems, such governments may privatize those public enterprises that do not constitute part of patron-client networks. This may not affect the political power of the political leadership or governments, as such public enterprises in themselves are not sources of power.

However where public enterprises constitute patron-client networks, and where such patronage benefits or resources are high then the political will or committment to implement privatization may lack or it may be low. Clientelism then becomes an inhibiting factor. Several Scholars, such as Kiggundu (1989), Cook and Minogue (1990) and Glade (1991) argue that where privatization is likely to inflict loss to patronage benefits or resources, there will be opposition and resistance from certain quarters of the legistative and executive branches of government to the implementation of privatization. As pointed out ealier in the chapter, politicans normally as patrons, and public enterprise bureaucrats as their clients, are the main beneficiaries of public enterprises patronage resources. As such they are likely to be the major losers in the event of privatization. Kiggundu has emphasized that privatization is likely to inflict heavy losses on the powerful stakeholders, as they may lose direct access and control over patronage resources (Kiggundu, 1989: 276-7). Loss of patronage resources, is viewed as loss of power. Cook and Minogue have therefore argued that, resistance is likely to be strong, costly or more effective in preventing policy changes in developing countries where public enterprises often constitute patron-client networks which lead directly into the political and bureaucratic elite groups responsible for policy reforms (Cook and Minogue 1990: 399). Glade and Naya, who have compiled data from Latin American and Asian countries respectivity point out that in some of these countries, those politicians and bureaucrats who have been the main beneficiares of patronage benefits or resources have had a direct interest in opposing and resisting the implementation of privatization (Glade, 1991 p.121; Naya, 1990: 76)

We can therefore argue, that where political patronage benefits, opportunities or resources are at stake, politicians and public enterprises bureaucrats who constitute such patron-client networks and are also responible for the implementation of privatization are likely to oppose or resist implementation. This is particularly so for those public enterprises where political patronage resources are high, for example the large public enterprises, those that enjoy monopoly power and those that enjoy high financial rates of return, that is the profit-making enterprises. Bureaucratic reisitance is facilitated by the fact that such bureaucrats are normally clients of those political patrons who are also involved in the privatization process, be it at the formulation or implementation stage.

The issue of employment losses in the event of privatization has been of great concern to many governments in developing countries. According to Yacob Haile-Mariam and Berhanu Mengistu (1988) and Heald (1990), privatization can result in many employees losing their jobs, both at the managerial and lower levels. Heald argues that in many instances, public enterprises in developing countries are overstaffed. This, Heald further argues, is a function of political patronage. Overstaffing in turn negatively affects the financial performances of public enterprises as labour costs are too high. In an effort, therefore, to return these enterprises to efficiency and profitability, new owners may lay off the unnecesary employees. The idea, of course, is to minimize costs and maximize profits. Thus inefficient managers and the uneccessary unskilled labour, would be laid off (Heald, 1990: 5). The impact may be negative as the hardest hit are the unskilled youth in urban areas, which are the most prone areas to political violence. Union resistance and political opposition by political patrons is therefore likely to interfere with the privatization process (Kiggundu, 1989: 277). In developing countries, where political patrons are likely to lose political support from clients due to empolyment losses and where inefficient or unqualified public enterprises managers as political appointees stand to lose their jobs, the likely trend will be resistance. This has occured in several African, Asian and Latin American countries (Stephen Obrien, 1992: 5; Naya 1990: 74-6; Glade, 1991: 1-17). It is also important to note that this problem, is not only confined to developing countries. In some developed countries these has also been some interference in the implementation of privatization from managers who view the process as a threat to their jobs. Rogerio L.F. Werneck has pointed out that in Britain the public enterprises management have played a crucial role in resisting the implementation of privatization due to fear of dismissals (Werneck, 1991: 70). Resistance is likely to be stronger in one party regimes, where political survival of the leadership is more paramount than the economic performance of institutions or the performance of the economy in general.

Opposition against privatization is not only confined to political patrons, their clients or unions. Opposition may emanate from political factions or groups which normally oppose the political leadership or government in power. In countries where political pluralism or competitive party politics exits, such factions or groups are normally political parties, interest or pressure groups, professional associations etc. Such political factions or groups will oppose privatization on the basis of its economic or political rationality, in an effort to provide checks and balances and safeguard the interests of all concerned.

These political factions and groups also ensure that there is transparency and accountability in the privatization process. Indeed in certain countries in Asia and Latin America, such factions and groups have ensured the reversal of irregular privatization deals, by exposing such deals (Jose Pinera and William Glade, 1991: 33-4; Heald, 1990: 10-13).

In developing countries, characterized by political monolithism, such as the single party states or miltary regimes, such political factions may also exist within the overall patron client networks. These political factions which normally develop out of horizontal dyadic ties between two or more patrons of comparable standing who have made an alliance may oppose certain policy reforms such as privatization. This may be the case where privatization is likey to affect the members of such a faction. For example, if public enterprises earmarked or selected for privatization fall only within certain factional systems or alliances, that is such public enterprises constitute patron client clusters of such factions, then such a faction is likely to oppose privatization as it stands to lose patronage benefits or resources. Moreover, where such political factions compete with one another for political power or to be as close as possible to the chief patron, the privatization process is.likely to be marred as no faction will be willing to give up its public enterprises. This is evident in countries such as Kenya, where various ministries give contradictory statements regarding the privatization of public enterprises that fall under their respective ministries (Daily Nation, Sept. 6, 1990: 28). Therefore, whether a country is characterised by political monolithism or pluralism, factions will emerge, which will oppose or resist the implementation of privatization.

Relatedly is the problem of fear or feeling of insecurity which may arise in case of an ethnic, or religious domination of the economy. Where governments fear that privazation may result in enhancing the economic political power of certain ethnic, racial or religious groups, such governments may interfere with the privatization process. Scholars such as Uma Lele and Robert E. Christiansen (1989) Haile-Mariam and Mengistu (1988) and Kiggundu (1989) have argued that in the event of open and fair privatization, enterprises are likely to be purchased by those ethnic, racial or religious groups that are more enterprising and as such have the necessary capital at their disposal. What political leaders and governments normally fear, is that this domination of the economy by one ethnic, racial or religious group, would constitute an economic and political power and as such would also be an economic and political threat, to the incumbent political leadership. This would be the case, where no harmony of interests exists between such groups or where such groups are in constant struggle for political power.

Therefore where clientelism, enhances ethnic racial or religious identities, that is patron-client networks are confined within such groups, political patrons together with their clients, the public enterprise bureaucrats or managers are likely to interfere with the implementation of privatization so as to prevent rival ethnic, racial or religious groups from acquiring these enterprise. Moreover, where the political leadership, through its clients is in direct control of certain public enterprises that direclty affect the livehood of a rival ethnic, racial or religious groups, for example a marketing board that controls the major agricultural commodity produced by the rival group, then the implementation of privatization is unlikely as such public enterprises are sources of political power. Such public enterprises can be used to exert obedience from rival groups, through the use of positive or negative sanctions. However, if such rival ethnic racial or religion groups decide to toe the political line, then privatization will likely occur, allowing such groups to purchase the enterprise. This in turn may establish clientelistic links between such groups and may also augur well for national integration.

Example of such enterprising groups normally given include the Kikuyu, Chagga and Asians in East Africa, the Ibo and Lebanese in West Africa and the Chinese in South-East Asia (Uma Lele and Christiansen, 1989: 6; Kiggundu, 1989: 227).

As discussed earlier in the chapter, those public enterprises that offer social or welfare services at subsidized rates are an important source of political patronage, for political patrons are able to make use of such public enterprises and offer a targeted clientele such services in return for political support. However, in the event of privatization as argued by scholars such as Gerhard Eckert (1985) and Haile-Mariam and Mengistu (1988), such subsidized services would be discontinued. As such, enterprises would no longer be government entities, they would also no longer be subidized by the government. New owners would place economic considerations such as profit making before socio-political considerations such as public interest. Therefore, subsidized prices initially targeted for poor clientele are likely to escalate. This coupled with layoffs may lead to political discontentment with the political leadership and may eventually lead to political disorder. Such public enterprises are therefore likely to be retained not only for political patronage purposes, but also due to the fact that it is the prime responsibility or traditional function of government is to provide such services to its citizens as a whole.

Last but not least, legal issues may also affect the implementation of privatization. Where an inadequate legal framework exists to facilitate the implementation of privatization, this may be an inhibiting factor. According to Naya, many developing countries are handicapped by rigid and confusing laws that discourage private sector participation in investment. Naya has argued that, where there is no clear cut commitment to property rights, privatization may not work. Where uncertainty surrounds the future of enterprises for sale due to property rights, the private sector may be discouraged from buying and running these enterprises (Naya, 1990: 78). The

World Bank has also argued that, in those developing countries that followed a socialist development philosophy or strategy, laws have to be passed defining property rights, legalising private ownership, establishing guidelines for articles of incorporation and protecting minority shareholder interests. These are necessary if the legality of private purchase of a company is to be established (World Bank, 1991: 143). Javier A. Gonzalez Fraga who gives the example of privatization in Argentina argues that an inadequate legal framework for privatization purpose is a function of unwillingness of the legislature to amend and enact laws that may facilitate privatization (Fraga, 1990:87-89. The legislature may not be willing to amend or enact laws that may facilitate privatization as some of its members are patronage beneficiaries or political patrons of public enterprises and may thus not want to see such enterprises transferred to the private sector.

2.5 SUMMARY AND CONCLUSION

This chapter has reviewed literature on the role and significance of clientelism, the relationship between clientelism and public enterprises, aspects of privatization and finally the relationship between clientelism and privatization. Several theoretical issues have thus been raised.

On the role and significance of clientelism, it has been observed that clientelism may enhance either ethnic loyalties, class fromation or national integration, depending on each particular situation.

It has also been pointed out that clientelism normally augments the political power of political patrons or leaders and the welfare of their clients. This is by facilitating political patronage. On clientelism and public enterprise, many scholars have argued that public enterprises are used for political patronage purposes to augment the political power of political patrons or leaders.

On the relationship between clientelism and privatization which is the central focus of this study, several theoretical propositions have been advanced. These revolve around the benefits and losses that may accrue from privatization. Where clientelism enhances class formation and ethnic loyalties to augment the political power of political patrons, through lack of transparency or irregular privatization deals, then privatization will be implemented. Where privatization is likely to bring about or restore a harmony or symbiotic relationship between the public and private sector, then privatization is likely to be implemented. The political class will thus provide security to the economic class in return for political and economic support. The most likely candidates for privatization are those public enterprises that command few or no political patronage resources. Such public enterprises are those that are normally small in size or those that operate in highly competitive markets. The privatization of such enterprises is likely to inflict no major losses to political patrons and their clients and as such, may not affect the political power of such political patrons or leaders. Moreover, the privatization of such public enterprise may be used by political leaders and governments as a political campaign strategy to demonstrate their commitment to the implementation of adjustment programmes and greater democratization of the political process.

However, where patrons and clients view or perceive major losses, especially of political patronage resources accruing from privatization, then privatization is likely to affect the political power of patrons. Thus, where political disorder is perceived emanating from clients due to losses inflicted on them such as jobs, welfare services, among others, then privatization is less likely to be implemented. The perceived losses from privatization by clients may warrant them to withdraw or reduce their political support for their political patrons as such patrons may be identified with the implementation of the particular privatization or the entire privatization process in general. This, in turn is likely to affect the political power of political patrons or leaders.

It has also been argued that, where clientelism or clientelistic relationships are likely to weaken or break due to factional opposition against privatization, privatization is less likely to be implemetned. Factional demand for or oppostion against privatization will emanate from perceived benefits or losses respectively. Thus, where certain factions view privatization as bringing about losses to their members and thus consequently threatening the maintenance of clientelism, then privatization is less likely to be implemented. Where major losses are also perceived, both patrons and their clients through the executive and legislative branches of government are less likely to amend or enact laws that may facilitate the smooth implementation of privatization.

In the foregoing review of literature, as pointed out, several scholars examine privatization with regard to clientelism in various countries. However, relatively little literature exists regarding the relationship between clientelism and privatization of public enterprises in Kenya. This study intends to fill this gap by examining the relationship between clientelism and privatization of public enterprises in Kenya particularly in the context of benefits and losses, especially political patronage resources and subsequently political power of the political leadership. Hence we intend to examine the role of clientelism in as far as it affects privatization of public enterprises in Kenya.

CHAPTER THREE

CLIENTELISM AND PRIVATIZATION OF PUBLIC ENTERPRISES IN DEVELOPING COUNTRIES

3.0 INTRODUCTION

This chapter attempts to demonstrate how clientelism has affected the implementation of privatization in various developing countries.

The first part of the chapter examines how and why public enterprises in developing countries are used for patronage purposes. It is argued that political patrons use clientelistic relationships to gain access to public enterprise resources for political patronage purposes. The aim of such political patrons is to augment their political power.

The second part of the chapter examines privatization experiences in developing countries. In it we demonstrate that despite the aggressive campaign by the donor community for developing countries to implement privatization, the pace of privatization in such countries is rather slow.

The third part of the chapter then examines and explains the relationship between clientelism and privatization in developing countries. The role of clientelism is examined in as far as it affects privatization, within the context of the political patronage benefits or gains and losses that may accrue from privatization and which subsequently affect the political power of political patrons.

3.1 CLIENTELISM AND PUBLIC ENTERPRISES

In many of the developing countries of Africa, Asia and Latin America, public enterprises play a significant role in modernization. The desire by these countries to facilitate the process of modernization led to the rapid proliferation of public enterprises which were of a great variety and scope. Public enterprises are thus found in all sectors of the economies of these countries such as agriculture, banking, basic services, commerce, construction, industry, tourism, transportation, among others.

In many countries in Africa, M.J. Balogun has argued, the impetus for development was supplied by public enterprises. Public enterprises were established mainly in the agricultural, basic services, commercial and industrial sectors (Balogun, 1985: 87).

The desire by many African governments to rapidly transform traditional subsistence agriculture into modern commercial agriculture led to the establishment of public enterprises such as large scale plantation companies, marketing boards, etc. The assumption was that modern commercial agriculture as practised in the developed countries, would overcome the stagnation linked with traditional low input, low output methods (Pradip K. Ghosh, 1984: 83). With regard to the commercial and industrial sectors, Peter Anyang Nyong'o argues that the state also established public enterprises to guide the process of industrialization. Set up in particular, were import-substitution industries (Anyang Nyong'o, 1988: 30-33).

Developing countries in Asia also followed a similar pattern. According to Naya, the rapid proliferation of public enterprises in Asian countries from 1960 onwards was the result of the desire by governments to mobilize savings, develop large scale industries, create and preserve employment. Moreover, there was ~~was~~ the need by these countries to control the commanding heights of their economies, redistribute income and wealth as well as to correct regional and ethnic imbalances. (Naya, 1990: 53-54). In Latin America, public enterprises were established as early as the 1930s to cope with the Great Depression. Later, the need to fashion more industrialized economies, leading to greater public sector involvement in industrial, commercial and financial undertaking led to a further proliferation of public enterprises. (Glade, 1991: 2-4).

The proliferation of such organizations, in developing countries opened new possibilities of patronage as there is need to control and administer the new resources created. It is in this context that we demonstrate in this section the relationship between clientelism and public enterprises. In particular, we demonstrate how and why public enterprises are used for patronage purposes in various developing countries.

In many developing countries, political leaders usually have direct and indirect access to public enterprises resources. This is normally through their appointees, the public enterprise managers. Political leaders have been empowered by statutes governing public enterprises, to directly or indirectly appoint public enterprise managers. As such this establishes clientelistic links, political leaders being patrons, and public enterprises managers being their clients. Where political leaders enjoy a large concentration of power, they may thus use public enterprises as they wish. In developing countries, where the decision making power of political leaders in particular the president or prime minister cannot be checked, there is a tendency for such leaders to misuse public enterprises for parochial or personal interests. Hence there is usually no clear distinction between the political and economic objectives of public enterprises. In Zambia, for example, public enterprise managers, are normally appointed by the president. The president is thus able to influence the decisions of public enterprise managers and as such, is able to use such public enterprises for his own personal interests. A case in point is that of the Zambia Industrial and Mining Company (ZIMCO). ZIMCO is one of the largest public enterprises in Zambia. ZIMCO's board of directors is made up of the chairmen and managing directors of the subsidiary companies. These are personally appointed by the president. The composition of the board of directors of subsidiary companies are heavily weighted in favour of government and party appointments. These boards also include permanent secretaries of the relevant ministries, chief executives of holding and sub-holding companies and other high level political appointees. These are also appointed ~~by the~~ by the president. Not only has the president made these appointments, but has also on several occasions chaired ZIMCO's board meetings thereby directly influencing the decisions of the board of directors (Kiggundu, 1989: 249, 263).

The criteria for public enterprise managerial appointments in many instances, is political or ethnic affiliation. In many instances, political leaders appoint persons as managers who are either politically loyal, that is, from the same political party, or from the same ethnic group or both. Political considerations in such cases may thus override merit considerations. In several developing countries, there are instances where politicians have been appointed instead of professional managers to run these enterprises. Francisco E. Thoumi has pointed out that this is a common practice in the Dominican Republic.[11] Thoumi argues that, in the Dominican Republic, the president has in several occasions appointed politicians instead of professional managers to run public enterprises. Thoumi gives an example of the Coporacion Dominicana de Empresas Estates, CORDE (Dominican Corporation of State Enterprises), created in 1966 as an umbrella organization to administer and develop nationalized businesses. Thoumi points out that this public enterprise is normally managed by politicians, who are appointed by the president for his own personal gains. Thoumi further argues that these businessmen lack business acumen and, as such, short term political goals edge out CORDE's long term aims (Thoumi, 1991: 104).

As argued in the preceding chapter, the essence of political leaders establishing clientelistic links is primarily to gain access to public enterprise resources which are thereafter awarded to loyal political supporters. As such, in many developing countries, political leaders have found it necessary to expand the public enterprise sector, in order to augment their political power. In Sierra Leone, for example, Herbst argues that the public sector expanded after the death of Prime Minister, Sir Milton Margai. Albert Margai, his brother, who succeeded him as Prime Minister needed to consolidate his political base. Albert Margai realized that one way of consolidating his political base was to establish more public enterprises in order to open new possibilities for political patronage. More public enterprises were established, and Albert Margai, through a patron-client network of the Sierra Leone's People's Party, was able to award public enterprise resources to loyal political followers (Herbst, 1990: 954).

Though public enterprises have a wide variety of resources, political leaders and bureaucrats, as patrons, are particularly interested in the financial and employment resources. Financial resources being those generated by sale of goods and services, interventionist policies such as licensing, contracts, commissions, rent seeking, etc. Employment resources being basically employment opportunities offered by these enterprises.

Political patrons, normally use such financial resources for political party, factional or personal interests. Many developing countries are characterised by a constant struggle for political power between competing political parties, factions or individuals. Access to such resources thus becomes necessary for those political patrons who want to consolidate and augment their political power. In Nigeria, as early as 1962, the Coker Tribunal of Inquiry revealed that the Action Group, the ruling party in Western Nigeria, siphoned off UK£6 million of public money from public enterprises to enable it strengthen its organization and further reward its supporters (Tordoff, 1985: 113; Herbst, 1990: 950). This was a case whereby public enterprise resources in particular financial, were used for party purposes. In the Dominican Republic, the president in particular has used public enterprise financial resources to maintain a firm political hold on the country as well as to promote his personal interests. General Rafael Leonindas Trujillo Mollina, amassed a large fortune and concentrated political power through the use of public enterprises. According to Thoumi, the presidency centralizes decision making and designs and administers the national budget. As such, substantial budgetary resources are allocated to the discretionary "presidential fund" disbursed by the president. The fund derives its financial resources from budget surpluses and profits from public enterprises. The president's political appointees, that is public enterprise managers, facilitate this transfer of profits. CORDE's enterprises in particular that turn a profit have frequently been decapitalized to enlarge the presidential fund. Thoumi argues that the fund is usually used to reward clients, in return for political support (Thoumi, 1991: 101-5).

The misappropriation of public enterprise funds or financial resources is not limited only to political leaders. Public enterprise managers in such countries too have on various occasions misappropriated funds for personal interests. In those developing countries where a close and mutual relationship exists between political leaders and their appointees, the public enterprise managers, such managers know that they enjoy political protection provided by their patrons in return for political support. However, where such political leaders normally lose political power, such managers normally face criminal charges. An example of such a case is that of a former executive of Zambia's largest public enterprise, the Zambia Consolidated Copper Mines. Francis Kaunda, (no relation to Kenneth Kaunda) was relieved of his duties when Kenneth Kaunda lost his presidential seat. Francis Kaunda was later charged in a court for allegedly transferring $475,000 from the Zambia Consolidated Copper Mines to a colleague living abroad. This mining public enterprise, which manages ninety percent of Zambia's export income, was used to launder millions of dollars in embezzled money for politicians under the Kenneth Kaunda regime (Daily Nation, 7th March, 1992: 8).

With regard to employment, public enterprises in developing countries offer lucrative opportunities for patronage. Many developing countries are characterised by high levels of unemployment, and as such, political patrons take advantage of this situation to offer employment in return for political support. Public enterprises being government or quasi-government organizations, thus become subjected to political pressure to provide employment to a targeted political clientele. Hyden (1985) and Ravenhill (1986) argue that, in many African countries, public enterprises are required by political patrons to play a major role in providing employment for political purposes. They argue that the objective is not only to reward loyal political followers, but also to cope with the increased demand for employment, which itself is a political motive. In many of these countries, employment regulations in the public enterprises, especially at the lower level, are less strict than in the civil service. As such, this has led to the economically irrational development of bloated public sectors (Hyden, 1985: 101; Ravenhill, 1986: 12). This phenomenon of overstaffed enterprises is not peculiar to Africa, but is common in developing countries all over the world. In Bangladesh, for example, the Interim Report of the Jatiya Sangstad Standing Committee on Public Enterprises of 1982 pointed out that one of the serious problems facing public enterprises in Bangladesh was that of overstaffing. This was attributed to political influence (George Ronson, 1985: 48-56).

In most developing countries, therefore, public enterprise employment accounts for a relatively high percentage of the overall public sector employment. In Bangladesh, five public enterprises in the industrial sector account for about 75 percent of total industrial employment, whereas in Mexico, 44 percent of industrial employment is in the public enterprises (Ronson, 1985: 48; J.A. Ansari, 1981: 7). Examples of particular public enterprises with a large work force from Bangladesh, Mexico and Zambia include the Bangladesh Jute Mills Corporation with a total work force of 200,000 people, Conasupo, a food marketing company with a total work force of 150,000 people and the Zambia Industrial Development Corporation with a work force of 80,000 people respectively (Ronson, 1985: 48; Phillip, 1985: 34; George Gant, 1977: 125). Public enterprise employment is not only significant in developing countries. In some developed countries such as the United Kingdom, sixteen public enterprises classified as nationalised industries , for example, had an average work force of 93,000 people. Of these sixteen, the smallest enterprise, the British Waterways Board had a work force of 3,000 people (Michael E. Beesly, 1985: 103, 207).

It is in this context that political patrons in developing countries find it necessary to gain access and control public enterprise resources, especially control of financial resources and employment opportunities, as these distinctly lack in many developing countries. By controlling and administering such resources, political patrons are able to solicit political support from the public, by rewarding loyal political followers with such resources, or by withdrawing such resources from segments of the public that are considered to be disloyal.

It is in this context of clientelism that we intend to explain how clientelism has affected the privatization process in developing countries. We shall however in the first place describe the experiences of various developing countries, with regard to the privatization of public enterprises.

3.2 PUBLIC ENTERPRISE PRIVATIZATION EXPERIENCES IN DEVELOPING COUNTRIES

Donor countries, multilateral financial and aid-giving agencies are increasingly calling upon many developing countries to privatize their public enterprises. Such countries and organizations have argued that one way in which developing countries can develop and improve the efficiency of their private and public sectors is through privatization. Consequently, this will enhance the creation of a better, free enterprise political and economic system.

Privatization is basically a program of the World Bank (IBRD) and International Monetary Fund (IMF). It has become increasingly common among the adjustment programs recommended by the World Bank in recent years (Thomas J. Biesteker, 1990: 485). However, there are other organizations which are actively involved in the privatization process. Glade argues that the USAID and its client organizations have become the policy's standard bearers in developing countries (Glade, 1991: 1). Along the same lines, Kiggundu argues that the USAID has made privatization the cornerstone of its international development assistance to the developing countries by providing economic development assistance on condition that a country will undertake certain public sector reforms. Kiggundu points out that the USAID has targeted 43 countries in developing regions of the world; 18 in Africa, 13 in Asia and 12 in Latin America. It was expected that by 1990, the USAID alone would have generated 250 privatization activities in different parts of the world (Kiggundu, 1989: 276).

Privatization has increasingly become a concern of government, both in developed and developing countries. An estimate prepared by Solomon Brothers, a leading investment bank, pointed out that since 1980 when privatization generally began to be implemented worldwide, public enterprises sold to the private sector brought US$48 billion to their governments. By 1990, another 2000 public enterprises were expected to have been sold, leading to the issue of equity worth about US$130 billion (Naya, 1990: 63).

In the preceding chapter, we pointed out the various objectives of privatization. From these, a country selects its privatization objectives. This depends on what goals the country may wish to pursue, its capabilities and level of development. Different countries may therefore pursue different specific privatization objectives. For example, in Chile, the privatization objectives were mainly political. The nationalization programme carried out by Allende's Socialist government, was followed by an equally strong reversal to privatization by Pinochet's rightist government, whereas in Peru, the main objective was to reduce the public deficit (Haile Mariam and Mengistu, 1988: 1579). In Malaysia, the main objectives of privatization are to cut expenditure so as to promote competition, improve efficiency and' increase productivity of public sector services. In Singapore, the main objectives are to develop the stock market and to avoid or reduce public and private sector competition (Naya, 1990: 66 - 67).

Privatization is being undertaken in all regions of the world, be they developed or developing. In African countries, for example, Cote d' Ivoire by mid-1988 had partially or totally sold 28 public enterprises, Zaire 27 and Niger 11 (International Labour Organization, 1990: 5). In Latin America, Chile, for example, sold 130 public enterprises between 1974 - 1980 and received over US$500 million. In 1981, Brazil created a commission for divestiture and within its first years of operation, had sold over 50 public enterprises (Kiggundu, 1989: 275). In Asia, by the late 1980's, Pakistan had sold over 2,000 rice flour and cotton mills, whereas Bangladesh had returned 35 jute and 23 textile mills to the private sector. Japan, too, had sold a large number of public enterprises, including 52 factories, 10 mines and 3 shipyards (Kiggundu, 1989: 275; Mary M. Shirley, 1987: 312).

Specific examples of privatization in developing regions can also be cited. These include Korean Oil, Sports Toto, a lottery operation, and Thai Airways International in Korea, Malaysia and Thailand respectively. Others include ENERSIS, a company that distributes electricity, Riocell, a paper pulp company and Giol a winery, in Chile, Brazil and Argentina respectively (Naya, 1990: 84-91; Pinera and Glade, 1991: 24-26; Werneck, 1991: 66; Fraga, 1991: 95).

Privatizations have also been carried out in the developed countries such as the United Kingdom and the United States of America. Britain, under Prime Minister Margaret Thatcher, set a brisk pace for privatization. Several public enterprises such as British Telecom, British Gas, British Petroleum, Britoil Cable and Wireless, Jaguar and National Freight have been sold to the public. By 1988, 16 major public enterprises in the UK, representing 40 percent of the public sector and employing 650,000 workers had been sold. In the USA, the government has sold off public land and transportation companies such as Conrail to the private sector. In France, the government has already sold a glass company, an insurance company and banks. 60 public enterprises were also to be sold by 1992 (Savas, 199: 5).

However, the pace of privatization in developing countries in general, is slow. Taking into account the number of public enterprises privatized in relation to the total number of public enterprises per country, the percentage is very low. For example, in Zaire by 1988, only 27 out of a total number of about 140 public enterprises had been privatized, representing 20 per cent only. In Guinea, only 11 out of a total of 181 had been privatized, which represented only 6 percent of the total number. Taking into account that privatization, as a policy was declared in many African countries as a strategy in the late 1970s and early 1980s, it is evident that the process has been slow. In Mexico, by 1990, two-thirds of public enterprises had been privatized, however, these sales accounted for less than 20 percent of the enterprises total assets. In the UK, a developed country, and where the pace of privatization is said to be brisk, only 40 percent of the public enterprises had been privatized from 1977 to 1988, a period of eleven years (Savas, 1990: 5; World Bank, 1991: 144; Finance, 16-18 July, 1990: 46).

The slow pace of privatization is an indication that governments are not willing or are unable to implement privatization. Several factors may be attributed to this. However, in this study, we are mainly interested in the role of clientelism. In the following section, we attempt to demonstrate the role of clientelism in as far as it affects the privatization process in developing countries.

3.3 CLIENTELISM AND PRIVATIZATION IN DEVELOPING COUNTRIES

In the preceding chapter, certain issues were raised as regards the role of clientelism in as far as it affects privatization. This was in the context of the political patronage benefits or gains and losses, that may accrue from privatization, which subsequently affect the political power of political patrons. It is in this context that we examine and explain the role of clientelism in as far as it affects public enterprise privatization in various developing countries.

3.3.1 Political Patronage Resources and Privatization

In various developing countries where political leaders and bureaucrats envisage benefits accruing from privatization, the tendency has been to implement privatization. Such political patrons have found it necessary to establish or promote a 'crony capitalism' through privatization that will offer not only political support, but will also assure such political patrons of continued access to patronage resources. In countries where the privatization process is characterized by lack of transparency, irregular privatization deals are carried out to establish or promote a 'crony capitalism'. This 'crony capitalism' is normally composed of relatives, friends, supporters and members of a ruling group or political party. In Chile, there has been frequent charges of lack of transparency in privatization deals. The ambitious Chilean privatization programme has attracted much criticism for the way it has restored historical patterns of ownership concentration and inter-connected family control. Criticism of political favouritism in selecting particular individuals and investors has characterized the Chilean privatization programme. A notable example is that of the Compañiâ de Acero del Pacifico (CAP), a steel company. The manner in which it was sold to particular domestic investors, attracted much criticism (Heald, 1990: 13; Pinera and Glade, 1991: 28 - 34). In Argentina, there has been instances of irregular privatization deals, which have led to cabinet reshuffles (World Bank, 1991: 144).

Relatedly, the desire by political patrons to establish or restore a harmony of interests with the private sector will facilitate the implementation of privatization. In countries where private investors demand a reduction in the role, size and scope of the government in the economy as a condition for political support, privatization is carried out. Moreover, private investors who purchase these enterprises are assured of protection by political patrons, in return for political support. The aim is thus to create a relationship of mutual conditional loyalties and reciprocities between politicians and private investors. This has occurred in Mexico, where economic policies on active state expansion in the economic arena and nationalization of banks purchased by the Luis Echeverria and Jose Lopez Portillo regimes of 1970-1976 and 1976-1982 respectively created widespread tensions between the politicians and the private sector. The private sector demanded less government intervention in economic life. In order to restore the peaceful coexistence and harmony of interests that existed prior to these regimes, and moreso to solicit political support from the private sector, the Miguel de la Madrid regime of 1982-1988, embarked on a series of economic reforms which included, among others, the privatization of public enterprises. These included those enterprises that had been nationalized by the Portillo regime in 1982. Moreover, President de la Madrid took advantage of such economic reforms as a political campaign strategy to demonstrate his administration's commitment towards improving the efficiency and performance of the public sector (Ferrer, 1991: 49-53). Though initially the privatization process in Mexico had certain problems emanating from the private sector's views on the real intentions of the government, Ferrer argues that the government's main reason for implementing and accelerating the privatization process was "its need to resume the old public-private partnership in order to stem the growing political activism of business and to secure business support for the administration's other economic policies" (Ferrer, 1991: 54).

With regard to patronage resources, public enterprises that command few or limited resources are usually candidates for privatization. Such enterprises are those that are small in size and operate in highly competitive markets. As such, they do not have many opportunities for patronage as they do not enjoy monopoly power. Moreover, such enterprises do not serve a wide clientele. In many cases, such public enterprises are former private concerns that were nationalized by the public sector when on the verge of bankruptcy. Such enterprises are therefore not a significant source of political power for political patrons. Werneck points out that, in Brazil, 17 such public enterprises were privatized between 1980 and 1987, at an approximate value of US$217 million. They were sold through competitive bidding and direct sale. These were commercial enterprises mainly involved in textile, paper and pulp, and capital goods manufacturing (Werneck, 1991: 64 - 6). Similarly, in Korea, between 1982 and 1983, the government sold all seven of its national commercial banks and authorized the establishment of two joint venture banks. Competition in the financial sector received a further boost in 1982 by the granting of licenses to 43 new mutual savings and finance companies (Naya, 1990: 84). In both these countries, the enterprises privatized were those that were operating in highly competitive markets and were mainly small-sized enterprises. By facilitating privatization of public enterprises that operate in highly competitive markets, political patrons stand to lose little or no political power, as few patronage resources are lost. Instead, political patrons stand to gain political support from the donor community and the private sector for demonstrating their commitment to the privatization process and the development of the private sector respectively.

However, where public enterprises constitute important patron-client networks, such that they become sources of political power owing to the vast patronage resources they command, then the political will or commitment to implement privatization will lack. Political patrons, be they in the executive or legislative branches of government, who derive political support hence power by dispensing public enterprise resources to their clients, usually oppose or resist the transfer of such enterprises to the private sector.

In many developing countries, public enterprises, especially the large-sized enterprises that enjoy monopoly power, are used by politicians and bureaucrats as political patrons to offer employment opportunities to many clients in return for political support. As such, they are overstaffed. However, in case of privatization, the number of employees in these overstaffed enterprises is normally reduced drastically. In Togo, for example, when the state-owned mill was privatized, the number of employees was reduced from 340 to 140 (Haile Mariam and Mengistu, 1988: 1574). This represented a reduction of about 54 percent in the work force. In Uganda, the Minister for Transport and Communication announced in 1991 that, the state-owned Uganda Airlines would be privatized leading to a reduction in the total work force by about 50 percent (Daily Nation, 7th July, 1991: 13). As such, political patrons resist privatization as it will result in the transfer of enterprises that offer many employment opportunities and also the fact that privatization of such enterprises will subsequently result in major employment losses. Any political leadership and government that expects political support from its citizens must be able to create and preserve employment. Therefore, political leaders and governments usually resist implementing any reform measures that will result in major employment losses. Such measures are not only politically sensitive, especially in urban areas which are most prone to political violence, but are also sensitive to the beneficiaries in the rural areas of those who work in the urban areas. Such measures therefore have an impact on a wide clientele, who may cease offering any political support to the government or its leadership.

In Pakistan, the government, realizing this, has decided not to sell the economically unviable textile plants in Baluchistan. Although they have been closed down but not legally liquidated, the government continues to pay the labour force as a means of employment protection (Cook and Minogue, 1990: 393).

Resistance against privatization also emanates from public enterprise managers who stand to lose their positions. Where inefficient managers who owe their positions to political patronage have foreseen that they stand to lose their positions, privatization has been met with resistance. In Brazil, privatization has met with resistance from such managers owing to dismissals. In some of the privatizations already completed, inefficient managers have been dismissed. Such dismissals occurred in the privatization of Mâquinas Piratininga do Nordeste and Nova America, which were capital goods and textile enterprises respectively (Werneck, 1991: 70). Trade unions too have resisted privatization as they have the obligation to protect the interests of their members. In Thailand, for example, the privatization program has partly been affected by a noisy and powerful trade union made up of more than 250,000 workers who are opposing privatization due to fear of job losses (Naya, 1990: 90).

Politicians, public enterprise managers and trade union leaders, thus resist or oppose privatization as they stand to lose their sources of political power. This is evident in developing countries such as India, Pakistan, Thailand and Sri Lanka. In a research carried out in these countries on the factors that affect privatization of public enterprises, Cook and Minogue found instances where politicians and bureaucrats openly opposed and resisted the implementation of privatization. Cook and Minogue point out that this was not only due to the fact that they would lose material benefits, but it would also challenge their sources of political power. A case in point is when the Sri Lankan Minister for Industries announced in July 1986 that there would be no more privatizations of any industries coming under his ministry. Cook and Minogue argue that this was a case of the need, on the part of the minister, to retain sources of political power (Cook and Minogue, 1990: 392-397). In Brazil, when the inefficient Caraiba Copper Mines were to be closed as part of privatization process of Caraiba Metais, fierce opposition to closure arose from the governor and congressmen of the politically powerful state of Bahia who had direct interests in the enterprise. They forced the International Privatization Council to abandon the recommendation for closure (Werneck, 1991: 71).

Trade union leaders too, have tended to resist or oppose privatization, especially where they foresee patronage resource losses occurring from privatization. In Argentina, for example, where the trade union movement is traditionally strong, union leaders occupy high positions in the executive and legislative branches of the government. Such union leaders also belong to the economic sectors that previously enjoyed the benefits of an economic growth strategy based on protectionism, indiscriminate subsidies and a strong state. These union leaders tend to oppose any attempt to implement any reform measures, such as privitization, that will call for an immediate re-allocation of resources. In the few recent privatization experiences in Argentina, the union leader generally played an opposition role throughout in order to safeguard their interests. (Fraga, 1991:90)

Public enterprises that offer social and welfare services to the public are an important source of political power for political patrons. Such enterprises, not only provide vast resources, such as financial, employment, human etc. owing to their large size and monopoly status, but also provide social and welfare services which in themselves are political resources for political patrons. The provision of social and welfare services, at subsidized rates, to members of the public, provides an opportunity for the public to support the political leadership of that country. Political patrons thus take advantages of such enterprises to offer subsidized services in return for political support. However in case of privatization, political patrons lose such patronage opportunities as such enterprises are no longer subject to subventions from the government. The effect is an increase in the prices of such goods and services, which are initially targeted at a poor clientele. This is subsequently followed by a decrease in political support for the political leadership. As such there is resistance from political patrons to privatize such enterprises. In an effort to retain such enterprises for political reasons, political leaders and governments have therefore classified such enterprises, together with those that control the commanding heights of the economy, as strategic enterprises when earmarking candidates for privatization. In Sri-Lanka, the cabinet, in August 1985, decided that such enterprises would not be privatized but retained due to what they ambiguously termed as security and contingency, while in India there was a concern with political accountability. The provision of social and economic welfare services by the government is incorporated in the Indian constitution. Therefore the political leadership and government were reluctant to privatize such enterprises as they would be held politically accountable (Cook and Minogue, 1990: 393). In the Dominican Republic, politicians who are beneficiaries of such enterprises oppose privatization of these enterprises on the grounds that it will create a negative political backlash. However the few cases in which such public enterprises have been privatized provide no evidence of such a backlash (Thoumi, 1991: 104). This demonstrates that such politicians oppose privatization more for political interests as they will lose the benefits of patronage.

In many developing countries, resistance to the implementation of privatization also stems from political factions that feel insecure or fear losses accruing from privatization. Where political factions compete to capture, maintain or gain more public enterprise resources, there is a tendency for such factions to resist or oppose privatization, for it can result in the re-allocation of resources to rival political factions. In single party states, such political factions are normally formed on ethnic, racial or religious basis. In multi-party states, such political factions, are political parties, or interest groups, competing or struggling, to capture or maintain political power. Political factions, especially those which are in power, oppose privatization, for they view that they will incur patronage losses, hence reducing their political power, whereas the beneficiaries of privatization may be rival factions. Such factions view the transfer of enterprise to certain ethnic, racial, class, religious or political groups, as a political threat to the status quo. Often cited with regard to privatization, are the Asians, the Chagga and the Kikuyu in East Africa, the Ibo and Lebanese in West Africa, the Jews worldwide, and the Chinese in South-East Asia. It is argued that the transfer of public enterprises to such groups, will result in the domination of the economy by such groups, hence increasing their economic and political power (Uma Lele and Christiansen, 1989: 6; Kiggundu, 1989: 227). The domination of an economy by one or a few factions,aggravates ethnic, racial or religious animosities in certain countries. Such factions are also a threat to political leaders and governments as they become too difficult to control. In Yugoslavia, there has been strong resistance from the public, who oppose the sale of public enterprises to the old nomenklatura. This is a managerial class whose members linked through party ties, ran the economy. There is fear that an open market sale of public enterprises will restore the nomenklatura to its earlier dominance. In Nepal, in the mid-1980s, a privatization measure was reversed because of opposition to the transfer of the enterprise to a particular minority group(World Bank,1991: 144).

Legal issues also complicate privatization. Many developing countries are characterized by lack of an adequate legal framework that facilitates the implementation of privatization. This may be attributed to the reluctance or refusal of the legislature to enact laws that would facilitate the implementation of privatization. The fact is that some members of the legislature are political patrons who normally enjoy the political patronage benefits of public enterprises may view such laws as a threat to their source of political power. Such members of the legislature may not be willing to participate in the enactment of such laws. In Argentina, for example, legal issues have inhibited the privatization of public enterprises. Several legislative proposals were presented to amend the laws that affect privatization as early as 1985. None were enacted by Congress, until President Menem's enabling Law in 1989 (Fraga, 1991:87-88). In many developing countries, the inadequate legal framework is characterised by a lack of clear-cut commitment to property rights, with uncertainty surrounding the future status of enterprises for sale (Naya 1990: 78). In socialist economies, for example, laws must be passed defining property rights, legalizing private ownership and establishing minority shareholder interests. All these are necessary, if the legality of a private purchase of a company is to be established. In Mexico, constitutional amendments had to be passed in 1983 before privatization would go forward, while in Turkey, sales were cancelled when the courts deemed them illegal (World Bank, 1991: 143).

3.3.2 Profit Performance and Privatization

As an indicator of public enterprise performance, profit performance is easily quantifiable as compared to other indicators of performance such as efficiency. Profit performance in this study, is measured in terms of total financial returns on capital invested. A profit-making public enterprise is therefore one in which total financial returns are higher than capital invested. A loss-making public enterprise is one in which total financial returns are lower than capital invested.

Profit-making public enterprises are important assets to their governments. Such public enterprises are important not only for political purposes as pointed out earlier in the chapter, but also for economic reasons. Though profit-making public enterprises are used for political patronage purposes, they are nevertheless used by governments as important sources of revenue. Revenue generated or raised by such enterprises is used to generate surplus capital which is lacking in many developing countries. Surplus capital in turn is used for resource mobilization to facilitate modernization.

It is for these economic reasons that governments are not willing to privatize profit - making public enterprises. In particular, privatization was initially intended as a reform strategy for ailing or loss - making public enterprises. For privatization purposes, there are two types of loss - making public enterprises. Those that incur financial losses but can be rehabilitated and those that are continuously loss -

making and are beyond rehabilitation. In most instances, those public enterprises put up for sale are those that incur financial loses and are beyond rehabilitation (Kiggundu 1989: 275). However governments have realised it is difficult to sell loss - making enterprises, as the private sector is not willing to buy such enterprises. Scholars such as A.W Hawkins (1986) Shirley (1988) Dani Rodrik (1990) have argued that loss - making public enterprises are difficult to sell as the private sector is not willing to buy such enterprises. Governments must therefore ensure that such enterprises are returned to profitability. This, on the other hand, is usually a difficult task for governments. Governments therefore prefer to put up for sale loss - making enterprises which are a financial burden, and retain profit - making enterprises.

The move towards privatizing loss - making enterprises is evident in many developing countries. In Togo for example, one loss - making textile mill has been privatized. Despite the fact that the mill was bought by overseas interests, and guaranteed several advantages by the government, such as importing raw materials and spare parts duty free, and imposing a 4 percent tariff on competitive imports, among others, it is not yet certain that the mill will be profitable. In Ghana after Nkrumah's socialist government was overthrown by a military coup d' etat, the new government offered 30 public enterprises for sale. Only three found buyers. The rest were considered as poor risks by the business community (Haile Mariam and Mengistu 1988: 1574 - 78). Other loss - making public enterprises that have been declared for privatization include the state-owned Uganda Airlines in Uganda, the "non performing" assets of the Development Bank of the Philipines (DBP) and the Philipines National Bank (PNB) among others (Daily Nation, 7th July, 1991: 13). Naya, 1990: 88). In Trinidad and Tobago, the candidates for privatization are the loss - making public enterprises. Notable among them are Caroni, a sugar company and the Iron and Steel Company of Trinidad and Tubogo, both of which are in serious and critical financial conditions (Thoumi, 1991: 108-111).

3.4 SUMMARY AND CONCLUSION

This chapter has been an attempt to demonstrate the role of clientelism in as far as it affects the privatization of public enterprises in developing countries. The aim has been to demonstrate the relationship between clientelism and privatization of public enterprises in various developing countries.

The first part of this chapter has examined the way in which, through clientelism, public énterprises are used for political patronage purposes by political patrons. We have demonstrated that public enterprises, in various developing countries, are an important source of political power for political patrons. Through clientelism, political patrons are able to gain access to public enterprise resources. These resources are further used for political patronage purposes. By dispensing public enterprise resources, be they financial, employment, services or other to clients in return for political support, political patrons are thus able to augment their political power. Hence, the importance of public enterprises to political patrons.

The second part of the chapter examines privatization experiences in various developing countries. We have pointed out that the privatization policy was initiated by the donor community, who are aggressively urging recipient countries in the developing regions to implement privatization. Privatization experiences in various developing countries, with regard to privatization objectives and implementation, are also examined. We have thus been able to point out that despite the aggressive backing of the privatization policy by the donor community, the pace of implementation of privatization in various developing countries is slow.

The third part of the chapter advances arguments as to why the pace of implementation has been low. We examine and explain the role of clientelism in as far as it affects the privatization of public enterprises in developing countries. This has been in the context of patronage benefits or gains and losses that may accrue from privatization. We have argued that where political patrons stand to gain from privatization, then privatization will be implemented. However, where political patrons stand to lose, then privatization will not be implemented.

With regard to facilitating implementation, we have demonstrated that political patrons are willing to facilitate the implementation of privatization if it will augment their political power. Where political patrons stand to gain political power through the development of a 'crony capitalism' or by establishing or restoring a harmony of interests with the private sector, then privatization will be implemented. Privatization will be implemented to facilitate the development of a 'crony capitalism' and to restore a harmony of interests with the private sector. We have also observed that those public enterprises that command few or no patronage resources are normally those that are privatized. These are those enterprises that are small in size and operate in highly competitive markets, serving a small clientele. These enterprises are not of much significance to political patrons, as they do not command significant patronage resources. Hence, their privatization does not normally affect the political power of political patrons. In essence, it augments their power as they receive support from the donor community and local private investors for implementing privatization measures.

However, we have also seen that there is resistance and opposition from political patrons to privatize those public enterprises that command vast resources of patronage. These are normally the large-sized enterprises that enjoy monopoly power. They offer vast amounts of patronage resources, such as employment, financial, social services, etc.

We have argued that political patrons are in constant struggle to gain access to or to control public enterprise resources for personal political interests and as such, they prefer those enterprises that command more resources. Political patrons are however aware that they stand to lose such resources in case of privatization and, consequently, political power. As they occupy senior positions in the executive and legislative branches, such political patrons are able to resist or oppose the implementation of privatization.

Thus, where a 'crony capitalism' can be developed and a harmony of interests established or restored with the private sector, both of which will offer political support as clients to political patrons, then privatization will be implemented. The most likely candidates for privatization are those that are small in size and operate in highly competitive markets and as such, command few or no patronage resources. However, for the larger enterprises that command vast resources and constitute important patron client networks such that they become sources of political power, then the political will or commitment to implement privatization will lack, for political patrons are not willing to lose their political power.

CHAPTER FOUR

CLIENTELISM AND PUBLIC ENTERPRISES IN KENYA

4.0 INTRODUCTION

This chapter examines in general how and why public enterprises in Kenya are used for political patronage purposes. The chapter also examines the role of public enterprises in the development process.

The first part of the chapter gives a brief and general historical background of the development of public enterprises in Kenya, in the pre-independence and the post-independence period. The second part of the chapter examines the role of public enterprises in the development process and as such, demonstrates their significance and contribution to development in Kenya.

The third part of the chapter examines the role of clientelism in public enterprises. This part demonstrates how public enterprises have been used for political purposes to augment the political power of political patrons in Kenya. Although an examination of both the Kenyatta and Moi regimes has been attempted, emphasis has been laid on the Moi regime, as this is the period we are particularly interested in, in this study.

4.1 A GENERAL HISTORY OF PUBLIC ENTERPRISES IN KENYA

The pre-independence and post-independence period in Kenya, has witnessed the emergence of several kinds of public enterprises. In this section, we examine in general the historical development and rationale behind the establishment of public enterprises in the pre-independence and post-independence period.

4.1.1 Pre-Independence Period

Several kinds of public enterprises emerged during the pre-independence colonial period, dating as far back as the early 1900s. These were mainly agricultural marketing boards, public utilities and manufacturing enterprises. Most of these public enterprises were initially established to serve the interests of the white settler community who at the time enjoyed monopoly rights to various services. The Imperial Ordinance of March 1931, for example, created the Land and Agricultural Bank which was to constitute a major source of credit for the white settler community (F.C. Okuthe-Oyugi, 1982: 11). Agricultural marketing boards established during the colonial period primarily to serve the interests of the white settler community mainly handled processing and overseas marketing of agricultural products produced by the white settler community. This was to ensure that the white settler farmers received large profits, as these boards were kept out of the hands of private middlemen who would have extracted monopoly rents. These marketing boards also refrained from such extraction, as the white settler community in Kenya enjoyed disproportionate political power. Products processed and marketed by such boards included among others, coffee, tea, pyrethrum, meat and dairy products. An early example includes among others, the Coffee Board of Kenya, which was established in 1933 (Barbara Grosh, 1988: 23). However, as independence approached, the government under the Swynnerton Plan of 1954, set out to develop African farmers. The Swynnerton Plan dealt with problems of agriculture in the African areas. The Plan was designed as a reaction to certain demands by African farmers. The Plan thus aimed at revolutionizing African agriculture. This was to be achieved by introducing individual land tenure and allowing Africans to cultivate profitable export crops. Africans were allowed thus to cultivate export crops, making it no longer a monopoly of white settler farmers. The existing marketing boards were re-organized to cater for a larger and more diverse membership. New marketing boards were also established, for example, the Cotton Lint and Seed Marketing Board in 1955 (S.E. Migot-Adholla, 1984: 203; Grosh, 1988: 23-24).

Infrastructural services dating as far back as the early 1900s, were organized as public enterprises. These included public utilities such as ports and railways, airlines, post and telecommunications. Like the agricultural marketing boards, they were also initially organized to serve the interests of the white settler community and Europeans in general. These enterprises were natural monopolies and controlled by Europeans. The railways for example, benefited mainly Europeans as it adopted a rating system which involved carrying European grown agricultural products at cost, while making very high charges for carrying African grown export crops and imports for consumption. While Africans paid the bulk of taxation, Europeans received virtually the entire benefit of infrastructural services which were also subsidized. An example of such an enterprise is the Uganda Railways established in 1903 (Leys, 1976: 28-36; Grosh, 1988: 24).

The colonial period in Kenya witnessed a slow growth of public enterprises in the manufacturing sector. Participation in the manufacturing sector was limited as compared to other sectors such as agriculture. Participation began mainly during the Second War period. During this period, the shortage of shipping, the need for self-sufficiency and the demand for manufactured goods in other theatres of war, led to increased participation in the manufacturing sector. This was also reinforced by government measures to guarantee and subsidize prices. The Industrial Development Corporation established in 1954 to assist in the development of industrialization in Kenya, was one such enterprise (Leys, 1976: 41-46; Okuthe-Oyugi, 1982: 11).

4.1.2 Post-Independence Period

Following the attainment of independence in 1963, it also became a policy of the Government of Kenya to encourage the establishment of more public enterprises. In Sessional Paper Number 10 on African Socialism and its Application to Planning in Kenya of 1965, the role of the state in social political and economic development was outlined. The state was to ensure that there was a rational utilization of resources by controlling resource use (Government of Kenya, 1965: 11). One of the ways in which the government was to ensure that there was a rational utilization of resources, to achieve some development objectives, was through the establishment of public enterprises.

The Sessional Paper also pointed out that various forms of public enterprises, performing different functions would be established. The Sessional Paper stated that:

> State ownership vests ownership in the people generally providing for the utmost diffusion of ownership and permitting operation on a large scale. Joint ventures with private capital give the state a large measure of control and at the same time, the limited capital available to the state. State or joint ownership and operations is desirable where general services of major importance must be provided at low or subsidized costs to citizens, firms or farms (Government of Kenya, 1965: 15).

According to the Sessional Paper, public enterprises were therefore to be used for various purposes to achieve social, political and economic development. Among these were: to ensure of greater control of the national economy; the development of indigenous capital and large scale investment;

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Africanization; the redistribution of wealth to avoid concentration of economic power and the correction of regional imbalances in the country. These were to be achieved through public enterprises such as the Agricultural Finance Corporation (AFC), the Industrial Commercial and Development Corporation (ICDC), marketing boards, the Kenya Tourist Development Corporation (KTDC), among others (Government of Kenya, 1965: 29).

The process of establishing public enterprises in post-independence Kenya continues to-date. This process has been more rapid in the post-independence period than the pre-independence colonial period. By 1982, there were 114 public enterprises, whereas by 1990, there were 150 public enterprises in Kenya (Hyden, 1996: 97; Tudor Jackson, 1988: 71; Government of Kenya, 1989a; The Standard, 6 Nov., 1990: 10).

In Kenya, public enterprises have officially and popularly been referred to under different terms. Prior to 1979, public enterprises were referred to as statutory authorities, boards and corporations. In May 1979, the Committee on Review of Statutory Boards, came to refer to public enterprises as parastatals. Public enterprises, hence, became popularly known as parastatals. In November 1986, however, with the establishment of the State Corporations Act Number 11 of 1986, public enterprises became officially known as State Corporations (Government of Kenya, 1979: 1; Jackson, 1988: 72). Public enterprises are now found in all sectors of the economy. Table 4.1 below gives a sectoral and functional breakdown of the number of public enterprises

Table 4.1: <u>Sectoral and Functional Breakdown of Public Enterprises in Kenya</u>

SECTOR	PUBLIC ENTERPRISE FUNCTIONS	NO. OF PUBLIC ENTER.	TOTAL NO. OF PUBLIC ENTER. IN SECTOR	% OF TOTAL NO. OF PUBLIC ENTER. IN KENYA
AGRICULTURE	Agro-Processing	11	24	16
	Marketing	13		
COMMERCE AND INDUSTRY	Manufacturing	11		
	Processing	6	20	13
	Trading	3		
FINANCIAL	Banking	4	15	10
	Non-Banking	11		
STRATEGIC AND SOCIAL SERVICES	Energy	6		
	Regional Dev. Auth.	3		
	Regulatory/Advisory	24	65	43
	Research	15		
	Sectoral Development	17		
TOURISM	Hotels	8	16	11
	Lodges	8		
TRANSPORT AND COMMUNICATIONS	Communications	1	10	7
	Transport	9		
	TOTAL	150	150	100

Source: Inspectorate of State Corporations

4.2 THE ROLE AND CONTRIBUTION OF PUBLIC ENTERPRISES IN THE DEVELOPMENT PROCESS IN KENYA

In order to better understand the emergence and significance of political patronage through public enterprises, it is necessary to first and foremost examine the role and contribution of public enterprises in the development process. Emphasis will be placed on those contributions that are easily quantifiable. With statistical evidence, it becomes easier and more clear to demonstrate the role and contribution of public enterprises in the development process.

4.2.1 Capital Formation

Capital formation is the very core of economic development, as it facilitates the increase in the stock of real capital in a country. One of the objectives of public enterprises is to generate surplus capital which is generally lacking in many developing countries. In Kenya, public enterprises are a major factor in the economy. Their economic significance with regard to their contribution to Gross Domestic Product (GDP) cannot be overlooked. A very sizeable proportion of the total capital formation in Kenya, are investments by public enterprises. Whereas at independence the public enterprise sector contribution was only 11.2 per cent of the GDP, by 1990 the public enterprise sector contribution had risen to 40 per cent. The government had invested almost K£2 billion in public enterprises, which was 40 per cent of the GDP (Grosh, 1988: ; The Standard 6 Nov., 1990: 10; Kenya Times 14 Jun., 1991: 7). Examples of large public enterprises in Kenya, according to investments undertaken include among others, the Kenya Posts and Telecommunications Corporation (KPTC), Kenya Railways (KR), and the Kenya Commercial Bank (KCB) with fixed assets worth approximately K£180 million, K£100 million and K£60 million respectively (Government of Kenya, 1989b: 84&85; Daily Nation 6 June, 1991: 16).

4.2.2 Industrialization

Public enterprises in Kenya have and continue to play a significant role in the development of industrialization, both in the public and private sector. Of the 150 public enterprises in Kenya, about 35 enterprises are involved in the extraction, processing and manufacturing of various agricultural, industrial and mineral products (see Table 4.1). In other words, about 23 per cent of public enterprises in Kenya are industries involved in extraction, processing and manufacturing of various goods. These include, among others, construction, sugar, textile, mining and motor companies. Examples include Chemelil Sugar Company, Mt. Kenya Textile Mills, African Diatomite Industries and Ceramic Industries.

There are public enterprises that assist in the development of industrialization, not only in the public sector, but also in the private sector. These public enterprises promote the development of private sector industrialization, through various ways such as financing industrial projects and establishing new industries. Notable examples include, The Kenya Industrial Estates (KIE), the Industrial Development Bank (IDB), the Industrial and Commercial Development Corporation (ICDC), among others. Between 1986-1988, for example, the KIE, IDB and ICDC approved a total of 864 industrial projects, with an expenditure of K£53.88 million to finance these projects (Government of Kenya, 1989c: 124).

4.2.3 Agriculture

Public enterprises in Kenya have played a significant role in transforming agriculture from that of traditional subsistence to modern commercial agriculture. Agricultural public enterprises form the second largest percentage of public enterprises in Kenya. They form 16 per cent of the total number of public enterprises (See Table 4.1). This is an indication of the Government's commitment towards developing the agricultural sector, which has been a priority since independence. The agricultural sector has been Kenya's main source of foreign exchange earning. There has thus been a strong desire by the government to modernize agriculture. Public enterprises have been established to facilitate this transformation. These have taken various forms, such as agro-processing industries, marketing boards, sectoral development corporations, large-scale farms, irrigation schemes, etc. Examples include the Agricultural Development Corporation (ADC), the Agricultural Finance Corporation (AFC), the Coffee Board of Kenya (CBK), the National Cereals and Produce Board (NCPB), among others. The marketing boards which form the bulk of agricultural public enterprises have made a major contribution, not only in the development of agriculture, but to the welfare of farmers and citizens as a whole. For example, between 1985-1989, agricultural marketing boards in Kenya purchased produce worth K£4.46 billion from both large and small farms (Government of Kenya, 1990: 107).

4.2.4 Employment

One of the most significant contributions of public enterprises in Kenya is employment creation. By 1990, public enterprises had employed 168,800 people, which formed approximately 24 per cent of total public sector employment and approximately 12 per cent of the total number of people under wage employment in Kenya (Government of Kenya, 1991:52). These figures also include casual employees, part-time workers, directors and partners serving on a regular salary contract. The Central Government employed 269,700 people forming approximately 39 per cent of public sector employment. The Teacher Service Commission employed 203,600 people, forming approximately 29 per cent of public sector employment, whereas the local government employed 51,800 people forming approximately 8 per cent of public sector employment. Table 4.2 below gives a detailed account of employment statistics in the public sector in Kenya for the period 1982-1990.

Table 4.2 Employment in the Public Sector 1982-1990 ('000)

SECTOR	1982	1983	1984	1985	1986	1987	1988	1989	1990
Central Government	216.7	226.4	231.1	252.0	259.7	274.4	270.5	280.8	269.7
T.S.C*	119.0	124.1	132.2	151.0	164.0	173.0	185.1	195.1	203.6
Public Enterprises	128.6	132.1	130.5	126.0	132.8	133.7	149.2	156.4	168.6
Local Government	41.3	45.2	47.7	45.6	43.3	43.5	50.6	48.3	51.8
TOTAL	505.6	527.8	541.5	574.5	599.6	624.6	660.9	680.6	693.9

* Teachers Service Commission

Source: Compiled from Statistical Abstract 1985, 1988
Economic Survey, 1989, 1990, 1991.

Table 4.3 Wage Bill in the Public Sector 1982-1990 (Pound Million)

SECTOR	1982	1983	1984	1985	1986	1987	1988	1989	1990
Central Government	207.7	227.3	236.7	270.6	320.4	353.7	442.3	513.7	506.7
T.S.C*	94.3	103.6	120.7	142.5	180.0	196.5	215.8	238.2	270.4
Public Enterprises	126.6	139.9	166.5	185.9	205.1	214.9	229.5	300.6	353.8
Local Government	35.9	42.7	43.6	46.8	48.2	49.3	57.2	60.7	73.1
TOTAL	457.2	513.5	567.5	645.8	737.7	814.4	962.8	1112.5	1204.0

* Teachers Service Commission

Source: Compiled from Statistical Abstract 1985, 1988
Economic Survey, 1989, 1990, 1991.

However, with regard to total earnings paid out by the public sector, which covers all cash payments including basic salary, cost of living allowance, profit bonus, together with the value of rations and free board and an estimate of the employer's contribution towards housing, public enterprises ranked second. Table 4.3 above details the total annual earnings paid out by the public sector for the period 1982-1990. In the year 1990, for example, the Central Government total annual wage bill was K£506.7 million forming approximately 42 per cent of the total annual wage bill in the public sector. The public enterprise wage bill followed with K£353.8 million forming approximately 29 per cent. Third was the Teachers Service Commission wage bill which was K£270.4 million forming approximately 22 per cent and lastly, the local government wage bill which was K£73.1 million, forming approximately 7 per cent of the total annual public sector wage bill.

With regard to annual average earnings per person, Table 3.2 and 4.3 shows that the average annual earnings per person for the year 1990 were approximately K£1,829 per annum in the Central Government, K£1,220.9 per annum in the Teachers Service

Commission, K£1,921.9 per annum in public enterprises and K£1,256.7 per annum in local government. Public enterprises thus paid the highest salaries and wages in the public sector.

4.3 CLIENTELISM AND PUBLIC ENTERPRISES

In this section, we examine how and why public enterprises in Kenya are used for political patronage. However, before we focus our attention on public enterprises, we shall briefly examine how political patronage has been practised in general to build a strong political leadership and government in post-independence Kenya.

4.3.1 Political Patronage in Post-Independence Kenya

According to Joel D. Barkan, political patronage in Kenya is practised through a hierarchy of patron-client linkages which connect the center to the periphery. At the apex of the system, is the president of the republic, who is the chief patron. As the chief patron, the president co-ordinates and balances the claims of competing lineages. The president as the head of government, awards government ministries and the resources of patronage they command to senior

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politicians, who wield power beyond their own parliamentary districts. Ministries are usually awarded to regional leaders who are able to demonstrate their ability to mobilise or tune their ethnic base or region in support of the government. Barkan further points out that these regional leaders are simultaneously clients of the president and patrons of aspiring younger politicians, including back-benchers in the National Assembly and also potential back-benchers. The latter are in turn clients of ministers and patrons of local notables in their constituencies. These notables are in turn patrons of small segments of the general public (Barkan, 1984: 79). Strategic or key ministries or posts in the public service, armed forces and ruling political party, are thus awarded to individuals on the basis of political or/and ethnic lineage.

Through clientelism, the practice of political patronage has been a common feature in independent Kenya, under President Mzee Jomo Kenyatta's regime of 1963-1978 and under the Daniel Toroitich Arap Moi regime of 1978 to-date. The Kenyatta regime witnessed the Kikuyu ethnic community as the main beneficiaries of patronage resources. Kenyatta, who hailed from the Kikuyu ethnic group, awarded a large number of strategic or key posts in the civil service, public enterprises and armed forces to members of the Kikuyu ethnic group, who in turn ensured that he remained in power as they enjoyed the resource of patronage. Kenyatta also ensured that most of the patronage resources were mobilised and allocated mainly to Central Province, the homeland of the Kikuyu, where he derived most of his political support (Leys, 1976: 246 - 251). On assuming power in 1978, following the death of Kenyatta, Moi began to consolidate his political base. Moi who hailed from the Kalenjin ethnic group, began dismantling the Kenyatta clientelist state. Moi began removing from strategic or key positions in the civil service, public enterprises and armed forces, members of the Kikuyu ethnic group whom he considered a political threat, not only as the Kikuyu were the largest ethnic group, but had also challenged and opposed his ascension to power in 1976 (African Contemporary Record Vol. XIII: B210 - 212). Moi consolidated his political base and power further in 1982 with the establishment of Kenya as a *de jure* one party state. KANU became the sole political party. Members of the public service, who were initially meant to be impartial in party politics, were invited and later forced to join KANU. KANU membership became a pre-requisite to hold public office, more so the strategic or key posts in the public sector (US Government, 1991: 3-10). Thereafter, the public sector became politicized. Its loyalty thus became directed towards Moi and KANU. Moi was able to appoint or dismiss anyone from the public sector without fear of being held accountable, especially when the constitution was amended in 1986 to remove the security of tenure of the Attorney General and Auditor General. Moi intensified his drive to remove from office anyone who did not ~~toe~~ the political line. Such persons were replaced by the Kalenjin. Moi also sought to re-allocate patronage resources, from Kenyatta's political base in Central Province, to Rift Valley the homeland of the Kalenjin as well as his political stronghold. The Kalenjin in the civil service, public enterprises and armed forces, ensured that Moi remained in power as they too enjoyed the resources of patronage (Joel D. Barkan and Michael Chege, 1989: 434 - 450; David W. Throup, 1987: 33 - 73).

As noted earlier, our main concern in this section are the public enterprises. We therefore now focus our attention on political patronage and public enterprise resources. We examine how and why public enterprises are used for political patronage purposes in Kenya. Emphasis will be placed on Moi regime, for it was in this regime that the privatization policy was declared as a strategy of the government.

4.3.2 Political Patronage and Public Enterprise Resources

In this section, we examine how and why public enterprise resources, and as such public enterprises are utilized for political patronage purposes.

4.3.2.1 Employment

Employment opportunities at the managerial and lower levels, have been used for political patronage purposes. As pointed out in Chapter one, in Kenya, appointments to key or top managerial posts in the public enterprises are directly or indirectly made by the president. Public enterprise chairmen are directly appointed by the president, whereas chief executives are appointed by the relevant minister, who too is a presidential appointee, on the advice of the State Corporation Advisory Committee. The State Corporation Advisory Committee is composed of various permanent secretaries, who too, are presidential appointees.

Board members of public enterprises on the other hand, are appointed by the relevant ministers with the approval of the president (Government of Kenya, 1979: 4). These appointments are therefore at the discretion of the president.

Such discretionary powers to appoint or influence the appointment of persons to top managerial posts in public enterprises facilitates the establishment of a patron-client pyramid in the public enterprise sector. At the apex is the president. Cabinet ministers serve as the president's clients as they are appointed by him. In turn, the ministers are patrons of public enterprise managers as they too participate in the appointment of such managers. Public enterprise managers in turn serve as clients of their relevant ministers. They too, may serve as clients of the president. Public enterprise managers on the other hand, also act as patrons of small segments of the general public (See Figure 1.1).

In Kenya, such appointments at the managerial level in public enterprises, are usually based on political patronage. This has been a common practice in the post-independence period under the Kenyatta and Moi regimes. The 1982 Working Party on Government

Expenditures, acknowledged this as a major problem in the public enterprises. In its report, the Working Party stated that; "Political considerations occasionally override merit suitability and experience in the appointment of board members and chief executives and, their management and personnel decisions in turn are often particularly motivated to the detriment of parastatal efficiency" (Government of Kenya, 1982a: 44).

Kenya's political leaders have found it necessary to use ethnic and political lineage as a criteria for such appointments. Using ethnic lineage as a criteria for such appointments, these leaders, have not only overcome a sense of insecurity arising from other competing ethnic groups, but have also advanced the political and socio-economic welfare of their own ethnic groups, hence strengthening their political base. In the Kenyatta regime, most of the top managerial posts in the public enterprises were held by the Kikuyu. Peter Wanyande quotes a study carried out by Dressang and Sharkarsky, which points out that during the 1970s, 45.5 per cent of the top managerial posts in the public enterprises were held by the Kikuyu, while the next largest group were the expatriates (Wanyande, 1981: 78 - 79). The Moi regime too, has followed a similar pattern of using ethnic lineage as a criteria for such appointments. In the Moi regime, the largest percentage of the top managerial posts in the public enterprises are occupied by the Kalenjin. They form about 25.1 per cent of the top management. The next largest group are the Kikuyu, who form about 16.8 per cent, followed by the Luo who form about 13.3 per cent. Table 4 below gives a detailed account of the ethnic composition of the top managerial posts of public enterprises in Kenya during the Moi regime.

Table 4.4 The Ethnic Composition of Top Managerial Posts of Public Enterprises in Kenya (As at September 1991)

Ethnic Group	% of Total Population (1979)	Number of Chairmen	Number of Chief Executives	Total	% of Total Number of Top Managerial Posts
Kikuyu	21.2	26	21	47	16.8
Luhya	14.0	11	19	30	10.8
Luo	12.9	19	18	37	13.3
Kamba	11.4	12	12	24	8.6
Kalenjin	10.9	40	30	70	25.1
Kisii	6.2	7	5	12	4.3
Embu/Meru	5.6	7	7	14	5.0
Non-Africans*	0.3	2	14	16	5.7
Others	17.5	17	12	29	10.4
Total	100.0	141	138	279	100.0

* Asians and Europeans

Source: Compiled from Inspectorate of State Corporations Statistical Abstract 1988, Kenya Times March 1991: 1, The Nairobi Law Monthly No. 38 Nov. 1991: 8-9.

Although a detailed study of the educational and professional background of those persons in the top managerial posts to find out their merit suitability was not conducted, we can deduce certain facts from the figures in the table above. That the ethnic composition or representation of the top managerial posts, is disproportionate to the size of the ethnic group. The Kalenjin, for example, are the fifth largest ethnic group in Kenya, forming about 10.9 per cent of the total population. However, they constitute the largest percentage in the top managerial posts forming 25.1 per cent, whereas the Luhya and the Luo, Kenya's second and third largest ethnic groups respectively, who form about 30 per cent of the total population constitute 24.1 per cent in the top managerial posts. It is also interesting to note that the Kamba, Kisii, Embu, Meru and the Non-Africans, who form about 23.5 per cent of Kenya's population only constitute 23.6 per cent of top managerial posts. This high percentage of the Kalenjin can be attributed to the fact that Moi being a Kalenjin, has preferred to appoint or influence the appointment of Kalenjins, not only to maintain and increase political power, but also to advance the socio-economic and political welfare of the Kalenjin. All those who occupied these top managerial posts were members of the ruling party KANU, since Kenya was a *de jure* one party state.

With regard to employment at the lower levels, the criteria too, is ethnic and political lineage. As employment regulations in public enterprises are less strict than in the civil service, politicians and public enterprise managers as political patrons normally take advantage of this to offer mass employment to their clients. Such clients are normally those from their ethnic groups or those who are considered to be politically loyal. As such, many public enterprises in Kenya are overstaffed due to political pressure to employ such clients. Notable examples of such public enterprises as pointed out by the World Bank include the KPTC, KR and Kenya Ports Authority (KPA) (Daily Nation, 11th January, 1992:1-2; 15th January, 1992:12; 7th April, 1992:8). Moreover, those who are employed due to political considerations, at the expense of merit suitability normally affect the operations of the public enterprises. The Auditor General of State Corporations pointed out in his report on the Post Office Savings Bank Account to the Public Investments Committee of the National Assembly that several junior clerical officers with poor merit backgrounds, were promoted upwards and entrusted with duties which they could not perform satisfactorily resulting in theft and losses of funds (Government of Kenya, 1989b: 11)

4.3.2.2 Financial Resources

Financial resources offered by public enterprises have on several occasions been used for political patronage purposes. Politicians and public enterprise managers, as political patrons have on several occasions been able to dispense financial resources such as loans, to their clients in return for political support.

During the Kenyatta regime, the main beneficiaries of such financial resources were the Kikuyu. Kenyatta, through his patronage appointees mainly Kikuyu, also was able to influence public enterprises to award loans to the Kikuyu from Central Province, as this was his political stronghold. As such, the Kikuyu, were able to flourish successfully in business and farming. Kenyatta was able to use public enterprises such as KCB and ICDC to promote or advance the socio-economic welfare of the Kikuyu (Leys, 1976: 119-205). Similarly, during the Moi regime, the main beneficiaries of such resources have been the Kalenjin. The appointment of Kalenjin to head public enterprises that command financial resources, especially the financial institutions, has demonstrated Moi's intention to assist the Kalenjin with easier access to state resources.

Moi has been accused on several occasions of influencing the KCB through his appointees to financially cripple businesses belonging to prominent Kikuyu businessmen. A prominent Kikuyu industrialist accused Moi, his Vice President and Minister for Finance of influencing the KCB to place his company under receivership and subsequently dispose of it to another company belonging to to a clique of businessmen loyal to Moi. The industrialist alleged that during the mid-1980s, his company was put into receivership when a project it was undertaking stalled due to political reasons. The industrialist accused Moi of reversing a decision in which Moi had assured him in writing that following the payment of K£2.7 million to the KCB, the company would be returned to him. The industrialist claims that he paid the sum of K£2.7 million as per the agreement, but the company was never returned to him. The industrialist has thus made several monetary demands totaling to K£46.5 million as compensation. Out of this figure, the industrialist seeks K£17.5 million from the Government and another company in which the Government has a minority interest as compensation for costs he incurred in promoting the project which the Government allegedly frustrated. The industrialist also seeks K£2.8 million from KCB claiming that as a party to the new deal, the KCB should repay him K£2.8 million which he paid in excess of a debt of K£2.7 million which had put his company under receivership (The Standard, 4th September, 1992: 22-23; 'Business Week' Daily Nation, 29th September, 1992: 1-3). It can be argued that Moi's objective of using KCB was to weaken the economic and political power of those he considered a political threat. On the other hand, Moi was able to use the KCB to dispense or award loans to those whom he considered politically loyal and moreso, to the Kalenjin in order to promote their socio-economic and political welfare (Throup, 1988: 57-64).

The Moi regime has witnessed a few prominent personalities benefiting excessively from public enterprise loans. These personalities are or have been at one time clients of Moi. A case in point is that of the Agricultural Finance Corporation (AFC). The Auditor General of State Corporations has accused the AFC of awarding irregularly, security and interest-free loans to prominent personalities. The Auditor General pointed out that in 1986/87, the AFC guaranteed 17 prominent personalities loans totalling to K£1.9 million. The Auditor General argued that this was not procedural as it was outside the corporation's laid down procedure for granting loans. Furthermore, the Auditor General pointed out that in one such case, the loanee, a prominent personality had an outstanding loan balance of K£1.75 million. The Auditor General of State Corporations has noted that the corporation has been unable to recover the loans from these prominent personalities (Government of Kenya, 1989b: 6-9)

In Kenya, public enterprise financial resources or funds are subject to misappropriation by politicians and public enterprise managers for political or personal purposes. This is usually carried out through irregular accounting and banking procedures of public enterprise funds. One of the most common method that has been used by politicians and public enterprise managers to misappropriate such funds in the Moi regime has been to bank public enterprise short-term deposits in ailing financial institutions belonging to prominent personalities. A notable example is that of a prominent cabinet minister and his financial institution, the International Finance Company (IFC). During his tenure as the Minister for Transport and Communications, the minister directed several public enterprises falling under his ministry to bank their short-term deposits with the IFC. The IFC was thus able to rely on three public enterprises as the largest sources of deposits. These were the KPTC, Kenya Ports Authority (KPA) and the Post Office Savings Bank (POSB). These three public enterprises deposited a total of K£4.75 million which formed 94 per cent of the total deposit base of IFC. The minister then borrowed from his own company, the IFC, K£5.9 million which was 90 per cent of the total loan portfolio of K£6.5 million. The IFC was thus left with no capacity to meet its financial obligations as a financial institution. To-date, the minister has not paid the loan nor has any legal action been taken against him. The Auditor General in his report, noted this malpractice and instructed the management of these public enterprises to explain to his office what steps they had taken to recover these funds from the IFC. The General Manager of the IFC, on the other hand, pointed out that he would discuss the matter with company's management to decide on the mode of repayment. The General Manager of IFC acknowledged the fact that the company was facing serious liquidity problems (Government of Kenya, 1989b: 53; Daily Nation, 26th February, 1992: 2; Finance, 1 - 15 Feb, 1991: 12-18).

The chief executive of the KPTC, on the other hand, has on several occasions been criticised and sternly warned by the Auditor General of State Corporations and the Public Investments Committee for the way in which the KPTC deposit's large sums of money with various financial institutions. The KPTC has deposited large sums of money in these financial institutions owned by prominent personalities, at very low rates of interest and without following Treasury instructions with regard to investments. Some of these financial institutions are facing financial problems. For example, as at December 1984, a total of K£1.7 million had been placed in the Bank of Credit and Commerce International (BCCI) which later collapsed following an international scandal. At the same time, a total of K£4.8 million had been deposited in the Transnational Bank of Kenya, owned by prominent Kisii and Kalenjin businessmen. By December 1985, the KPTC had deposited a total of K£9.14 million in such financial institutions, despite stern warnings from the Auditor General and Public Investments Committee (Government of Kenya, 1989b: 78-92; Weekly Review 8 March, 1991: 21).

By being offered protection against legal action, such clients in return have ensured that Moi remains in power by offering political support. In Kenya, about 80 out of the 150 public enterprises earn revenue from sales of goods and services. 40 of these have a Kalenjin as chairman or chief executive. In other words, 50 per cent of the revenue earning public enterprises have a Kalenjin in their top managerial posts (Government of Kenya, 1989a).

4.3.2.3 <u>Contracts and Commissions</u>

Public enterprise contracts, be they for small or large scale investments, have also been used as political patronage resources. In Kenya, such contracts are normally awarded, usually through irregular procurement procedures, to clients who have been able to demonstrate political loyalty towards their political patrons. Contracts for large-scale investments are normally awarded to clients of the president, mainly cabinet ministers, whereas contracts for small-scale investments are awarded to clients of ministers or public enterprise managers. A case in point is that of the National Social Security Fund (NSSF). The NSSF set out to construct a new office complex, which would also cater for its headquarters.

A design of an office complex at a cost of K£10 million was approved and pre-qualification tenders completed. However, before invitation for actual tenders were issued, the contract was irregularly awarded to a local construction company owned by a prominent senior Kalenjin politician, Mugoya Construction Company at a cost of K£21 million. The total amount paid to Mugoya Construction Company so far for this incomplete building has been K£85 million, representing a gross inflation of building costs of about seven times the initial cost approved for the building (Finance 16-31 December, 1991: 20 - 21).

Contracts have also been awarded by public enterprises to prominent personalities for importation of basic commodities. In many instances, these contracts have also been awarded through irregular procedures. For example in 1992, a company belonging to a prominent Kalenjin politician who is the Member of Parliament for Kerio South and also a former cabinet minister, Kenya Complex Company, was awarded by the National Cereals and Produce Board a contract to import 2 million gunny bags. A K£1.7 million letter of credit was opened for the company to import these bags. The managing director and finance manager of the NCPB at the time were Kalenjin (Society July 16, 1992: 45-47). Recently, when the country was grappling with sugar shortages, the Kenya National Trading Corporation (KNTC) authorised the son of a senior Kalenjin politician to import K£1.5 million worth of sugar (Society November 11, 1991: 11).

From such contracts, moreso those of the large-scale investments, clients of the president especially the ministers and public enterprise managers have also been able to benefit from large commissions for irregularly awarding such contracts. It was also revealed in 1991, at a Commission of Inquiry set up to investigate the disappearance and subsequent death of a Minister of Foreign Affairs and International Corporation that three cabinet ministers, each demanded a commission of 10 per cent from an Italian firm to support the firm rehabilitate various public enterprise projects that fell under the co-ordination of their ministries (Kenya Times, 6 November, 1991: 7).

4.3.2.4 Strategic and Social Services

Public enterprise strategic and social services have also on occasion been used for political patronage purposes. Such services are given to those individuals or areas that are considered politically loyal towards the president and the government. During the Kenyatta regime, the main beneficiaries of such services were the Kikuyu. Regions that benefited from such services were those dominated by the Kikuyu. For example in the late 1960s and early 1970s, public enterprises involved in the Africanization policy such as the ICDC and KNTC tended to favour the Kikuyu in the allocation of licenses, business premises, etc (Leys, 1976: 199-205). Those enterprises involved in the modernization of agriculture also concentrated their efforts in the Kikuyu dominated areas of Central and Rift Valley Provinces in order to advance the socio-economic welfare of the small and large-scale Kikuyu farmers (Leys, 1976: 63-117). The Moi regime, too has witnessed the use of such services for political patronage purposes. This has further been aggravated by the establishment of the State Corporation's Act Number 11 of 1986 which states that, the president can, by order establish a public enterprise to perform any function. The president can also give directions of a general or specific nature to the board of any public enterprise regarding the better exercise and performance of its functions (Jackson, 1988: 72). The president can, therefore, use a public enterprise in any way he desires. Moi has diverted the provision of such strategic and social services such as rural electrification and the provision of water facilities from Central Province, formerly Kenyatta's political stronghold to the Kalenjin dominated areas in the Rift Valley province, which is his political stronghold. Moi has also ensured, through the NCPB, that there are adequate food resources in areas of the Rift Valley Province. Moi has on several occasions during political rallies instructed the Minister for Supplies and Marketing to direct the NCPB to ban or restrict the movement of cereals from the Rift Valley Province, to other provinces (Daily Nation, 2nd November, 1992:2; Robert Bates, 1987) Politicians who are clients of Moi have too enjoyed the benefits of such services. An example is that of a Vice President and Minister for Finance in the Moi regime who had electricity installed on his farm by the Kenya Power and Lighting Company (KPLC) free of charge under the rural electrification scheme. The power line which stretches 40 kilometres from its source by-passes several schools and business centres which are still yet to be supplied with electricity (Society, December 2 1991: 2).

Moi has thus been able to maintain and increase his political power by ensuring that through clientelism, public enterprise resources are distributed to clients in return for political support. This support is also evident from the various public enterprise choirs which normally sing political songs in praise of Moi and KANU during national days, political rallies and public functions. The size of the benefits depends on one's political position in the patron-client pyramid. The closer the client is to the chief patron, namely the president, the larger the size of the benefit. As such, the cabinet ministers, who are in themselves regional leaders, are the main beneficiaries of patronage resources and are thus able to mobilize their regions or ethnic bases to politically support Moi and his government. It is for this reason that those public enterprises that command vast resources of patronage are important to political leaders and governments as sources of political power.

The Kenyatta and Moi regimes have realized that the larger public enterprises in Kenya that command vast resources of patronage are important sources of political power. Kenyatta and Moi thus ensured that such enterprises were managed by the Kikuyu and Kalenjin respectively, in order to gain access to state resources.

4.4 SUMMARY AND CONCLUSION

This chapter has been an attempt to demonstrate the significance of public enterprises as agents of development and as sources of political power for political patrons.

It has demonstrated the contribution and significance of public enterprises in the development process and hence, their importance to the government as agents of development. We have been able to demonstrate that public enterprises, both in the Kenyatta and Moi regimes, have been used as sources of political power of political patrons. By dispensing public enterprise resources to clients who are considered loyal, political patrons in both regimes have been able in return to solicit political support by also dispensing resources to members of their ethnic groups.

Of importance therefore to political patrons, are those large public enterprises that command vast resources of patronage such as employment, financial resources and strategic or social services. Others include those that undertake large-scale investments, as such investments also form an important part of patronage resources. For this reasons, both leaders, through clientelism, have managed to facilitate easier access to state resources for their clients.

CHAPTER FIVE

CLIENTELISM AND PRIVATIZATION IN KENYA

5.0 INTRODUCTION

Our attention in this chapter turns to the role of clientelism in as far as it affects the privatization of public enterprises in Kenya. We hope to demonstrate that clientelism has affected the privatization of public enterprises within the context of patronage benefits or losses accruing from privatization.

The first section of the chapter examines the development of the privatization policy in Kenya. In this section, an attempt is made to show how the privatization policy was initiated in Kenya. The second section examines privatization experience in Kenya with regard to the development of the privatization policy and strategy. This section demonstrates the various contradictions that have occurred regarding the policy and strategy.

The third section of the chapter attempts to demonstrate the relationship between clientelism and the privatization of public enterprises in Kenya. In this section, an attempt is made to demonstrate how through clientelism, public enterprise patronage benefits or losses accruing from privatization affect the privatization of public enterprises. An attempt is also made in the fourth section to demonstrate the relationship between the profit performance of public enterprises and their privatization.

5.1 DEVELOPMENT OF THE PRIVATIZATION POLICY

Privatization of public enterprises in Kenya was first recommended in 1979 by the Committee on Review of Statutory Boards. The committee appointed by the president to conduct a policy review of public enterprises recommended the abolition of certain public enterprises as they served no particular or useful purposes. In its report, the committee stated that "because of changed circumstances which have made the terms of reference to some boards irrelevant, and because of obvious overlapping of responsibilities in certain areas, we feel that certain organizations ought to be abolished" (Government of Kenya, 1979: 18-19). The committee also recommended that legislation should be introduced in the form of an Act of Parliament, setting out among other things, the "winding up of parastatals and disposal of their assets on winding up" (Government of Kenya, 1979: 20).

Privatization was however initiated as a donor conditionality in 1982. This was under the Structural Adjustment Lending (SAL) programme. Specifically, privatization was initiated under the Second Structural Adjustment Loan Agreement (SAL II) of July 1982. The SAL II was intended to continue, reinforce and expand progress made under the First Structural Adjustment Loan (SAL I). Under SAL II, some previous policy initiatives continued while new ones were introduced. One of the areas that formed the basis of the agreement was the reduction of Government investments, through privatization. In particular, the World Bank Structural Adjustment Program Element, called for the control and reduction of Government investments, whereas the United States Economic Support Fund Program Element called for the Government to include in its budget, preparations for selected divestiture (Walter E. Hecox, 1986: 18-22; 1988: 190-191). Following these donor conditionalities, the government in the same year released Sessional Paper Number 4 of 1982 on Development Prospects and Policies, which declared the government's committment to structural adjustment of the economy and steps to be taken to achieve reform. A Working Party on Government Expenditure was also appointed by the President in the same year. The objectives of the Working Party were to conduct a review of government expenditures and recommend ways of reducing it.

With regard to the management of public enterprises, the Working Party on Government Expenditures recommended privatization as a way of reducing government investment. In its report, the Working Party stated that:

> ... the Working Party is convinced that government participation in commercial enterprises has been carried out well beyond original conceptions and has reached the point where such a participation is inhibiting rather than promoting development by Kenyan themselves. We feel, therefore, that it is now a matter of high priority for the government to reverse this trend by working out a viable programme for divesting itself some of its investments to Kenyan investors who are prepared to take the risks of enterprise in pursuit of the profits that can be earned (Government of Kenya, 1982:43).

According to the Working Party, this task was to be approached cautiously. The Working Party pointed out that a careful review of all public enterprises was to be carried out to determine and categorise (i) those enterprises that were of foremost strategic importance in terms of national development and private sector regulation and which, as such, had to be retained. (ii) those enterprises whose objectives had been achieved and should be discontinued. (iii) those enterprises whose functions could be absorbed by parent ministries and, finally, (iv) those whose functions could be performed more efficiently by the private sector.

For the latter category, the Working Party emphasized that an effective strategy and mechanism for the divestiture of shares or assets had to be defined. This would differ according to whether the enterprises were (a) profitable and whose shares could be easily disposed of; (b) unprofitable but which could be made profitable before the disposal of shares; and (c) unprofitable and without promise and as such, should be wound up through the sale of assets and dissolution (Government of Kenya, 1982: 43).

The Working Party recommended that the Parastatal Advisory Committee (PAC) (now known as the State Corporations Advisory Committee) be given the responsibility of preparing strategies and mechanisms for divestiture, including employing financial experts as it may decide. The PAC was also to consider in its work how shares and assets would be divested to Kenyan entrepreneur and investors (Government of Kenya, 1982: 43) The Working Party further recommended that a Task Force on Divestiture of Government Investments be set up under the auspices of the PAC to review and assess the activities of parastatals and government investments and to recommend those activities which ought to be divested and the extent and manner in which divestiture should be undertaken without turning government assets into foreign ownership or control (Government of Kenya, 1982: 49). An Advisory Task

Force on Divestiture to carry out this function was appointed in 1983 by the President (Stephen O'Brien, 1992: 2).

Privatization as a policy thus became embraced as one of the long-term development strategies in the Fifth Development Plan of 1984-1988. In its preface, the Minister for Finance and Planning emphasized that the government would rationalise its own involvement in the public enterprises and would thus divest itself of some while others would be made to operate more efficiently (Government of Kenya, 1984: xii).

Since 1982, the privatization process has undergone several experiences. These experiences are examined in the following section.

5.2 PRIVATIZATION EXPERIENCES

Though privatization as a policy was initiated in 1982, thereafter the government has taken certain actions which seem to contradict its privatization policy. These actions range from policy declarations to the establishment of more public enterprises.

Several actions taken by the government demonstrate that the government lacks the commitment or is not willing to effect privatization. The Advisory Task Force on Divestiture appointed by the President met from 1983 to 1986, but was dissolved and ceased to exist, without its various reports being published and as such, did not indicate which public enterprises would be privatized. In 1985, the Office of the Auditor General State Corporations was created indicating the desire by the government to increase control over public enterprises (O'brien, 1992: 2). In 1986, the State Corporation Act Number 11 of 1986 was established. The Act empowered the President to establish public enterprises to perform any functions. By 1988, despite donor conditionalities and policy declarations by the government on the reduction and curtailment of public enterprises, a commercial public enterprise, the Nyayo Bus Corporation, was established.

Two years later, in its Policy Framework Paper for 1990-92, the government declared its intent to strengthen the economic efficiency and financial performance of public enterprises by placing more emphasis on the restructuring of operations of such enterprises rather than divestiture. In the same year, 1990, two cabinet ministers issued contradictory statements concerning the privatization of public enterprises. A Minister for Industry announced that ailing public enterprises would not be sold but instead be revamped through the injection of private sector equity. A Minister for Agriculture on the other hand announced that loss-making public enterprises would be privatized if they did not improve their financial performance. The government also announced that public enterprises would go back under the direct supervision of their parent ministries for more effective management (Daily Nation, July 7, 1990: 12; Sept. 6, 1990: 5; Sept. 10, 1990: 16; Nov. 22, 1990: 6).

However, in April 1991, the government announced policy changes which would oversee the privatization of public enterprises. Public enterprises were classified as strategic and non-strategic. Strategic enterprises were identified as those enterprises or parts of enterprises that were vital to national security or contingency and those providing essential goods and services. All other public enterprises or parts of public enterprises were classified as non-strategic. The government announced that it would privatize non-strategic public enterprises and retain strategic public enterprises. The non-strategic public enterprises or parts of public enterprises were to be gradually liquidated or sold. The government announced that it would maintain the provision of essential goods and services, while taking some transitional functions as a development catalyst. Strategic public enterprises were to be made more efficient. Among the guiding policies issued to implement the comprehensive reforms of public enterprises it was stated that for divestiture of non-strategic public enterprises the most important guiding policy would be to pursue competitive tendering processes to obtain the best price for the sale of assets. The divestiture of public enterprises would not exclude any specific class of potential participant, either as owner, manager or lessor, and if the necessary capital and skills were available from foreign investors, their participation would be accepted subject to their compliance with existing legislation regarding foreign investment (Daily Nation, April 16 1990: 1-2). It is interesting to note that the latter guiding policy is a radical departure from the previously declared policy of privatization on participation. The new guiding policy allowed the participation of foreign investors in the privatization process, as opposed to the initial guiding policy which had emphasised that the privatization process would only involve Kenyan entrepreneurs and investors, to avoid foreign ownership or control.

Two months later, in his budget speech for the fiscal year 1991/92, the Minister for Finance re-emphasized the government's plan for privatization. The minister announced that all non-strategic pulbic enterprises, profitable or non-profitable, would be sold. Complete divestiture would be the method used, and this would be a long-term strategy. The Minister further announced that such enterprises would be sold to co-operatives, farmers, workers, managers or to the public at large. Sales would be based on competitive tenders. The government would institute safeguards to ensure that it obtained the highest market value for its assets. Planned divestitures would be announced and advertised well in advance, with a transparent set of procedures for preparing and submitting bids. Competitive tenders would be considered from potential buyers from both within and outside Kenya. All groups of tenderers would be considered on equal terms, with no preferences given. The minister also added that the criteria for accepting bids would include the tender price, the quality of management proposed, the potential for technology transfer, access to overseas markets and other factors relating to the ability of bidders to run the enterprise profitability in a competitive environment (Kenya Times, June 14, 1991: 7). A month later, the government declared it was withdrawing its interest in 139 companies, as a first step to promote privatization. The president also appointed a Parastatal Reform Committee to supervise the sale of government interests in public enterprises and other private companies (Daily Nation, July 2, 1991: 1; July 5, 1991: 1-2). It is also interesting to note that of these 139 companies, 5 of them are listed as state corporations owned by the Government of Kenya.

As pointed out earlier, though the privatization policy was initiated and declared in the early 1980s by the government, by mid 1991, privatization had not been fully effected as public enterprises had officially been completely transferred to the private sector. It would appear the government lacks the political will or commitment to implement privatization. Our major argument is that clientelism contributes to this lack of commitment or unwillingness. We have also argued that the profit performance of an enterprise affects its privatization. This is demonstrated in the next section.

5.3 CLIENTELISM AND PUBLIC ENTERPRISE PRIVATIZATION

In this section, we examine and demonstrate the relationship between clientelism and the privatization of public enterprises in Kenya. The relationship between profit performance of an enterprise and privatization is also examined.

5.3.1 Patronage Resources and Privatization

In the preceding chapter, we demonstrated that through clientelism, public enterprises are used for political patronage purposes. Political patrons are able to gain access to public enterprise patronage resources which are thereafter used to reward or punish clients in return for political support. Public enterprises, especially those that command vast resources, are therefore important sources of political power. As such, political patrons have resisted the privatization of such public enterprises for they view the transfer of such enterprises to the private sector, will subsequently lead to the loss of political power.

5.3.1.1 Employment

Employment opportunities offered by public enterprises have been used by political patrons for political patronage purposes. As such, many public enterprises in Kenya are overstaffed.

Political patrons in Kenya have resisted privatization not only as they are aware that they will lose political patronage opportunities, but also due to the fact that privatization will result in major employment losses, which may eventually lead to dire socio-political consequences. It has been pointed out by donor agencies that the public sector in Kenya is overstaffed and as such, needs to be reduced by about 40 per cent in order to make it more efficient and productive. Correspondingly, this means that if all the public enterprises in Kenya were to be privatized, their total work-force would be reduced by an average of about 40 per cent in order to make them more efficient and productive. This means that, out of the total work-force of 168,800 people employed by public enterprises, a reduction of 40 per cent would result in 67,520 people losing their jobs. Any political leadership committed to implementing such a move, would have to face the problem of an additional 67,520 unemployed people who also form part of the electorate.

Although the then Vice President and Minister for Finance has announced that the government will establish a fund to cater for the employees who will be laid off during the privatization process, he nevertheless predicted that the expected cut in the public enterprise employment would be opposed by workers and their unions as well as politicians. The kind of safety net envisaged includes minimum statutory severance payments, special credit schemes, re-training and employment (Daily Nation, Feb. 14, 1992: 11). Indeed, politicians in Kenya have on occasion opposed or resisted privatization of certain public enterprises. In 1991, during his tenure as Minister for Transport and Communications, a powerful cabinet minister and Secretary General of the ruling party KANU, announced in a television interview with the Kenya Broadcasting Corporation KBC, without advancing reasons that, public enterprises falling under his ministry would not be privatized. It can be argued that this is a case where a political patron was opposing privatization as he envisaged a loss of patronage resources. This can be demonstrated by drawing three examples of public enterprises that fall under the Ministry of Transport and Communications. The Ministry of Transport and Communications commands among the largest public enterprises in the country. Among these include, the Kenya Post and Telecommunication Corporation (KPTC), Kenya Ports Authority (KPA) and the Kenya Railways (KR).

KPTC employs a total work-force of 30,000 people. The World Bank has pointed out that the public enterprise is overstaffed. The World Bank describes KPTC as grossly overstaffed with a staff ratio of 100 employees per 1000 telephone lines compared to a reasonable ratio of about 60 staff per 1000 lines (Daily Nation Jan. 11, 1992: 1-2). In other words, the public enterprise is overstaffed by twice as much as it is supposed to be. Therefore, in the event of privatization, the work-force would be reduced by 50 per cent for the enterprise to be much more efficient and productive. This means that, a total of about 15,000 people are likely to losse their jobs. KR on the other hand is also overstaffed. According to the World Bank and a senior officer of KR, the work-force of KR needs to be reduced from the current work-force of 22,000 people to 17,000 people for it to be more efficient and productive. In the event of privatization, therefore, 5,000 people are likely to lose their jobs. Furthermore, the World Bank has pointed out that compensation for these people would be about K£33 million (Daily Nation May 31, 1991: 22; April 7, 1992: 8). KPA, another public enterprise which falls under the Ministry of Transport and Communication has a total work-force of 10,000 people. The World Bank also argues that this public enterprise is overstaffed and that the work-force should be reduced by about 30 per cent for more efficient operations and higher productivity (Daily Nation Jan. 15, 1992: 12). This means that, in the event of privatization, the new owners would reduce the work-force from 10,000 people to 6,000 people. 3,000 people would lose their jobs. By implementing the privatization of these three public enterprises, a total of 23,000 people are likely to loose their jobs. The government, on the other hand including political patrons, are also likely to loose a total of about 60,000 employment opportunities representing about 35 per cent of the employment opportunities in the public enterprise sector. The minister could thus have made such remarks, being aware that not only would he lose patronage opportunities, but also popularity among 23,000 people, some of whom may be his constituents and as such, his clients. The minister was also aware that he represented a region where political dissent and opposition towards the president, the ruling party KANU and the government was rapidly increasing. Furthermore, this was also a period when the KPTC and the KR were facing union resistance for declaring redundancies (Daily Nation, May 31, 1991: 32; July 20, 1991: 5).

As pointed out by the government, one of the serious political consequences of privatization will be employment losses. The World Bank has also acknowledged this fact and has pointed out that these people cannot be simply dismissed and put on the street, as this would be politically impossible in an economy with an estimated urban unemployment rate above 15 per cent. The World Bank also argues that it would be socially irresponsible to do so. The World Bank has therefore proposed that it is willing to fund the compensation of redundant workers in order for the privatization process to be implemented. (O'brien, 1992: 5-7; Peter Heller, 1991: 1-5).

5.3.1.2 <u>Financial Resources</u>

Public enterprises that command vast financial resources have on several occasions been used for political patronage purposes by political patrons. Political patrons not only use such financial resources for personal gains, but also for political gains by dispensing such resources to a targeted clientele in return for political support. As such, political patrons tend to oppose or resist the privatization of such public enterprises.

The Vice President and Minister for Finance announced that some of the financial institutions will not be privatized, but instead, will be retained and restructured by the government. Several of these public enterprises have been used by political patrons for political patronage purposes. These public enterprises have been accused by the Auditor General of State Corporations of contravening rules and regulations governing State Corporations and other financial institutions in the country. These public enterprises have been accused among others, of awarding security and interest-free loans and malpractices in banking procedures. The Agricultural Financ Corporation (AFC), one such public enterprise which is to be retained by the government, as pointed out in the preceeding chapter, in 1986/87, guaranteed 17 loanees loans totalling to K£1.9 million. The Auditor General of State Corporations pointed out that this was outside the corporations' laid down procedure for granting such loans. In one such case, the loanee, a prominent personality, had an outstanding loan balance of K£1.75 million. In 1987/88, the AFC arrears in loans were

K£2.6 million (Government of Kenya, 1989b: 6-9). Collection efforts by the AFC according to Grosh, are hampered by politics as the granting of such loans by the AFC in the first place, is a political process. Gross argues that, this is clearly true for those targeted clients who would not qualify for commercial credit and are politically well connected (Grosh, 1988: 193).

The Kenya Ports Authority is also to be retained by the government. Though not a financial institution, the KPA is owed a total of K£.0.15 million by prominent personalities and politicians. In one incident, the KPA has not made any attempt to recover an amount of K£10,343.35 owed to it by a politician (Government of Kenya, 1989b: 51). These public enterprises have been subjected to political pressure as they are government owned or government controlled. However, in case of privatization, such enterprises would no longer be under government control. Political pressure would also reduce, as they would be private entities. As in other private commercial financial institutions in the country, such privatized enterprises would refrain from engaging in glaring malpractices as they would be expected by the new owners to run profitably. Political patrons and their clients are thus likely to cease enjoying the benefits of financial resources such as security and interest-free loans, among others.

Stern legal measures are also likely to be taken against loan defaulters who in most instances, are a poor clientele. This may in turn generate political protest against the government. As pointed out in the preceding chapter, many of the beneficiaries of large loans or misappropriation are senior cabinet ministers, who are also involved in the implementation process. Such political patrons are not willing to give up the benefits of such public enterprises.

Public enterprises such as the AFC, have been subject to political pressure as they do not operate like other private commercial institutions. The AFC, for example, has administered the seasonal crop credit scheme, not offered by other financial institutions. The AFC also offers loans on concessionary terms and furthermore, it has no depositors (Grosh, 1988: 194). However, in the event of privatization, the AFC would most likely adjust accordingly to operate like other private commercial financial enterprises. Hence, this would drastically reduce political patronage opportunities for political patrons.

5.3.1.3 Strategic Services

In 1991, the government announced that it would not privatize what it termed as strategic public enterprises. According to the government, these are those public enterprises or parts of public enterprises that are deemed vital to national security or contingency and those providing essential goods and services. The government announced that it would not only retain these strategic enterprises, but would also restructure them. Table 5.1 below gives a list of those strategic enterprises to be retained by the government.

Table 5.1 Strategic Enterprises in Kenya Under the Privatization Policy

Public Enterprise
Agricultural Development Corporation
Agricultural Finance Corporation
Development Finance Company of Kenya
East African Development Bank
Industrial Development Bank
Industrial and Commercial Development Corporation
Jomo Kenyatta Foundation
Kenya Broadcasting Corporation
Kenya Industrial Estates
Kenya Literature Bureau
Kenya Petroleum Refineries
Kenya Pipeline Company
Kenya Ports Authority
Kenya Post Office Savings Bank
Kenya Posts and Telecommunications Corporation

Kenya Power and Lighting Company

Kenya Railways Corporation

Kenya Seed Company

Kenya Tea Development Authority

Kenya Tourist Development Corporation

Kenya Veterinary Vaccine Production Institute

National Cereals and Produce Board

National Housing Corporation

National Oil Corporation

Nyayo Bus Corporation

Nyayo Tea Zones Development Authority

Post Bank Credit

Rehabilitation Advisory Services

School Equipment Production Unit

Small Enterprise Finance Company

Tana River Development Company

Source: Inspectorate of State Corporations

However, a close examination of these enterprises will reveal that these are the large enterprises that command vast resources of patronage. Strategic and social services offered by these public enterprises are normally dispensed by political patrons to a targeted clientele in return for political support. As demonstrated in the previous chapter, regions that have benefited from such enterprises, in the fields of rural electrification, water development, transport and communication facilities during the Moi regime, have been regions of the Rift Valley province, the political base of President Moi. Furthermore, of interest is that 40 per cent of these enterprises are managed by members of the Kalenjine ethnic group who hail from the Rift Valley province. As clients of the president, these managers must toe the political line and thus direct such public enterprise services to the president's political stronghold. As political patrons of small segments of the public, they are able to assit those members of the public who also toe the political line.

The privatization of such enterprises, would have several dire social economic and political consequences. In particular, it would have a major impact on the main beneficiaries of such services who are mainly located in the Rift Valley province. In the event of privatization, such enterprises would operate as private commercial enterprises. Their main objective would thus be profit maximization. Such enterprises would thus shift their operations to the more heavily populated urbanised areas and the more productive rural areas, where they would benefit from industrialization and agriculture respectively. Such enterprise would also raise the prices of their goods and services, as they would no longer be subject to subventions from the government. Price increases may not auger well especially in the arid and semi-arid regions of the Rift Valley province which are dominated by poor people. Price increases may generate political protests in these arid and semi-arid areas, which are Moi's political stronghold.

Strategic public enterprises such as the Kenya Broadcasting Corporation (KBC) cannot be privatized as they are also used for political purposes. The KBC is used by the ruling party KANU and the government as a tool of political mobilization. KBC has been used extensively by the Moi regime as a tool to popularize the president, the ruling party KANU and the government. As the only broadcasting station run by the government, the KBC does not report any information considered to be political dissent. The KBC has been used effectively by the government and moreso, political patrons, to water down information or public awareness on political opposition or dissent. The privatization of KBC would however reverse this trend, as it would operate as a private commercial entity. Like the private owned Kenya Television Network (KTN), a private owned KBC would no longer report political propaganda, but would report all political views in the country. For this reason, political patrons would rather the KBC remained under government control as political disinformation can be used for soliciting political support from disinformed or misinformed clients. Political patrons would also like public enterprises such as the National Cereals and Produce Board (NCPB) retained by the government as they are aware that food security and the control of food stocks or supplies can be used to reward or punish needy clients in return for political support. Despite calls by the donor community and development strategists for the government to privatize the NCPB, the government continues to retain the public enterprise, for political purposes, especially for controlling the movement of food in the country (Daily Nation Feb. 17, 1992: 15).

The government's unwillingness or lack of commitment towards the privatization process, is further evident from the contradictions and wrangles that occur between the Parastatal Reform Programme Committee (PRPC) and the Capital Markets Authority (CMA). The role of the PRPC is to supervise the sale of government interests and other private companies. Its terms of reference are: First to supervise and co-ordinate the implementation of the Parastatal Reform Programme. Secondly, to examine the financial position of all non-strategic public enterprises. Thirdly to value the assets of public enterprises offered for sale. Fourthly, to determine an appropriate method of divestiture of each non-strategic public enterprise. Fifthly, to determine the terms and conditions of the sale of each enterprise. Finally, to determine those public enterprises that should go public and to advise the Capital Markets Authority accordingly (Daily Nation, July 5, 1991: 1-2). The role of the CMA on the other hand, is to co-operate with the PRPC in ensuring that the strategy adopted is transparent and impartial (Daily Nation, July 2, 1991: 6). However, both bodies have on occasion differed on the privatization process. For example, regarding the 139 companies in which the government is withdrawing its interests, both bodies have differed on the duration and mode of sale. The CMA on the one hand argues that, the process will take five years, whereas the PRPC on the other hand argues that, it will take at least 15 to 20 years (Daily Nation, March 16, 1992: 11).

The PRPC which decides which public enterprises are to be privatized is composed of four cabinet ministers, four permanent secretaries, the Governor of the Central Bank of Kenya and three persons from the private sector. All members have been appointed by the president. The chairman of the PRPC is the Vice President and Minister for Finance. The cabinet ministers and permanent secretaries being political patronage appointees, are subject to political influence or pressure from the president. They can therefore be politically influenced to classify or categorise a public enterprise strategic or non-strategic. They themselves being political patrons, can earmark a public enterprise as strategic or non-strategic, depending on the political interests regarding that particular enterprise. As such, they can classify those enterprises that command vast resources of patronage as strategic in order fort he government to retain them. Among the permanent secretaries appointed to this committee in April 1991 include two powerful permanent secretaries, who later fell out of political favour and were removed from their positions as permanent secretaries. Also among them, was a permanent secretary who was picked up by the police for questioning in connection with misappropriation of the Rural Development Fund (Daily Nation, April 5, 1991: 1-2). Through such a committee, the president as the chief patron or cabinet ministers as political patrons, can influence the privatization process to suit their political interests. Where such political patrons view certain public enterprises as commanding vast patronage resources worth retaining, then they can influence such a committee to retain such public enterprises as being strategic. Where political patrons view public enterprises as of no significant importance with regard to patronage resources, then such enterprises will be earmarked for privatization.

5.4 Profit Performance and Privatization

In this section, we attempt to demonstrate the relationship between profit performance of public enterprises and their privatization.

One of the objectives behind the establishment of public enterprises by governments, including the government of Kenya, is to earn the government revenue. Revenue is supposed to be earned from the sale of public enterprise goods and services, as well as from taxes. In Kenya, however, despite the significant role of public enterprises in the development process, public enterprises have a serious shortcoming. Public enterprises have and continue to perform poorly with regard to financial performance. The government's rate of return on its investments in public enterprises is pathetic. The return to the government's almost K£2 billion worth of investments in the public enterprises is only 0.2 per cent which is about K£4 million. Some public enterprises neither pay taxes nor remit those collected on behalf of the government, while others default on their debts and leave it to the Treasury to bail them out. In the 1990/91 fiscal year, for example, the Treasury paid out K£57 million of debt service on behalf of public enterprises, while it was owed more than K£25 million unpaid taxes. More than 30 per cent of Kenya's deficit reduction target could have been met if only public enterprises paid their taxes and serviced their debt (Kenya Times, June 14, 1991:7).

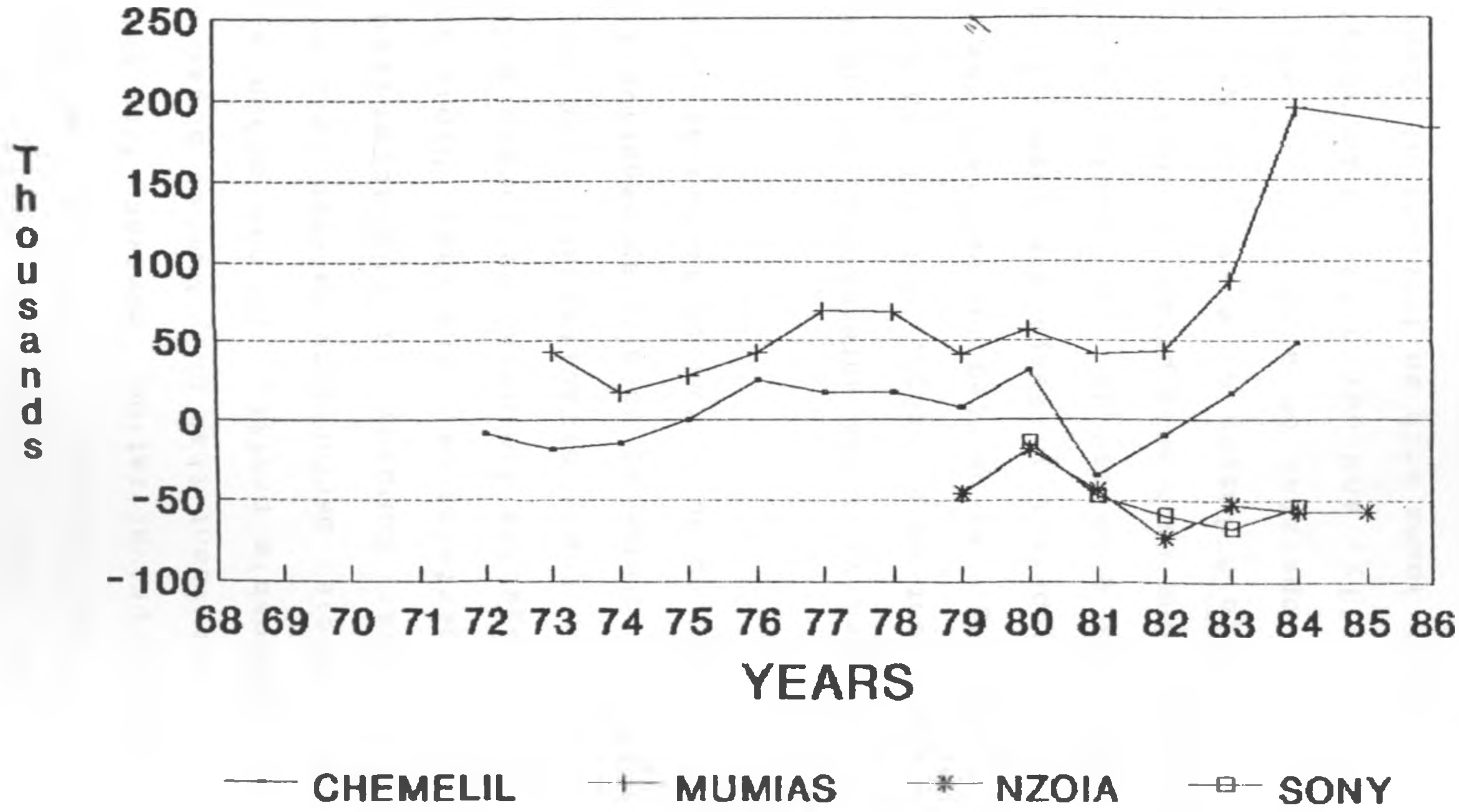
With regard to the privatization and financial performance of public enterprises, the privatization policy is quite clear on this. The initial recommendation of the Working Party in 1982 emphasized that public enterprises be returned to profitability before privatization. Hence, the recommendation was for the privatization of profitable public enterprises. The latter guiding policies on privatization released in 1991, which categorised strategic and non-strategic enterprises, emphasised that all non-strategic enterprises, profitable or non-profitable, would be sold. Indeed, when the government announced that it was withdrawing its interests in 139 companies as a first step to promote privatization, among the profitable concerns were; Bamburi Portland Cement Company Limited, Kenya Breweries Limited, Associated Vehicle Assemblers (AVA), among others. In fact, the majority of these 139 companies are profit making companies as pointed out by the chairman of the CMA. He further added that, loss-making or ailing public enterprises would be privatized after a careful thought (Daily Nation, July 2, 1991: 6). Other profitable public enterprises that have embarked on the privatization process include the Kenya Commercial Bank

(KCB). A former executive chairman of KCB on several occasions argued that privatization could only be a success in only viable and profitable public enterprises and urgued, several public enterprises be returned to profitability before embarking on privatization (Sunday Nation, July 29, 1990: 32).

Other non-strategic public enterprises earmarked for privatization include the sugar companies, for example. Though the total capital invested in four sugar companies namely; Chemilil, Nzoia, Mumias and the South Nyanza Sugar Company (SONY) between 1972 and 1986 was K£569 million, the total returns on capital invested, before tax profits plus interest payments for the same period was only K£20.3 million (Grosh, 1988: 75 - 78) (See Figure 5.1 below).

FIGURE 5.1

TOTAL RETURNS TO CAPITAL (Before Tax Profits Plus Interest Payments)



Source: GROSH, BARBARA, . .

The four sugar companies above have been classified as non-strategic. As such, they are likely candidates for privatization. However, from the figure above, it is evident that only Mumias Sugar Company makes a reasonable profit. It has shown a steady positive financial performance between 1972 and 1986. Chemilil Sugar Company is characterised by a fluctuating performance. The rest, Nzoia and SONY portrayed a negative financial performance for this period. Since their establishment, the two sugar companies have continued to display negative financial performance and as such, can be termed as loss-making enterprises.

With regard to those enterprises, to be retained by the government as strategic, not all can be said to be profit-making. As pointed out earlier, the majority of public enterprises in Kenya are loss-making. The government has also decided to retain loss-making enterprises. One such enterprise is the Kenya Railway (KR). KR sustain losses of more than K£9 million annually. It operates on a deficit of about K£50 million annually, and currently, has about K£150 million foreign loans with an interest of about 10 per cent (Daily Nation, Jan. 17, 1992: 12).

It would therefore appear that, the government has no clear-cut preference for retaining profitable public enterprises, as those already earmarked for privatization include profitable ones, whereas those to be retained as strategic include loss-making public enterprises. Furthermore, the government policy on privatization lays more emphasis on the privatization of profitable public enterprises. Profit performance of an enterprise, thus affects its privatization. The more profitable a public enterprise, the more likely it is to be offered for privatization.

5.5 SUMMARY AND CONCLUSION

This chapter has been an attempt to demonstrate the relationship between clientelism and privatization of public enterprise. The relationship between profit performance of public enterprises and their privatization has also been demonstrated.

The first section has pointed out how the privatization policy was initiated. It argues that the policy was essentially as a donor conditionality under SAL conditions, especially the SAL II. Particular elements included the World Bank Structural Adjustment Program Element and the United States Economic Support

Fund Program. It also points out that privatization became embraced as a long-term development strategy in the Fifth Development Plan of 1984-1988.

The second section has examined privatization experiences in Kenya with regard to the privatization policy and strategy. This section demonstrates that, since the inception of the privatization policy, privatization as a policy and strategy has undergone various experiences, particularly contradictions which emanate fromt he government itself. This has contributed to delays in implementation, hence demonstrating the government's unwillingness or lack of commitment towards implementing the privatization of public enterprises.

The third section has examined the role of clientelism in as far as it affects the privatization of public enterprises. In this section, it has been demonstrated that, where political patrons in Kenya envisage a loss of public enterprise patronage resources arising from privatization, such an enterprise will not be privatized, but retained by the government. A loss of public enterprise patronage resources by political patrons means a subsequent loss of political power, as they no longer have any resources to dispense to clients in return for political support.

Thus, the more political patronage resources a public enterprise commands, the more likely that such an enterprise will be retained by the government. Such an enterprise is useful to political patrons for political patronage purposes. Such enterprises have therefore been termed by the government, moreso by the PRPC which comprises of political appointees as strategic enterprises.

The fourth section has examined the role of profit performance in relation to privatization. In this section, it has been demonstrated that a positive profit performance is a contributing factor to the privatization of public enterprise. Though not a mandatory condition, the government of Kenya has on several occasions emphasized that it would prefer to privatize profit-making public enterprises, whereas attempts to return loss-making public enterprises to profitability before privatization. It has been demonstrated in this section that several of the public enterprises earmarked for privatization are indeed profit-making enterprises, whereas some of those to e retained by the government as strategic enterprises are loss-making enterprises. The government has forwarded the argument that no one is willing to buy a loss-making enterprise. Hence, we can argue that the higher the profit performance of an enterprise, the more willing the government is to offer it for privatization. This therefore disapproves our minor hypothesis that the higher the profit performance of an enterprise is, the less willing the government is to privatize it.

CHAPTER SIX

SUMMARY. CONCLUSION AND RECOMMENDATIONS

6.0 INTRODUCTION

The central purpose of this study was to investigate the causal factors responsible for the lack of political commitment or will by the government to implement the privatization of public enterprises.

In a bid to ascertain what the factors accounting for this unwillingness are a major and minor hypotheses were generated. In the major hypothesis, we advanced that the greater the amount of political patronage resources possessed by a public enterprise, the less willing the government is to privatize it. In the minor hypothesis, it was advanced that the better the profit performance of a public enterprise is, the less willing the government is to privatize it.

The patron-client approach was adopted as a conceptual framework. The argument was that through clientelism, public enterprises are used for political patronage purposes. It was also argued that through clientelism, political patrons affect the implementation of privatization of public enterprises. Clientelism can therefore be used by political patrons to facilitate the centralization, maintenance and augmentation of political power.

The findings are summarised in section 6.1. The conclusions based on findings are presented in section 6.2, whereas the policy and academic recommendations based on findings and conclusions are presented in section 6.3.

6.1 SUMMARY

Chapter Two of this study is basically a review of literature. The literature reviewed highlights information on the contributions that have been made by scholars in the areas of our research interest namely on the role of clientelism and political patronage, the relationship between clientelism and public enterprises, aspects of privatization such as origin, objectives and methods, and most importantly, the relationship between clientelism and public enterprise privatization. The findings point out the gaps that exist with regard to clientelism and privatization of public enterprises with particular reference to Kenya.

6.1.1 Clientelism and Privatization of Public Enterprises in Developing Countries

Chapter Three of this study, examins the relationship between clientelism and privatization of public enterprises in developing countries. Drawing examples from various developing countries of Africa, Asia and Latin America, the findings indicate that through clientelism, public enterprises are normally used for political patronage purposes. Politicians through their immediate clients and who are also their appointees, the political bureaucrats are able to gain access to public enterprise patronage resources which they thereafter dispense to or withdraw from a targeted clientele in order to induce political loyalty or support, the aim of which is to maintain and augment political power. Such public enterprise political patronage resources inlcude employment opportunities, financial resources, contracts, strategic services, etc.

By examining privatization experience in various developing countries, it has been observed that the privatization of public enterprises was essentially initiated as a donor conditionality, particularly by the World Bank and the IMF. Many developing countries have embarked on the privatization strategy but the pace of implementation has been rather slow. By comparing the number of public enterprises privatized and the total number of public enterprises per country from the time when privatization was initiated in such countries up to 1990, it has been emphasized out that the pace of implementation has been slow.

By examining the relationship between clientelism and privatization of public enterprises the findings point out that there is a relationship between clientelism and privatization of public enterprises in developing countries. Politicians and their immediate clients the political bureaucrats who in turn are also political patrons of segments of the public are the main implementing officers of the privatization strategy. Both politicians and bureaucrats as political patrons will facilitate or inhibit the implementation of privatization in view of the political patronage benefits or losses that may accrue from the implementation of privatization. Where such political patrons perceive major losses which may subsequently affect their political power negatively, oppose or resist privatization. Where such patrons have no major losses but major benefits, which will subsequently increase their political power, they facilitate the implementation of public enterprises.

Findings also been argued that in various developing countries, there is a relationship between the profit performance of an enterprise and its privatization. Governments are not willing to privatize profit-making public enterprises, as they are an important source of revenue for such governments.

6.1.2 Clientelism and Public Enterprises in Kenya

Chapter Four of this study, examines clientelism and public enterprises in Kenya. Using historical and current data, the findings indicate that through clientelism, public enterprises have on occasions been used for political patronage purposes. During the pre-independence period, public enterprises were established primarily to serve the interests of a European clientele mainly the white settler community, particularly the agricultural marketing boards and the infrastructural services. However, as independence approached, such public enterprises were re-organized to incorporate the interests of a wider clientele which included Africans. These measures were taken to meet the demands of Africans who were agitating for equal rights.

By also examining the role of public enterprises in the development process, it has been observed that public enterprises in Kenya have made a significant contribution in capital formation, employment, industrialization, the modernization of agriculture and the provision of strategic and social services. For example by 1990, the government of Kenya had invested almost K£2 billion in public enterprises which was 40 per cent of the GDP and at the same time, public enterprises had employed 168,800 people which formed approximately 24 per cent of total public sector employment and approximately 12 per cent of the total number of people under wage employment in Kenya.

The findings are that, during the post-independence period, both the Kenyatta and Moi regimes have used public enterprises for political patronage purposes. Though emphasis is on the Moi regime, it has nevertheless been pointed that during the Kenyatta regime, public enterprises were used for political patronage purposes to ensure that Kenyatta remained in power. The main beneficiaries of public enterprise resources, that is the politicians, political bureaucrats and members of the public, as clients of Kenyatta were mainly from the Kikuyu ethnic group. As beneficiaries of public enterprise resources and as well as being clients of Kenyatta, such politicians, political bureaucrats and members of the public reciprocated with acts of political loyalty and support ensuring that they played a role in assisting Kenyatta to remain in power.

Likewise, during the Moi regime, public enterprises have been used for political patronage purposes. On assuming power as president, Moi began removing members of the Kikuyu ethnic group from top management posts in the public enterprises replacing them with members of his Kalenjin ethnic group. This process was also carried out in the civil service and armed forces. Moi did this out of political expediency, for he considered members of the Kikuyu ethnic group a political threat as they were earlier opposed to his ascension to presidency. This process was intensified from 1982 when Kenya became a *de jure* one party state. Moi was able to appoint or dismiss anyone from the public sector without fear of being held accountable. Furthermore, the new politicians and political bureaucrats, acting as political patrons began shifting public enterprise patronage resources from Kenyatta's political stronghold in Central Province to Moi's political stronghold in the Rift Valley. The new beneficiaries as clients of Moi became mainly members of the Kalenjin ethnic group. The Kalenjin have reciprocated with acts of political loyalty and support as they have been rewarded with public enterprise resources ensuring that Moi remains in power. The Moi regime has particularly made use of the large public enterprises that command vast resources of political patronage.

6.1.3 Clientelism and Privatization in Kenya

Chapter Five of this study focusses on clientelism and privatization in Kenya. Our findings indicate that though privatization was initiated as a donor conditionality in 1982, it was first recommended in 1979 by the Committee on Review of Statutory Boards which recommended the abolishment of public enterprises that had outlived their usefulness. Under the Second Structural Adjustment Loan Agreement (SAL II) of July 1982, privatization was initiated as a donor conditionality. In particular, the World Bank Structural Adjustment Program Element and the United States Economic Support Fund called for the reduction of Government investments and for the government to include in its budget preparations for selected divestiture respectively. Following the donor conditionalities, it has been pointed that the Working Party on Government Expenditure of 1982, recommended privatization as a way of reducing government investments and also outlined certain measures on how the process was to be carried out. Among them was the setting up of a Task Force on Divestiture of Government Investments under the auspices of the then Parastatal Advisory Committee, now known as the State Corporations Advisory Committee which was to oversee the implementation of privatization. The privatization policy became embraced as a long-term development strategy in the Fifth Development Plan of 1984-1988.

By examining privatization experiences in Kenya since then, the findings also indicate that the privatization process has undergone several experiences which seem to contradict the initial privatization policy and hence, the privatization programme. These include contradictory public pronouncements by cabinet ministers who are involved in the implementation process that public enterprises will not be privatized. Also included are policy declarations by the government which lay more emphasis on the restructuring of public enterprises than on privatization as a way of strengthening the economic efficiency and financial performance of such enterprises. The establishement of institutions such as Office of the Auditor General of State Corporations and the State Corporation's Act Number 11 of 1986, is an indication of the government's commitment towards increasing control over public enterprises rather than privatization. The establishment of more public enterprises such as the Nyayo Bus Corporation in 1988 is also a contradiction vis-â-vis the privatization policy. Later in 1991, the government released a new policy guideline on privatization. The new policy, among other things, classified public enterprises as strategic and non-strategic. The government was to retain strategic enterprises and privatize non-strategic enterprises. Strategic enterprises were classified as those that were vital to national security and contingency and those providing essential social services. The new policy also allowed the participation of foreign investors in the privatization process as opposed to the initial policy which allowed only the participation of Kenyan investors.

With regard to the relationship between clientelism and privatization in Kenya, the findings point out that political patrons interfere with the privatization process. Politicians and political bureaucrats acting as political patrons and as well as implementing officers of the privatization strategy interfere with the process by opposing or resisting the implementation privatization, for they perceive major political patronage losses accruing from privatization. It has been demonstrated with statistical evidence for example, the kind of employment opportunities political patrons are likely to lose in the event of privatization and its consenquences. Furthermore, public enterprises classified as strategic and to be retained by the government are those that command vast resources of political patronage. It has also been pointed that the Parastatal Reform Program Committee, the body responsible for overseeing the implementation of privatization is appointed by the President and therefore comprises of political appointees.This committee is composed of cabinet ministers, political bureaucrats and persons from the private sector.

With regard to the relationship between profit performance of a public enterprise and its privatization, findings are that one of the objectives behind the establishment of public enterprises by the government is to earn revenue from the sale of public enterprise goods and services as well as from taxes. However in Kenya, public enterprises continue to perform poorly with regard to financial performance. This has been demonstrated with statistical evidence. It is in this context we argue that, the Government would therefore prefer to retain profit-making public enterprises and privatize loss-making public enterprises. However, our findings point out that from its inception, the privatization policy in Kenya has emphasised all along that candidates for privatization must either be profit-making or public enterprises that must first be returned to profitability before being privatized.

6.2 CONCLUSIONS

The conclusions presented in this section are based on our findings, which are summarized in the previous section.

In Chapter One it has been pointed out that there is a lack of political commitment or will on the part of the government of Kenya to effect the implementaion of privatization, with regard to complete divestiture. As by 1990, almost a decade later since privatization as a policy was initiated, no public enterprise had been completely sold to the private sector.

In the review of literature in Chapter Two, on aspects of clientelism, public enterprises and the privatization of public enterprises, it has been established that there is a relationship between clientelism and the privatization of public enterprises with regard to the political patronage benefits or losses that may accrue to political patrons and their clients in the event of privatization. However, relatively no or little literature exists on the relationship between clientelism and privatization of public enterprises in Kenya.

In the first section of Chapter Three, it has been established that there exists a relationship between clientelism and public enterprises in many developing countries. Drawing examples from various developing countries, it has been established that through clientelistic relationships, political patrons make use of public enterprise patronage resources for personal and political party purposes. The aim of such political patrons therefore, is to centralize, augment and maintain their political power. As pointed out, in one Latin American country, the president had set up a presidential fund to use for his own political interests. The public enterprises in this country were the major contributors to this presidential fund. Public enterprises in developing countries are therefore sources of political power for political patrons.

The pace of privatization in many developing countries is slow despite aggressive donor campaigning. In the second section of the chapter, examples drawn from various developing countries pointed out statistically that only an average of about 15 percent of public enterprises in those countries have been privatized since the privatization policy was initiated in the late 1970s. Hence, the lack of political will or committment or inability on the part of the government to implement privatization.

In the third section which focusses on the relationship between clientelism and privatization of public enterprises in developing countries, it has been established that clientelism plays a role in affecting privatization of public enterprises. Privatization has been implemented by political patrons where they have perceived political patronage benefits or gains accruing from the implementation of privatization. Some of these benefits include the development of a 'crony capitalism'. The development of a 'crony capitalism' has occurred in those countries where the implementation of privatization or the privatization process has been characterized by a lack of transparency. Our findings point out that in some Asian countries where a lack of transparency has characterized the privatization process, public enterprises have been sold to a targeted clientele who support the ruling political party or group. This has resulted in the development of a 'crony capitalism' which in turn supports the ruling political party or group. Privatization has also been implemented in those countries where political patrons have seen the need to restore a harmony of interests or symbiotic relationship between the political class and the economic class, that is, the politicians and businessmen respectively. In some Latin American countries, the economic class has demanded from the political class as a condition for political support privatization as a measure of reducing the role of the state and political interference in the economy. In such countries, political patrons have not only facilitated the implementation fo privatization, but also offered political protection to the new owners, in return for political support. Privatization has also been implemented for those public enterprises that command or possess little political patronage resources. These are those that are small in size and operate in highly competitive markets and as such, are of not much political significance to political patrons.

On the other hand, political patrons oppose or resist the implementation of privatization where they perceive major political patronage losses accruing from the implementation of privatization. Political patrons have resisted or opposed the privatization of those public enterprises that command or posses vast resources of political patronage.

These are those public enterprises that are large in size, and normally enjoy monopoly status. Political patrons have classified such enterprises as strategic and therefore to be retained for security or contingency purposes. It was pointed out that in one Asian country, the cabinet classified such public enterprises as strategic and hence to be retained by the government. Political patrons also oppose or resist the implementation of privatization of public enterprises where they perceive employment losses at the managerial and lower level. From our findings, it was established that public enterprise managers oppose and resist the implementation of their public enterprises for fear of losing their jobs and political patronage benefits of office they enjoy. Such managers are likely to lose their jobs in the event of privatization as their appointments are normally based on political rather than merit considerations. Politicians too, oppose or resist the privatization of public enterprises for fear of losing mass employment opportunities at the lowest levels of the public enterprises which are political patronage resources and also for fear of the political consequences that will arise from mass redundancies which will be declared by the new owners. It was also established in the chapter that political patrons opposed or resisted the privatization of public enterprises where they perceived the transfer of political patronage resources to opposing political factions. This is in those countries where political patrons or factions foresaw the transfer of such resources enhancing the economic

or political dominance of opposing political factions such as classes, ethnic or religious groups. In some developing countries, political patrons as members of the executive and legislative branches of the government are not willing to enact or amend laws that facilitate the implementation of privatization due to fear of losing political patronage resources, thus making the implementation of privatization legally difficult.

From the foregoing, it is evident that political patrons in many developing countries will facilitate the implementation of privatization of public enterprises where they perceive no major political patronage losses or where they perceive major political patronage benefits or gains accruing from privatization. However, where political patrons perceive major political patronage losses accruing from privatization, then they will not be willing to facilitate the implementation of privatization of public enterprises.

With regard to the relationship between profit performance in enterprise and its privatization, it has established that in many of the developing countries, privatization was introduced as a measure of improving the financial performance of public enterprises. As such, several countries have already been earmarked for privatization and privatized loss-making public enterprises, as they prefer to retain profit-making enterprises for they earn the government revenue.

In Chapter Four of this study, it has been established that public enterprises in Kenya have in several occasions been used for political patronage purposes by political patrons during the pre-independence and post-independence period for purposes of regime consolidation. During the post-independence period, both the Kenyatta and Moi regimes' political patrons used public enterprises for political patronage purposes to help sustain the regimes in power. During the Kenyatta regime, Kenyatta as the chief patron and his immediate clients, the cabinet ministers acting as political patrons dispensed public enterprise resources mainly to the Kikuyu who reciprocated by offering Kenyatta political support and loyalty to ensure that he remained in power. In the Kenyatta regime, for example, 45.5 per cent of the top managerial posts in the public enterprises were held by the Kikuyu. The

Moi regime followed a similar pattern. To consolidate his regime, Moi began dismantling the Kenyatta clientelim state. As the chief patron, Moi and some of his cabinet ministers acting as political patrons, began shifting away from the Kikuyus, whom they considered a political threat, public enterprise resources and began dispensing them mainly to the Kalenjin to induce political loyalty and support. The percentage of the Kikuyu in the top managerial posts fell from 35.5 percent during the Kenyatta regime to 16.8 percent in 1991. In the Moi regime, the largest percentage of those in the top managerial posts in the public enterprises have beent he Kalenjin who constitute 25.1 percent of the top management (see Table 4.4). Loyal political patrons and mainly the Kalenjin have been the main beneficiaries of public enterprise patronage resources, for example, employment, financial resources such as security and interest-free loans, contracts and commissions from large scale public enterprise undertakings, strategic and social services. They have reciprocated by offering political support and loyalty to Moi to ensure that he remains in power. Most of the public enterprises used for political patronage purposes during the Moi regime have been the large-sized public enterprises that command vast resources of political patronage. Furthermore, 50 percent of these enterprises are managed by the Kalenjin.

It has also been established in the chapter that the setting up of institutions such as the Office of the Auditor General of State Corporations and the State Corporations Act Number 11 of 1986 during the Moi regime, was a further move by the regime to gain more control over the public enterprises. As pointed out, the State Corporation's Act empowered the President to set up a public enterprise to perform any function which he deemed fit. The fact that the security of tenure of the Auditor General had been removed through a constitutional amendment, can be viewed as an indication that political patrons in the Moi regime were prepared to use public enterprise financial resources for political and personal purposes. By facilitating political patronage, clientelism in public enterprises has enhanced the centralization and augmentation of political power of political patrons in both the Kenyatta and Moi regimes, thereby assisting in consolidating and sustaining such regimes. Public enterprises are therefore sources of political power in Kenya.

Chapter Five focusses on the relationship between clientelism and privatization of public enterprises in Kenya. It has been established in this chapter that there exists relationship between clientelism and privatization of public enterprises. This is the basis of our major hypothesis. It has also been established that there exists a relationship between the profit performance of an enterprise and its privatization. This is the basis of our minor hypothesis. Although the privatization policy in Kenya was initiated as a donor conditionality in 1982 and by 1990, no complete divestiture of public enterprise had been fully effect. Rather, what has occurred since 1982 to the privatization process are policy declarations, political pronouncements and government actions that contradict or are inconsistent with the initial privatization policy. Government actions include among others, the establishment of institutions designed to bring about greater control of public enterprises and the estalbishment of more public enterprises. Political patrons in the Moi regime have opposed the implementation of privatization. Some cabinet ministers have publicly declared that public enterprises falling under their respective ministries will not be privatized, an indication of opposition to privatization. Some public enterprise managers too, have on occasions publicly declared that the government will not privatize public enterprises. Public enterprises that have been classified as strategic under the new privatization policy of 1991, are those that are large in size and command or possess vast resources of political patronage (see Table 5.1). It was also established that 40 percent of these public enterprises classified as strategic under the new privatization policy are managed by Kalenjins, and as pointed out in the preceeding chapter, these are those public enterprises that have been greatly used for political patronage purposes during the Moi regime.

It has also been established that the Parastatal Reform Programme Committee (PRPC), the body responsible for overseeing the implementation of privatization is a political body, hence subject to political influence. The initial committee appointed in 1991 comprised of four cabinet ministers, four permanent secretaries, the Governor of the Central Bank of Kenya and three other persons from the private sector. All were appointed by the president. The chairman of the committee is the Vice President and Minister for Finance. Among the four permanent secretaries initially appointed to this committee, two were politically powerful, who later fell out of political favour following serious political allegations. One was allegedly involved in the murder of a cabinet minister, whereas the other one was allegedly involved in high level corruption. Another permanet secretary had also been questioned by police in connection with the misappropriation of the Rural Development Fund. By virtue of being political appointees, members of this committee were subject to political influence in their decision-making, with regard to the privatization process in Kenya.

With regard to the relationship between profit performance of an enterprise and its privatization, though the minor hypothesis was that the higher the profit performance of a public enterprise, the less the willingness of the government to privatize it, it has been established that since its inception, the privatization policy in Kenya has emphasized the privatization of profit-making enterprises. All along, the privatization policy has emphasized that candidates for privatization must either be profit-making or first be returned to profitability before being privatized. Therefore, in Kenya, profit-making in a public enterprise is a prerequisite for its privatization. Hence, the government is willing to earmark for privatization public enterprises that make profit.

From the foregoing, it is evident that political patrons in Kenya, resist or oppose the implementation of privatization for fear of losing political patronage resources and subsequently political power. Privatization in itself as a measure of decentralizing political power negates the centralization of political power which is one of the aims of political patrons. Centralization of political power is necessary to sustain a regime in power.

Whereas political patronage facilitated by clientelism helps in the centralization of political power, the implementation of privatization is supposed to help in decentralizing political power. In Kenya, political patrons have realized that through clientelism, public enterprises are sources of political power, being public sector organizations that command political patronage resources. Political patrons have therefore found it necessary to use clientelism to interfere with the implementation of privatization so as to retain public enterprises particularly those that command vast resources of political patronage and also as a measure of safeguarding their political power. Clientelism in the public enterprise sector has therefore been used to facilitate the centralization of political power and also to inhibit the implementation of privatization of public enterprises of which one of the main political objectives is to decentralize political power.

.3 RECOMMENDATIONS

The justification and significance of this study would be incomplete if recommendations are not offered. This section therefore offers policy and academic recommendations, based on the findings and conclusions presented in the foregoing sections.

6.3.1 Policy Recommendations

6.3.1.1 The Establishement of a State Corporations Service Commission

In order to reduce political intereference in the day to day running or operations of public enterprises in Kenya as pointed out in the foregoing analysis, it is necessary to depoliticize the appointment of public enterprise chief executives. The government can do this by setting up or establishing a State Corporations' Service Commission to operate more or less like the Public Service Commission. This commission should be composed of members from the public and private sector, the latter of whom should be the majority so as to reduce political influence. The commission should be responsible for the appointment of senior public enterprise executives. Such posts should be advertised in the press and applicants should submit their applications to the commission. During interviews, representatives of public enterprise concerned should attend as members of the panel of interviewers. Merit considerations should be given priority of which one necessary criteria for an applicant should be business acumen. Such senior executive can only be dismissed by the Commission. The non-executive chairmen and board of directors may however remain political appointees without any executive powers regarding the day to day running or operations of the enterprise. Such powers should be limited only to the chief executive and employees of the enterprise. With regard to the performance of the public enterprise, the chief executive shall however be responsible to the Public Investment Committee of the National Assembly. The Public Investment Committee can recommend the dismissal of a chief executive if it is not satsified with his or her performance. Turning our attention to the problem under study, we make the following policy recommendations.

6.3.1.2 The Establishment of a "Non-Political" Privatization Committee

In order to reduce political interference in the privatization process that has been pointed out in the previous sections, we recommend the establishment of a "non-political" privatization committee in Kenya. By "non-political" committee we mean that the committee should not comprise of any politicians. This committee should be broadly specialised to perform both the functions of the Parastatal Reform Programme Committee and the Capital Markets Authority. The committee should be wide enough to incorporate as many members as possible from the public and private sectors. Public sector members should be technocrats from some of the government departments such as the Government Investment Division, the State Corporations Advisory Committee, the Attorney General's Office, the Office of the Auditor General of State Corporations and the Ministry of Commerce and Industry. Private sector members should be key local industrialists or busniessmen, professional groups, NGOs, trade unions, etc. Members should be appointed by the Permanent Secretary, Ministry of Finance with the approval of the National Assembly. The committee should be empowered to elect its own chairman. The committee should also be empowered to contract, if need be, the services of a private privatization agency to carry out certain functions on its behalf.

6.3.1.3 Enabling Political Environment

As pointed out in the previous sections, there is lack of an enabling political environment to implement privatization due to political monolithism in Kenya.

The implementation of privatization should be effected at time when there is an enabling political environment, conducive to transparency and accountability. Such an enabling political environment will occur when political pluralism, particularly multypartyism is well established and institutionalized, that is, the National Assembly will be composed of members from different political parties which are functionally effective. This will also be at a time when the civil service will be non-partisan or impartial. Privatization can be implemented at such a period as it will be conducive to and facilitate transparency in the privatization process. The transfer of public enterprises from the public to the private sector is likely to be open, free and fair. Such an environment is also attractive for local and foreign investments. Investors are likely to have the confidence of purchasing such enterprises. Preference in purchasing should however be given to Kenyan investors. Local as well as foreign banks should thus be encouraged by the government to offer credit facilities to Kenyan investors who wish to participate in the privatization process.

6.3.1.4 Legal Measures

Laws that guide privatization should also be introduced, amended or enacted for privatization to be freely and fairly implemented. Such laws include those of defining property rights, establishing guidelines for articles of incorporation, protecting minority shareholder interests, asset valuation, receiverships, etc. Such legal measures will also ensure minimum political interference in newly purchased enterprises.

6.3.1.5 Compensation Schemes

In order to ensure that potential losers, such as those employees who will be declared redundant in the event of privatization are compensated, safety or precautionary measures must be undertaken. The government should use "safety nets" to compensate those who will lose their jobs. Safety nets should include components such as special bonuses for early retirements, loan schemes or guarantees or other incentives for voluntary departures. The government should therefore establish a safety net fund before the implementation of privatization of public enterprises. This will minimise possibilities of political disorder.

6.3.2 Academic Recommendations

6.3.2.1 Issues for Further Research

Issues for further research related to this study and also the political dimension of privatization include:-

a) A study on how the privatization policy is likely to be implemented under multipartyism as opposed to one partyism. This study dealt with privatization under a one party state. One would like to study how political patrons involved in the privatization process will behave under multipartyism. What will be the trends under multipartyism? Will the process or pace of implementation be faster, the same or even slower? Will the process be characterized by transparency?

b) A study should be conducted on who are likely to be the potential buyers of public enterprises in the privatization process. One would like to find out whether potential buyers are likely to be selected on ethnic, racial, religious or political basis and what impact this will have on domestic politics and development.

c) A study should also be conducted on why the government of Kenya lays emphasis on the privatization of profit-making public enterprises, taking into account that such public enterprises can be an important source of revenue for the government.

d) Finally, a study should be conducted on the methods of privatization in Kenya. One would want to study which method is best suited for Kenya, taking into account the level of development, in particular the nature of economic and political institutions in the country. This would prove useful to policy planners involved in the privatization process.

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