

**EXTERNAL CONSTRAINTS ON POLICY MAKING
PROCESS IN DEVELOPING COUNTRIES (1980-2006):
A CASE STUDY OF KENYA.**

**BY
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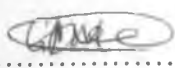
**A RESEARCH PROJECT SUBMITTED TO THE INSTITUTE OF
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DECLARATION

I Catherine Gathee hereby declare that this research project is my original work and has not been presented for award of degree in any other university.

Signed..........

Date.....^{9th} Nov. 2007.....

Catherine Gathee

This project has been submitted for examination with my approval as university supervisor.

Signed..........

Date.....9/11/2007.....

Mr. Lucas Njoroge

Supervisor

DEDICATION

This project paper is dedicated to my husband Robert Wachira and children Angela and Nellius for support accorded to me during my academic engagement.

Also dedicated to my dad, my achievements are all yours.

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ABBREVIATIONS

ADF	African Development Fund
AERC	Africa Economic Research Consortium
AFDB	African Development Bank
ASAO	Agricultural Sector Adjustment Operation
BOP	Balance of Payment
EDP	Export Development Program
EPZ	Export Processing Zone
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
GDP	Gross Domestic Product
IDA	International Development Association of the World Bank Group
IFI	International Financial Institutions
IMF	International Monetary Fund
IPAR	Institute of Policy Analysis and Research
MUB	Manufacturing Under Bond
NCPB	National Cereal and Produce Board
NGO's	Non-Governmental Organizations
ODA	Overseas Development Assistance
PAMSCAD	Programme of Actions to Mitigate the Social Costs of Adjustment
PRGF	Poverty Reduction and Growth Facility
SAC	Structural Adjustment Credit
SAL	Structural Adjustment Loan
SAPs	Structural Adjustment Programs
SDR	Special Drawing Rights
SECAL	Sectoral Adjustment Loan
SPS	Sanitary and Phytosanitary Standards
TBT	Technical Barriers to Trade
UK	United Kingdom

ABSTRACT

The process of globalization combined with Bretton Wood's institutions rules is bound to significantly reduce the autonomy of government in the formulation of economic policy in their pursuit of industrialization and development. It's upon this view that the research project is concerned. The project focuses on the external constraints of policy making process in developing countries with special emphasis in Kenya. Kenya economic reorientation in the 1980s had been paradoxically both spurred and hobbled by the hostile international economic climate and the debt crisis.

Kenya was reluctant to implement these reforms. However the period of policy based lending was followed by partial compliance and full compliance in some sectors of the economy after 1990. The over optimistic policy recommendations have led to a high incidence of shortfalls in performance eroding relations between the government and the international officials and accentuating the decline of public confidence in government's economic management.

The project closes with a conclusion that the country have moved towards a more limited state role in the economy and a more open stance towards international economic agencies. The international institutions have greatly eroded the sovereignty of state. They have almost entirely taken over the policy making role of the state. They have used aid conditionality to weak states like Kenya to ensure this. The shift in this approach is needed particularly with respect to policy dialogue that is genuinely two ways to better serve the goal of increasing government commitment and ownership of structural adjustment reforms.

CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.0 Introduction

At the time of independence, many political leaders in developing countries had a great dream that they would control their economies and their destinies.² After many years of independence the scenario has changed. Political reforms, multiparty democracy and good governance which are externally motivated have now been firmly imposed by donors as principle determinations of the developing countries survival.

There is evidence that some donor communities are anxious not to lose the grip of developing countries and are constantly devising ways of justifying the denial of adequate financial resources to developing countries. In economic terms it has been instrumented in understanding North-South relationships in regard to monetary issue trade and capital flows and accumulation.³ For instance, the pattern of foreign aid countries to be governed by post colonial links.

African nations are characterized by underdevelopment and endless poverty. The policy environment in many countries has continued to pose fairly considerable challenges. In many developing countries key state holders such as private sector and civil society are not fully involved in policy making process's the premises of World Bank approach to

² Mutharika B. *One African One Destiny. Towards Democracy, Good Governance and Development* (Harare: Spares Book 1995) pp 1-2

³ Gomez, DM *Transitional social Policies. The New Development Challenges of Globalization* (Canada: International Development Research Centre 1999) p2

this problem is that underdevelopment of African countries is an outcome of not having the right policies.⁴ Thus structural adjustment measures are needed to ensure this.

World Bank⁵ argues that African governments must review their policies and programs if their development objectives are to be achieved and it also recognizes that policy reforms are difficult and delicate process. In some cases consumers and producers, parastatal managers, civil servants and industrialists have an interest in maintaining existing policies, however inefficient these might be from a national point of view. Further, reform often involves technical questions accompanied by uncertainties and always takes time. For those reasons and others, World Bank argues that African governments will need additional outside assistance.

The World Bank introduced non-project assistance in form of structural adjustment lending in 1980 to assist countries that had formulated comprehensive programs of adjustment to meet the deteriorated balance of payment. The World Bank's 1981 Berg Report created the case of policy lending whereby general budget support was given in returns for policy reforms. The debt crisis suddenly made this form of assistance very important to African countries.

The approach to Economic policies reform has been to open societies to the market and in the process break down barriers impeding the free flow of capital. Consumer foods

⁴ The World Bank, *Adjustment in Africa Results and The Road Ahead* (Washington D.C: The World Bank 1994).

⁵ The World Bank, *Accelerated development in Sub-Saharan Africa. An Agenda For Action* (Washington D.C.: The World Bank: 1981) P7

and information. Reforms in key social sectors are being promoted by a growing number of governments from industrialized and developing countries as well as international organizations and in particular International Financial Institutions⁶. The underlying justification is that reforms will improve efficiency of public policy systems. However, there is need to include people and institutions in Adjustment programmes thereby promoting participation and consultation.

1.1 Statement of the Problem

The primary functions of the Ministry of Economic Planning and Development were to Formulate development policies and co-ordinate their implementation nationally. However, in practice, planning agencies in Africa, as in most developing countries have generally played a minor role in policy making process. They have been engaged mainly in the elaboration of medium term plan documents. Thus planning agencies rarely have the opportunity to give systematic appraisal of projects proposed by spending agencies. In most developing countries, existing economic analysts are poorly used⁷. Planning ministries are the major users of economists however, they are so engaged in medium term plans that little attention is given to policy making process.

A significant number of public policies which have been adopted by African governments for the purpose of achieving development goals have either been suggested to or imposed on these governments by multilateral and bilateral aid donors as part of the

⁶ Gomez D. M. *Transitional Social Policies. The New Development Challenges of Globalization* Canada: International Development Research Centre (1999) p.2

⁷ Odhiambo-Mbai. The Nature of Public Policy Making in Kenya 1963-1999 in Njuguna Ng'ethe and O. Wasuma (eds) *Towards Indigenizing the Policy Debate* (Nairobi IPAR 1998) P. 28

conditions for granting aid⁸. The executive in Sub-Saharan Africa has been entrusted with the task of translating these donor aid conditionalities into official public policies.

The ability to generate good projects is the capacity to sort out those which are good from those which are not so good. This is a vital screening function which should be appraised in all government investment proposals despite the source of funding. There is need to strengthen and give priority to policy making in African countries. Planning and finance ministries need reinforcement if they are to play the important role demanded of them in this era of globalization.

1.2 Objective of the study

1.2.1 General objective

To establish the major external constraints faced by the Kenyan government in policy making process.

1.2.2 Specific objective

- To access the role of Bretton Woods Institutions in policy making process in Kenya.
- To access the level of government compliance with the Bretton Woods Institutions conditions.

⁸ Ibid

1.3 Literature Review

This section attempted to review literature on constraints of policy making process. It will briefly outline what others have written on the constraints of policy making process. First, it looks at broad literature and narrows it down to case of Kenya where both internal and external constraints are analyzed.

Many scholars and researchers have advanced a number of constraints in policy making process. Among them being Mkandawire and Soludo⁹ who observes that there has been hardly any development program in Africa without explicit involvement or endorsement of the donors. They point out that many of the policies implemented in Africa were insisted by international community which includes the multinational Development Institutions especially the Bretton Woods institutions and bilateral agencies mostly former colonial masters.

They argue that a deluge of over 100,000 foreign technical experts costing over 4 million US dollar annually to maintain have literally taken over the process of policy design and sometimes implementation. They continue that Africa has turned into experiment field where all; manner of a ill-digested development theories and pet hypotheses are tested. Mkadawire blames Africa for sheepishly following along. Africa scholars and policy makers he suggests should recognize that their economic crisis require some fundamental adjustment. However, they should raise serious reservations about the relevance and or

⁹ Mkandawire, T. and Soludo C. C. *African Voices Structural Adjustment: A Comparison to Our Continent, our future* (Eritrea: Africa World Press Inc. 2003) pp 3-6

adequacy of the kind of Adjustment being foisted upon them by the Bretton Woods institutions.

He notes that the adoption of Monrovia declaration in 1980 and later Lagos Plan of action and the Financial Act of Lagos by Africa heads of states were Africa's first attempts at articulating a framework for solving its problems. However, the governments either did not have a confidence and courage to implement their own strategies or were constrained by resources. The years that followed saw a continuation of the surrender of national policy making to ever changing ideas of the international experts.

Mkandawire and Soludo assert that African development policies and models have largely come from outside the continent. And that no other region in the world has been so dominated by external ideas and models. They note that throughout adjustment years the Bretton Woods institutions sided much to the initiative and foreclosed the debate by literally insisting that it was either way or nothing.

Soludo calls on Bretton Woods institutions to adopt a creative search for consensus model or some convergence of views about the synthesis of the disparate proposals on Africa development. He suggests a healthier atmosphere of cooperation rather than the confrontational acrimonious debates to forge a new platform for economic policy dialogue based on partnership and consensus building. He however acknowledges that even if the external factors were to blame, it would primarily be the responsibility of

Africans to devise policies to reduce the vulnerability of their economies to such exogenous factors.

This acknowledgement fails to articulate the power structure in the international political economy systems and the fact that international communities have reconstituted themselves while maintaining their specific interests. This is more pronounced when donor aid is accompanied by a set of conditionalities. Aid conditionalities have been donor driven rather than being a product of discussions, mutual agreement and genuine commitment.

In general, Makandawire and Soludo concentrated on policy dialogue in Africa and not individual countries and their experience. This paper aims at bridging this gap and look at Kenya's experience with Bretton Woods institutions.

Henry Bretton¹⁰ examines how aid is designed primarily to serve the interest of the rich. He argues that the real end purpose of economic aid is long range influence or even permanent control and that aid invariably is an extension of national policy on the part of the donor country. He points out that aid provide opportunities for direct influence over policy decisions, but the relationships between aid policy and accompanying terms and effect on the policy alternatives open to the recipient country are tenuous and indirect as a rule. He argues that although the recipient country freely request for aid, conditions attached to offers of aid actually are intended to serve the interests of the donor. At times

¹⁰ Bretton, H. L. *Power and Politics in Africa* (London: Longman 1973) P. 71

poorly designed and inadequately throughout policy decisions accompanying aid are out to destroy the embryonic economy to the advantage of donors.

He further asserts that extreme financial problems have forced most developing countries to request for aid to support economic development and finance the balance of payment deficit. He observes that the major source of aid is from the former colonies who are able to control these economies through aid. In this discussion he observes that French control over nationals in Africa is seen to influence policy decisions, first, the French support was totally withdrawn from Guinea in 1956 in direct retaliation for Guinea's failure to accept the deGaulle constitution that is accept continuous French rule. Second, he observes that when Mauritania in 1970 proposed to make Hasanic Arabic the national language, replacing French, French Aid to Mauritania was reduced. He concludes that Africa countries' have been on the receiving end in the conditionality relationship and inevitably this has allowed outsiders to shape essential internal policies.

Henry Bretton has analyzed the external constraints on policy making process in developing countries primarily focusing on bilateral aid. Moreover, his discussion does not cater for the period after the end of Cold war where traditional aid giver to Africa (former colonies) changed their distribution and composition of aid in favour of other regions. Further, he does not account for the changing role of international financial institutions from their role as guardian of global liquidity to lender of last resort to finance the balance of payment deficits mostly experienced by developing countries.

This paper aims at bridging this gap by looking at Kenya's relationship with donors just before and after the end of cold war. Further, it looks at a chapter on IMF and World Bank conditionality and experience in Kenya.

Ernest Aryeetey¹¹ observes that since the 1980s, donor sponsored reform programmes have exerted increasing pressure on African governments to reduce state involvement in a number of activities. He points out that these activities involves among others the autonomy of state in policy making process. He argues that policy recommendations and attached conditions has enrolled the role of the state in policy making process. He cites privatization of public enterprises as a major issue. He observes that Uganda and Ghana responded to this by retrenching public servants. This resulted to significant unemployment and the governments later tried to remedy the situation with assistance packages for promoting self employment as under the donor sponsored Programme of Actions to Mitigate the Social Costs of Adjustment (PMSCAD) in Ghana.

Another scholar Ankie Hoogvelt¹² like Aryeetey also notes out that donors especially western governments and multilateral agencies have used conditionalities to impose liberal democracy in developing countries. He observes that the European Union formally adopted political conditionality as an aid regime principle in 1989, while the United States added a democracy initiative under the auspices of USAID in 1991. He finds out that today, almost without exception, African States have moved in the direction of

¹¹ Aryeetey, E., Formal and Informal activities in Ellis Stephen (ed) *Africa Now: People Policies Institutions* (Oxford: James Currey Ltd 1996) pp. 119-133

¹² Hoogvelt, A. *Globalization and the Post Colonial World: The New Political Economy of Development* (London: Macmillan Press Ltd 1997) pp. 170-174

competitive multiparty systems with contested elections. Between 1988 and 1993 he points, the United Nations had monitored ballot box elections in some 30 sub-Saharan countries.

Hoogvelt observes that the economies and politics of the new-liberal reforms in Latin America were imposed by the joint IMF stabilization programmes and the World Bank Structural Adjustment Programmes and which was backed by the United States forged new relations between state, society and the market. He points out that these imposed policies led to economic contractions, de-industrialization, savage reduction in wages and declining living standards.

According to Stubbs and Underhill,¹³ the economies of the market system have become increasingly internationalized and therefore increasingly outside the direct control of individual states. He argues that in the anarchic international order, states remain the principle decision makers however they lack political and economic resources necessary to meaningfully shape the direction of political and economic development. He observes that matters of domestic politics have become a concern of state itself and other actors in the international system.

He notes that, as the hegemonic economic power in international system, United States domestic policies have direct consequences for other states, especially for those in Sub-

¹³ Stubbs, R. and Underhill G. *Political and the changing Global Order* (New York: St. Martin Press 1994) pp. 19-21

Saharan Africa whose domestic and foreign economic policies are import dependent on the industrialized countries.

Another scholar Ihonvbere¹⁴ observes that SAP and Political pluralism are western in origin however, the western use strategy to make western interests seem African for the purpose of continued economic benefits. He argues that many NGOs and domestic institutions have reformatted their interests consistent with the need of external funding. He points out that they take their direct instructions from their home states to promote and sustain policies that enhance western economic and political interests. He notes that African-based NGOs, political parties and other social movements rather than push for social issues to be placed on the agenda menus they simply respond to externally channeled messages for political reform.

According to Victor Murinde the Regional initiatives for economic integration in response to the challenges of globalization also constraint the policy making process of individual country. He puts it that when trading bloc specify preferential treatment to its member they directly influence trade policies of individual countries.

Dean Baker¹⁵ finds out that about half the people and two-thirds of the countries in the world lack full control over their own economic policy. He points out that two international agencies - the World Bank and IMF impose policy packages to developing

¹⁴ Ihonvbere *Economic Crisis; Civil society and Democratization: the case of Zambia* (Trenton, NJ: Africa World Press, 1996)

¹⁵ Baker D. et al *Globalization and Progressive Economic Policy* (New York: Cambridge University Press, 1998) P. 37

countries. He suggests that their recommendations are ill founded and counter productive in practice, however, they are backed by powerful economic states like United States and England.

As Jomo et al¹⁶ argue, in Northeast Asian countries, industrial policy has been a variant instrument of economic nationalism used by developmental states, and nationalism, combined with their strategic geopolitics in the post war era has long served as a key legitimizing ideology for late industrialization projects.

Wangwe points out that high levels of aid under SAPs in many SSA countries undermined self sustained development. He notes that SAPs engendered apathy on the part of the recipients which in turn encouraged donor agencies to take over project planning and execution tasks, thereby jeopardizing the long term sustainability of projects.

Wangwe¹⁷ observes that low ownership of the development agenda and of development management is common across Africa. He argues that major policy formulations have either been made by donors or have been influenced by donors. He finds out that in many African countries the period in which SAPs were introduced witnessed the lowest level of ownership of the policy agenda. He continues to note that during this period, donor influence largely came through the design of economic recovery programmes, policy framework papers and public expenditure reviews.

¹⁶ Jomo et al *Southeast Asia's Misunderstood miracle: Industry Policy and Economic Development in Thailand, Malaysia and Indonesia* (Malaysia: Westview Press 1997)

¹⁷ Wangwe S.I, Foreign Aid, Debt and Development in Sub-Saharan Africa: Experiences and Challenges in Aryeetey et al. *Asia and Africa in the Global economy* (Hong Kong: United Nations University Press, 2003) pp 274-178

In his discussion, Wangwe generalized the low level of recipient ownerships across Africa however the project paper aims at demonstrating this at country specific level while dealing with Kenya as the case study.

Maria Nzomo¹⁸ a Kenyan scholar argues that the political economy of Kenya has since the colonial era been subject to a number of external influences. The external forces that have had most impact on the country's economic and political structures include bilateral and multilateral donor agencies and states as well as foreign investors. In her article she examines and analysis the nature and extent of multinational corporations (MNCs) influence on the political economy of Kenya.

She asserts that by their very nature and structure, MNCs are complex and powerful economic entities. They control enormous capital and physical resources necessary for national development. Like many other African countries anxious to attract foreign direct investment she argues, Kenya has found it necessary to maintain a very liberal policy towards foreign investment. She observes that this liberal policy towards foreign investment. She observes that liberalism has left the government to meet their conditions which have direct effect on economic policy. They threatened to chose their factories if their demands are not met.

Nzomo discussed in length the external influence on the political economy in Kenya and dwells on the case of multinational corporations. However, the major international non-

¹⁸ Nzomo M., External influence on the political Economy of Kenya. The case of MNCs in W. O. Oyugi (ed) *Politics and Administration in East Africa* (Nairobi: East African Educational Publishers 1994)

state donor agencies that have of late greatly influenced the Kenyan political economy include the International Monetary Fund and World Bank have not been discussed.

This study examines the influence of these two international financial institutions on Kenyan economic policy.

Anyang'nyong'o¹⁹ agrees that the multinational corporations have compromised the agenda-setting and regulatory functions of the governments. He argues that although localization of many top managerial positions have been achieved, often through the appointment of Kenyans as directors of the subsidiaries of multinational corporations or distributors of their products, parent firms typically retain control over the most critical policy areas, among them decisions on investment planning, capital expenditure, equipment replacement budgeting personnel management, profit targeting and production for export versus local consumption.

Miller and Yeager²⁰ also shares this sentiment. They put it that Kenyan industry is increasingly dependent both on foreign investment and ties with multinational corporations. They point out that industrial decisions depend more on the perceived interests of international capitalism and its local representatives than on the developmental needs of Kenya. They agree that underlying this performance is a pattern of politically endorsed multinational involvement in the Kenyan economy giving rise to

¹⁹ Anyang'Nyong'o The Possibilities and Historical Limitations of import -substitution industrialization in Kenya in Coughlin and Ikiara (ed) *Industrialization in Kenya* (Nairobi: Heinemann 1996) P. 42

²⁰ Miller N. and Yeager R., Kenya: *The Quest for Prosperity* (Boulder: Westview Press 1994) pp. 142-144.

significant loss of national self determination in the formulation, adoption, and execution of industrial policy.

Omolo et al²¹ argues that the growing dependence of Kenyan exporters on the UK markets has significant consequences on farmers, traders workers and other parties along the value chain of the exported products. They observe that Europe which is Kenya's principal buyers of fresh produce have developed guidelines for Good Agricultural Practice (GAP) which forms preconditions for supplying to the UK markets. They agree that these preconditions have influenced farm policies where farmers use recommended chemicals some of which are not very effective though very expensive compared to the prescribed ones further they observe that importers dictate prices to exporters in total disregard of the costs of production and other charges such as transport, labour and warehousing.

Their discussion deal on bilateral constraints however, the study is more concerned with external multilateral constraints in policy making process.

Njeru James²² points out that aid in Kenya has increased steadily since the 1960s with bilateral donors being the key sources of funding mainly project and technical assistance in the 1960s and 1970s. He observes that the UK was the major source of foreign aid to Kenya until the 1980s, when Germany the Netherlands, Sweden, Denmark, Japan and

²¹ Omolo J. *Impact of UK purchasing practices on small and medium-sized Tea and Vegetable producers in Kenya* (Nairobi: IPAR 2005) pp. 22-25

²² Njeru J. *The impact of Foreign Aid on Public Expenditure The case of Kenya* (Nairobi: AERC 2003) pp 10-12

others significantly increased their contribution. He notes that since the 1980s however, multilateral sources have increased in importance with a shift of emphasis from project aid to programme aid. He identifies the major donors as the World Bank, the International Monetary Fund (IMF), European Economic Community (EEC), Organization of Economic Corporation Development OECD among other multilateral sources.

He points out that the government's attempts to finance fiscal deficit rely heavily on the budgetary support programme and other loan facilities offered by the multilateral agencies. However he does not go ahead to discuss how these multilateral agencies have influenced policy decisions arrived at in Kenya. This project paper attempts to fill this gap.

Ikiara et al²³ points out that reviews of economic policy making in developing countries and in sub-Saharan Africa in particular point to dominance of the executive or the presidency in the policy formulation process. He argues that as a result the effective participation of the other state institutions mainly the legislature, judiciary and the political parties in the policy making process is compromised. He observed that the contributions of research institutions, the private sector and civil society are often either ignored or given inadequate attention and priority.

²³ Ikiara et al. Formulation and Implementation of Strategic Trade and Industrial Policies in Soludo et al (eds) *The Politics of Trade and Industrial policies in Africa* (Eritrea: Africa World Press Inc. 2004).

Another scholar Walter Oyugi²⁴ also shares this sentiment. He puts it that over the years the executive has emerged as the center of policy initiative and also as the center of agenda determination. He observes that the executive also works through civil bureaucracy. To him, both the strengths and weaknesses of the bureaucracy in policy analysis bear directly on the quality of policies formulated and implemented.

According to Oyugi, the political configuration of Kenya's parliament is also a major constraint. Parliamentarians he observes, lack the requisite facilities necessary for the satisfactory discharge of legislative duties namely, a well developed library with up-to-date material, a support staff to assist in the preparation of policy papers and adequate office space.

Peter Coughlin²⁵ points out that political influence has been a major obstacle to policy implementation. He sites a case here in 1987 where a Cabinet minister began importing refined sugar under licence and this forced two Kenyan sugar refineries, one of which had just been built at a cost of Kshs.100 million to close. He also notes that due to political influence, plastic baskets have been manufactured and sold at expense of Kenyan women who had converted the weaning of baskets from sisal into a profitable domestic and export venture.

²⁴Oyugi, W., Kenya: Contextual factors and the policy process in Picard and Gravity (ed) *Policy Reform for sustainable Development in Africa. The institutional imperative* (Boulder: Lynne Rienner Publishers

²⁵Coughlin P., Toward a new Industrial Strategy in Kenya in Coughlin and Ikiara (eds) *Industrialization in Kenya* (Nairobi: Heinemann 1988) p. 282

1.4 Theoretical Framework

There are several theories²⁶ of public policy making in literature but the study is using the rational comprehensive model which is based on the assumption that policy decisions are normally arrived at in a rational manner. Thus the exercise involves a number of steps whereby a policy maker identifies the problem, examines the various alternatives for dealing with the problem and eventually selects the best policy package for dealing with the problem on the basis of costs and benefits. The theory is to a large degree only applicable to domestic policy formulation.

International society involves an intensive interaction between and among state institutions. It is therefore necessary to understand the intervention of domestic and international levels of analysis. States remain the principal decision makers in the anarchic international order and they continue to respond to essentially domestic political constituencies. But they are far from processing all the political and economic development in line with preferences. Economic decision making were once matters of domestic politics however they have now spilled over and become contentious in relations among states and other actors in the international system.

Each state has its own interest and its hard to arrive at situation where all interests are satisfied. As a result, different states tend to push for their special interests in policy. In theory and in practice strong states influence the decision making process. This is more

²⁶ There are several theories of public policy making in literature. First, the Rational comprehensive model which is based on the assumption that policy decisions are normally arrived at in a rational manner. Second, the theory of disjointed incrementation which assumes that the day-to-day process of policy making is a conservative exercise and finally the mixed scanning model which combines some of the basic assumption of the rational comprehensive model with those of the Disjointed incrementation.

pronounced through the political economy institutions established by the same states to serve their interests. These institutions include among others the World Bank and International Monetary Fund (IMF). The two international institutions are used by more powerful states as effective instruments of passing on national foreign policy. They are managed by politically appointed individuals from member nations and the political interests of their member influence their decisions. Political factors influence IMF decisions and more powerful members manipulate it to further their own political and economic interests.

IMF in particular serves the interest of the five largest economies which have 45-47 percent of the total votes. These economies have used their voting power to dominate and dictate the activities of IMF. Further the United States has veto power since it controls 17.83 percent of the voting power of the IMF and 85 percent majority is required for important decisions to be made.

Economic factors have played an important role in international relations throughout history. However, it worth noting that economic and political policy issues cannot be isolated from one another. Change even structural change will take place through interaction of the political processes called the states in the system. State is a decision making forum within and around which the politics of the international system takes place, providing an institutional bridge between the domestic and the international. The politics of a state mediates between the economic and political domains and between the domestic and international levels of analysis.

1.5 Justification of the research problem

1.5.1 Academic Justification

In sub-Saharan Africa, a number of authors²⁷ have observed that the process of policy making is generally dominated by the executive or the presidency. According to this view the effective participation of other state institutions namely legislative, judiciary and political parties, in the policy making process is usually compromised.

This observation fails to provide an explanation of how policies are arrived at due to other state institutions and civil society. For instance the view fails to explain how multi party democracy in Africa have been achieved while the executive arm of government was against it. Today, the executive has often shared his policy making role with international financial institutions, multinational companies, bilateral aid agencies and domestic private sector.

1.5.2 Policy Justification

Many scholars have studied various aspects of policy making process in Kenya. Ikiara et al holds the view that public policy making is dominated by the presidency, Maria Nzomo argues that industrial policies are highly dominated by multinational cooperation who influence the policy making process while Omolo observed that bilateral donors especially formal colony constraints the policy making process in Kenya. Just to mention

²⁷ Ikiara et. al. Formulation and Implementation of Strategic Trade and Industrial Policies in Soludo et. al (ed) *The Politics of Trade and Industrial Policies in Kenya* (Eritrea: Africa World Press Inc. 2004). Also see Oyugi W. Kenya: Contextual Factors and the Policy Process in Picard and Garrity (eds) *Policy Reform for Sustainable Development in Africa. The Institutional Imperative* (Boulder: Lynne Rienner Publishers)

but a few, whoever, none of them have pursued the aspect of external constraints posed by multinational institutions. This project paper therefore will contribute to knowledge in this area.

This study therefore will be important in highlighting the phenomena and add more knowledge useful to policy makers which will assist them in dealing with external constraints to make informed policy decision. The study will also assist policy makers to know the implications of general policy which are not country specific and therefore be able to modify imported policies to suit their country.

1.6 Hypothesis

- Policy formulation and implementation is a process that is political at each stage.
- The Kenyan government has full control of its policy making process.

1.7 Methodology

This sub-section deals with methodology used in this dissertation. These include data collection, techniques, area of study research design and method of data analysis.

The study was conducted in Kenya. The problem of study was the external constraints on policy making process in developing countries between 1980 to 2006 with special reference to Kenya.

In this study, two methods of data collection have been used. These are primary and secondary sources although, the study have relied mostly on secondary sources with primary sources supplementing the latter.

Valuable information was gotten form senior officers designated as desk officers from the Ministry of Trade and industry and Ministry of Finance and Planning. This was done through face to face interviews.

The study relied mainly on secondary data. The sources include book from African economic research consortium the Kenya Institute for Public Policy Research and Analysis (KIPPRA), United Nations headquarters office Library and University of Nairobi. Other sources include seminar papers from various ministries and KIPPRA, working papers, discussion papers, journals, annual reports by World Bank and IMF and Republic of Kenya and IMF and World Bank websites.

The research design adopted in this study was purposeful. The population identified for study was composed of key players in the selected ministries because it was considered that they were in a better position to give information required in the study.

The method employed for assessment is “with versus without method” which was used to highlight the influence of programme loan on policy making process under this method what actually happened is contrasted with what it is believed would have happen in the absence of policy based loan.

1.8 Limitations of the Study

The first problem was lack of adequate time to conduct the study. The time period of one year is very challenging. Due to limited time, the study may not be as thorough as expected.

Another problem was with literature in the books which has put more emphasis on non-reforming nature of Kenyan economy while others have dealt more on the impact of structural Adjustment reforms. However, this was taken care of by the current reports and paper which include seminars papers, working paper and discussion papers from ministries, AERC and KIPPRA libraries.

Interviews were confined to the relevant ministries only. It was not possible to interview civil society, the private sector and industrialists.

However, despite the problems encountered, the study made best use of the few crucial respondents, current reports and papers to come up with a truly representative position with regard to the external constraints posed to policy making process in Kenya.

CHAPTER TWO

DOMESTIC AND FOREIGN POLICY IN KENYA

2.0 Introduction

The chapter explores the nature of Kenyan political systems in its relation with the rest of the world. It assesses how Kenya interacts with the rest of the world through its foreign policy. The chapter starts with a wide overview of Domestic and foreign policy in Africa and narrows it down to Kenya.

Most third world countries inherited previously colonized territories. The way they respond to this common condition varied a great deal depending on a number of domestic and external pressures. Africa can be viewed as a continent buffeted by external factors over which it has no control: not only weather, soil and disease, but of trade that have reduced Africa's purchasing power by more than half in recent years. Imposed by commodity exchanges that determine prices of Africa's principal exports in London, Chicago or Tokyo. Africa is caught up in an international system of economies, science and technology that seems to make catching up with the rest of the world a futile dream.¹ Thus, the fact that sub-Saharan African countries largely chose to limit their interaction with the world economy after independence in the 1960's was a consequence of the general desire to reduce the dependence on the colonial powers and other powerful external economic forces.

¹ H. Glickman *The crisis and challenge of African Development* (New York: Greenwood Press 1988) P. 118

The typical African state has gone through a number of transitions with economic policy making since the 1960s. Aron² has described it as having evolved from the small but interventionist state at independence into large socialist state from the mid 1950's to the mid 1970's. It then became the unsustainable state in the rest of the 1970's, suffering from external shocks that it was not equipped to deal with. In the 1980s, with structural adjustment, the state diminished in size as reforms required fiscal prudence and the Breton Woods institutions ensured this. In the 1990's the state became very fragile having failed to achieve a number of the goals of reforms and being unable to deliver various services and resources to its people, leading to a loss of credibility.

2.1 Domestic and Foreign Policy in Kenya

Kenya being one of the African states has also gone through a number of transactions with economic policy making since independence. In the early years of independence, Kenya relied on import substitution strategy and created a generally inward looking sector, with limited technological progress. This was the period when government programmes were heavily subsidized public policy decisions were taken and justified empirically in light of social, political and economic realities. For instance open participation of the civil service elite in entrepreneurial activities was encouraged.

Just like Aron described African states, Kenya too was not left behind. At the end of the 1970's Kenya too suffered from external shocks, it faced falling coffee prices and increasing oil prices. In addition, 1979 and 1980 were drought years and large quantities

² J. Aron *The Institutional Foundations of Growth in S. Ellis (ed) African New: People, Policies, Institutions.* (London: Heinemann 1996) p. 68

of food had to be imported. The budget and balance of payment deficits soared and inflation accelerated. In 1972-1975 Kenya suffered severe external terms of trade shocks – a decline of 232 percent during the first oil price shock. The budget deficit increased from 23 to 4 percent in the early 1970s to around 10 percent by 1981. Inflation accelerated from 3 percent in the first ten years after independence to 13 percent in 1987 and 22 percent in 1982³.

Since the mid 1980s Kenya has embarked on export promotion and reforming the policy environment under the structural Adjustment Programmes (SAPs). According to the World Bank and the IMF the benefits of structural Adjustment programmes would move to quickly revive and modernize African economies and indirectly would promote the development of business and civic groups which would provide a check on government and help contain or prevent autocratic regimes. However, despite the implementation of reforms Kenyan economy has remained poor. For instance, the response in agricultural production towards liberalization has been dismal. Most commodities especially food stuff show a decline in production and unstable world market prices. The limited outcomes of the reforms have left the country more fragile than before. Aid dependency has grown tremendously. To ensure that aid continuous to flow from both bilateral and multilateral sources Kenyan government have had to accept conditionalities that effectively have reduced further the power of the state. Both Nzomo and Aseka argue that the structural Adjustment programme have been ruthlessly applied on the African

³ Op.cit Swamy 1994 p. 199

continent. Aseka⁴ sees the poor who constitute 90 percent of African's population as the victims of SAPs. In the same vein Nzomo⁵ holds that Kenya's implementation of SAPs has led to substantial cut-backs in government social expenditure in critical areas such as health and education.

There are many ways a social problem can attract the attention of policy makers. In constitutional democracies, pressures from interest groups, media attention to a specific issue, personal interests of the legislators, pressures from public opinion, interests of influential members of civil society on the issue and sometimes expert advice of professional and non-governmental organizations; for non-constitutional government. domestic policy largely become candidates for public policy if the political or military elites are interested in the issue. However, some domestic issues become part of the public policy agenda as a result of expert-advice of international non-governmental and international governmental organizations. Examples are the IMF Supervised Structural Adjustment Programs as well the popular movement for democratic transitions in Africa. The general interests of strong states like united states and great Britain whose values and dominate the international system, largely dictate the control of the decision structure. Due to their economic power, their domestic policies had direct consequences for other states especially those in sub-Saharan Africa whose domestic and foreign economic policies were import-dependent on the industrialized countries.

⁴ Aseka, E. M. Africa in the 21st century Eldoret: Zapf chancery 1996

⁵ Nzomo, M. (1994) External influence on the political economy of Kenya: The case of MNC in W. O. Oyugi, ed. Politics and Administration in East Africa, Nairobi: East African Educational Publishers, 1994

Many important policies affecting the future of African politics and society are decided in the capitals of the four Great powers that remain heavily involved throughout Africa at the beginning of the twenty first century.⁶ France maintains the most extensive political – military and economic relationships with African countries. Most notably in Francophone Africa. The United States often became the most identical political-military actor in the non francophone positions of the African continent during the cold war era, and increasing has sought to promote economic links in the post-cold war era. Japan and Germany emerged during the 1980s as extremely involved economic actors and have achieved the status of the second and third most important sources of economic aid or trade for individual African countries⁷.

In the first two decades after independence, the United States and Britain had considerable influence over Kenya's development. Throughout this period Britain remained Kenya's largest foreign investor and trading partner. Britain played a central role in creating the young country's armed forces. Which grew out of the colonial forces created to protect British interest in East Africa. In addition to supplying weapons, equipment and training, many British officers stayed on after independence. Kenya began receiving U.S military aid in 1976 and has cooperated with the U.S on numerous military activities. The Kenya government supported the US-led boycott of the 1980 Moscow Olympics and it refrained from criticizing the western powers for their support of apartheid South Africa⁸. Thus Kenya by and large has accommodated western interests.

⁶ Aiuko, Olajide (ed) *Africa and the Great power in the 1980s* (Lanham M. D.: University Press of America 1987) p. 96

⁷ Schraeder, P. J., *African International Relations* in Gordon A. A. & Gordon, D. L. (ed), *Understanding Contemporary African* (London: Lynne Rienner Publishers 2001) P. 160

⁸ Heilman, B. and Ndumbaro, L. *International Context* in Kaiser, P., and Okumu F., (ed) *Democratic transition in East Africa* (England: Ashgate 2004) P. 148

During cold war, the Western powers were interested in their own issues, which included access to raw materials and strategic political alliances for the security of Western values, rules and norms. For prudent economic and political reasons on the part of Western powers, alliances with dictators in Africa were preferred. In return, African dictators from Mubuto to Arap Moi and across the continent were also beneficiaries of the alliance in two ways. First arms from the west supported the dictator's preference of staying in office especially by silencing those that would oppose them. Secondly western banks offered a safe haven for the wealth amassed by the dictators at the expense of their people. However while the interest of the west were served under the foregoing arrangement, economic and political crises in Africa were largely ignored⁹.

During the cold war era the two super powers (USSR and US) were primarily interested in East African countries as geo-strategic allies. This enabled East African states to extract resources from both sides of the ideological divide. For example, as the Soviet Union strengthened its position in the Horn of Africa, the US countered by rapidly increasing military aid to Kenya, reaching an agreement in 1980 to use its airfields and the port of Mombasa¹⁰. It also followed that the west tolerated autocratic single or no-party systems until the end of the cold war. During this period democracy and human rights were not central issues of concern for western donors. The importance of Kenya to the west for both economic and military purpose declined considerably following the end of the cold war. Regional changes, such as a growing western friendship with Tanzania and Uganda also reduced Kenya's strategic importance¹¹. After the end of cold war, the

⁹ K. A. Kalu *Agenda setting and public policy in Africa* (England: Ashgate 2004) pp. 73-79

¹⁰ Africa Watch Report, Kenya: Taking Liberties (New York : Africa Watch 1991), pp. 372-373

¹¹ *Op.cit* Hilman B. and Ndumbaro, L. 2004 p. 159

United States and Germany started pushing for multiparty politics in East Africa countries and the other donors followed. These external actors attempted to alter the power balance inside Kenya, Uganda and Tanzania by reducing the long enjoyed hegemony of the single-party regime.

The British government called on Kenya to end corruption improve its human rights record and adopt multi-partyism. Other western governments, especially Sweden, Norway, Denmark and Canada consistently raised complaints about human rights violations, corruption and an unfree press. In one incident, Kenyan government broke off diplomatic relations with Norway and expelled its ambassador, who publicly protested the treatment of the political prisoner Koigi wa Wamwere, who had been a resident of Norway. The result was cancellation of Norwegian aid to Kenya worth \$31 million¹².

President Moi had resisted the idea of opposition parties vociferously, arguing that more parties would lead to ethnic conflict and that the calls for change are made by foreigners meddling in Kenya's internal affairs, or their local agents. However, in December 1991 Kenya introduced multi-partyism politics.

Its worth noting that the government implemented a number of other international community's demands. Particularly those advocated by the United States such as enhancing judicial independence by restoring the security of tenure for judges, controversial voting methods were abandoned and a number of jailed multiparty advocates were released.

During Cold War, African leaders had options. The USSR and the United States distributed foreign aid in return for ideological support. With fall of Soviet Union, there is little reason for Western donors to finance African dictators. Today, the multilateral institutions set the agenda and their criteria are economic rather than political. As the cold war ended, the non-governmental organizations acquired a significant influence over western policy toward the economic, political and agricultural crisis in Africa ¹³.

It is axiomatic that nation have interests and principles and that their foreign polices directly reflect their interests. In that context, western governments' pronouncement of economic and political liberalism is a classic case of foreign policy principles. The ideas on the policy agenda of the IMF and the World Bank are specifically set to advance, first and foremost, the interests of both industrialized countries and their corporate elites. Western governments' interests are more directly observed by their actual policies such as the bailout of Mexico and the Asian countries to avert economic crises inimical to western investments interests. The IMF- Supported loans to Russia and the refusal to support a democratically elected government in Algeria are examples of policies that reflect western interests¹⁴.

Post-colonial African states continue to struggle with issues of political and economic development with no clear and generalizable framework for explaining how decisions are to achieve the goals of development by the different governments.

¹² Ibid

¹³ H. E. Purkitt World Politics (United States Naval Academy: Dushkin Publishing Group 1996) p. 157

¹⁴ Op.cit K. A. Kalu p. 76

African states have gone through various phases of political and economic transitions without the requisite transformations because they have largely adjusted to structures external to them and therefore have been unable to internally restructure themselves politically or economically. Thus transition simply leads to change which cannot be assigned any useful value on the lives of the citizens. The outside influence featured prominently in the domestic politics of Kenya, however, it was not decisive in creating viable democracy. The grafting of a multi party system on a fundamentally neo-patrimonial state altered some political practices without modifying the underlying nature of neo-patrimonial rule.¹⁵ The former single party elaborated new strategies to generate the resources required to maintain patron-client relations, while adopting other methods to maximize support and minimize opposition in key constituencies, including the sponsoring of different forms of violence. The appearance of clashes in 1991, the first incidence of large scale inter-ethnic conflict, closely followed political rallies to which high level KANU officials incited violence. The coastal violence in 1997, KANU was similarly linked to the violent attacks on minority ethnic groups that generally supported opposition¹⁶. The Moi government deliberately portrayed the clashes as evidence that multipartyism formed ethnic conflict. To win election, KANU employed numerous tactics including fraud and selective violence.¹⁷ Violence became an integral part of the party's repertoire for remaining in office and general elections since 1992 were manipulated in varying degrees to favour the ruling party.

¹⁵ Grant J. A., *The new Regionalism in Africa* (England: Ashgate 2003) p. 96

¹⁶ Ibid

¹⁷ Brown, S., Authoritarian leaders and multi-party Elections in Africa: How Foreign Donors help to keep Kenya's Daniel Arap Moi in Power. *Third world quarterly* Vol. 22 No. 5 2001 pp. 725-741

Kenya has made major strides in structural Adjustment reforms to liberalize its economy. Structural Adjustment Programmes sought to correct the imbalance in the Kenyan economy and put it back on a path of growth and development. However, neither the anticipated huge increases in export revenues nor the substantial investment from industrialized countries are available to Kenya especially after 1990. Economic stagnation and decline continued until 2004/2005 when the country recorded 5.8 percent growth. Reforms in sectors like health, education and civil service disproportionately affected the vulnerable groups. Cost sharing in public institutions resulted in poor families being unable to get better health care and basic education.

For the policies to be relevant to domestic realities, and for such technical knowledge to have its desired effect in changing the lives of people for the better, analysts and decision makers must be cognizant of the fact that changes are derived from preconceived ideas about how to correct perceived problems or enhance existing good in society¹⁸ The pre-supposition here is that decision makers will not adopt an incremental approach to -all policy issues because they are either uncertain about the likely impact of proposed new policies on policy elites and/or their associates. Ideas conceived for correcting problems in one context may not be relevant for another situation, hence paying attention to ideas and their origins will greatly help clarify why and how the intellectual paradigm from western states may not always be relevant for progressive and productive change in Africa.

¹⁸ Mamdani, The Politics of democratic Reform in Contemporary Uganda, East African Journal of peace and Human rights

The absence of innovative thinking on the part of policy makers in Africa is evident from persistent externally supported and induced adjustments from colonialist, neo-colonialist, modernization. SAP and globalization policies whose requirements have consistently stunted transformative change and restructuring of governance and institutions in Africa. Policies that are devoid of politics in Africa e.g. privatization policies without clear-cut ideological frameworks on how they advance the interest of the citizens tend to obfuscate and not help or advance collective goals. In the case of privatization policies, foreign nationals and corporations and high level officials in government benefit at the expense of the citizen across various countries in Africa without regard to community or societal norms or rules¹⁹.

The absence of established constitutional rules often leaves the policy menu open; the gaps are filled on an ad hoc basis. The absence of an established policy framework in many sub-Saharan African countries is explained by the nature of inherited colonial states and their weaknesses relative to military institutions in Africa, multinational corporations and industrialized western states. This absence of an established policy framework also creates opportunities for mismanagement of public resources and no mechanism for holding public officials accountable for their roles in government. This means that most issues on the policy agenda are recycled for rent-seeking purpose without clear plans for their implementation. Because of the absence of an established policy framework and

¹⁹ Op.cit K. A. Kalu Pp. 3-10

plausible mechanism for holding public officials accountable, non-mutually exclusive external and domestic interests dictate issues on the policy agenda²⁰.

While most of the exogenous arguments appeal to scholars and policy makers who are sympathetic to problems of developing countries, the endogenous explanations are not exclusively advanced by scholars with liberal perspectives. From that point of view, economic problems in the Third world largely reflect inadequate integration of these countries into the international capitalist system. According to the liberal internationalists, the international capitalist system provides an effective structure for development. The Third World, by taking advantage of their markets and technology can bring an end to irrational state policies that impede development²¹. It asserts that based on the logic of free markets the implementation of IMF-supervised SAP would correct market distortions that result from state interventions. However this view does not articulate the power structure in the international political system that privileges the western industrialized countries over the Third World. It does not explain that the positions of power occupied by citizens from advanced western countries in various international organizations like IMF and the World Bank are privileged positions directly related to the power positions of their respective states vis-a-vis the weakness of African states in the international system.

In the 1980's, the World Bank and the International Monetary Fund IMF were able to use the debt crisis to gain substantial leverage over economic policy in Africa. Prior to that

²⁰ R. Gilpin *The political economy of international relations* (New York: Princeton University Press 1987) P. 162

²¹ Ibid

time, Africa had had less occasion to use the IMF and World Bank assistance had been strictly limited to project lending. However, the World Bank's 1981 Berg Report created the case for policy lending, whereby general budget support was given in return for policy reforms²². The debt crisis suddenly made this form of assistance very important to African countries. Overseas Development Assistance (ODA) in Africa become equivalent to nearly half of all public spending²³ thus by the end of 1980's, most African countries had acceded to substantial influence over their economic policies by the World Bank and IMF.

The Bank has been strongly criticized for its neoliberal (free trade, private sector) agenda and the IMF for the negative effects of its deflationary policies on development. The fact that African growth has not recovered has made the wisdom of the international financial institutions policies for Africa Questionable.

The rationalization of Structural Adjustment Programs in sub-Saharan Africa, as well as the promotion of liberal democracies in Africa and elsewhere is two sides of the same coin. Structured to advance/maintain existing rules, norms and institutions of the Liberal International Political economy. The rationalization for African governments to implement SAP and political pluralism is an agenda setting of external policy issues with a domestic face.

²² World Bank Accelerated Development in Sub-Saharan Africa: An agenda for action (Washington DC: World bank 1981) P. 307

²³ World Bank *Can Africa claim the 21st century?* (Washington DC: World Bank 2000)

However within African countries, the continuation of the debt crisis has created negative incentives for development and the local policymakers who influence it. First, a country burdened discourages Foreign Direct Investment. The investor has to would be depreciated if deflationary debt repayment policies were adopted or if it were otherwise indirectly taxed²⁴. Second, once the magnitude of a country's debt arises to a level where it cannot be repaid no matter what painful changes the country makes, its policy makers have no incentive to undertake difficult reforms. In most African countries, the public blames their current economic difficulties on the World Bank's Structural Adjustment Programs (SAPs) of comprehensive economic reform, not on the various policies of their own governments that helped to produce the economic failures to which SAPs were a response. Their leaders take no responsibility either for the past or the changes.

Aid in Africa passes through the hands of local elites in government and non-governmental organizations (NGO's) where it is easily attached for their benefit, and its amount bears no positive relationship to the country's economic performance. Nicolas Van de Walle builds a strong case that African dependence on development assistance, has delayed economic reform and reinforced personal rule political systems²⁵. Collier and Gunning found a negative relationship between economic growth and the amounts of ODA for the great majority of African countries because of their weak policy environments²⁶.

²⁴ Collier and Gunning, *Explaining African Economic performance*, *Journal of Economic literature* *Vo.* 37 *No. 1* (1997) *P.* 27

²⁵ Nicholas Van de walle *African Economies and the politics of permanent Crisis*_(Cambridge: Cambridge University Press 2001) *p.* 213

²⁶ Collier and Gunning, *Explaining African Economic performance*

Beyond implementing, World Bank and IMF economic reforms that are a condition of multilateral aid. local elites have nothing to gain from successful that add to the productive capacity of their economies. By contrast, deal to gain from continuing aid flows- whether they be from government or nongovernmental organizations. Thus the debt crisis exacerbates one of the serious structural deficiencies in the political economy of most African states --- the fact.

Consequently with the end of the cold war, economic aid, new loans and rescheduling of old ones were made conditional to political liberalization. The argument here is not against democratic transitions or even transparency in economic management but how the social problems become policies. It is common sense then, that if the issues and/or problems are external in origin, the expected outcome of such policies should be evaluated before implementation. The push for political pluralism argues Ihonvbere²⁷ is western in origin and a condition for further aid and support. The strategy is to mobilize the masses, ordinary people, market women and members of civil society to accept and fight for liberal democracy which reflects the interests and experiences of the developed social formations. Thus democratic transitions in Nigeria, Kenya, the Sudan, Somalia, Cote d'Ivoire, Cameroon and Equatorial Guinea where the West had previously supported authoritarian regimes, were at the end of the cold war urged to adopt new political systems consistent with western values, norms and interests. The argument for transitions economic and interests and political became conflated in the liberal democratic ideology

²⁷ J. O. Ihonvbere *Economic crisis, civil society and Democratization: The case of Zambia* (Trenton, NJ: Africa World Press 1996) pp. 2-3

within the framework of the IMF and the World Bank. Using the International Governmental Organizations (IGOs) and other NGOs is supposed to provide cover for the source of the argument and therefore the interests that would be served by its outcome.

The western have used strategies to make Western Interests seem African for purposes of economic interests for Western firms, Banks and Institutions.

Colonial African states were born out of the crisis of European states need to exploit other territories to feed their citizens and provide resources for their industries. Similarly, political independence for African states came as a result of crisis in Europe which made it difficult for Europeans to hold to their colonial territories including those in Africa. Economically, African states have become more dependent on western governments for economic aid and support²⁸. The expected outcome of the IMF-imposed SAP reforms of trade liberalization and later political liberalization are hardly for the benefit of sub-Saharan African citizens. The agenda setting strategy is designed to maintain existing institutions for the preservation of liberal democracy and free market ideologies.

The universal free market perspective expounded by liberal internationalists is targeted at increasing wealth of transnational corporations whose allegiance is not to their own states, much less to those of Africa. As Barber points out; the new struggle at the end of cold war is about democracy and the dangers democracy faces in a world where the forces of commerce and the forces reacting to commerce are locked in a struggle²⁹.

²⁸ Op.cit K.A. Kalu Pp. 83-84

²⁹ B. R. Barber *Jihad Vs McWorld* (New York: Ballantine Books 1995) pp. 298-299

The competition between democracy and capitalism has the potential to destroy civil society and eventually western distribution to systems of government-liberal democracy.

From Francis Fukuyamas point of view, the new political discourse at the end of the cold war is the history of liberal democracy over other ideological perspectives. Fukuyama states that "while some present-day countries might fail to achieve stable liberal democracy, others might lapse back into other, more primitive forms of rule like theocracy or military dictatorship, the ideal of liberal democracy could not be improved one"³⁰.

As noted earlier, during the cold war, the western powers supported dictators in Africa for the security of western values, rules and norms. However, ever since the end of cold war, the world economy has witnessed a rapid growth in market oriented reforms and in the democratization process. According to Ndulo Muna³¹ poor governance caused economic stagnation and a real drop in living standards in Kenya. In the 1970s and 1980s, the west touted Kenya as the prime African investment target. Once in power, president Daniel Arap Moi increased restrictions on civil and political rights to reinforce his control, which caused widespread violence and intimidation to dominate Kenya for over two decades. The economic like the political climate declined under Moi; the infrastructure deteriorated, the budget deficit escalated and inflation rose steadily.

³⁰ F. Fukuyama *the End of History and the last man* (New York: Avon Books 1992) P. 11

³¹ Ndulo Muna, *Democratic Reform in Africa* (Oxford: James Currey Ltd 2006) p. 27

In 1990 Moi regime became under pressure from both inside and outside the country that Kenya democratize its political system.³² Internally, Moi was faced by a rising chorus of critics who include, leaders of professional and private voluntary associations, prominent clergy, and human rights activists who refused to be cowed by detentions, harassment, and other means – including torture that the regime employed to subdue its opponents. Externally, the regime came under pressure from major donor countries and international aid agencies, particularly the United States and the World Bank. The international community took a stand on human rights abuses and corruption by limiting funding to the government while simultaneously increasing funding to civil society organizations³³ (CSOs). By investing significantly³³ in Kenya's CSOs, donor nations enabled substantial capacity-building and helped establish one of Africa's most vibrant civil societies. As it turned out in 2002 General Elections, civil society was a key force behind the successful democratic election.

In contrast, despite generous poverty alleviation funding from the World Bank, the IMF and other international donors, president Yoweri Museveni's government of Uganda, remains an authoritarian regime hiding under a façade of inclusion³⁴. The no-party movement severely restricts any political or social opposition, while claiming to increase political participation and inclusion.

³² Barkan, J. D. The Rise and Fall of a Governance Realm in Kenya in Hyden G. and Bratton, M. (ed). Governance and Politics in Africa (Boulder: Lynne Rienner Publishers 1992) P. 183

³³ Op.cit Ndulo 2006 P. 72

³⁴ Ibid

International actors, namely western donors and the Bretton Woods institutions played a key role in supporting the Kenyan government and then, after the end of cold war, dramatically reduced aid and applied pressure for reform.

Samuel Huntington³⁵ assert that the concept of a universal civilization is a distinctive product of western civilization. In the nineteenth century the idea of the white mans burden helped justify the extension of western political and economic domination over non-western societies. At the end of the 20th century the concept of a universal civilization helps justify western cultural dominance of other societies and the need for those societies to ape western practices and institutions.

The development of human resources, constitutes a foundation of economic growth. During the colonial era, education and health services were often concentrated in major urban areas and were commonly skewed toward European immigrant communities. In education the interest of the colonial powers were paramount, and many programs claimed strong European cultural biases. The provision of different levels of schooling, the content of instruction and criteria for advancement were largely borrowed from metropolitan patterns.³⁶ Kenya too inherited this system and has generally adhered to western educational patterns. It has relied on traditional curriculum, made substantial commitments to post primary institutions and used examination based systems of advancement.

³⁵ S. P. Huntington, *The clash of civilization and the remaking of world order* (New York: Simon and Schuster 1996) p66.

³⁶ Chazan, M. et al *Politics and Society in contemporary Africa* 3rd ed (Boulder: Lynne Rienner Publishers 1999) P. 292

The British established Kenya as the transportation hub of East Africa and as an exporter of coffee, tea and other cash crops. After independence in 1963, Kenyatta maintained a capitalist market economy and rejected socialism.³⁷ Kenya like its colonizer favoured capitalist strategies of development. It emphasized the use of selective market incentives for producers and invited private sector involvement in export activities. Kenya adopted indigenization.³⁸ Indigenization policies typically compel foreign firms to relinquish equity often a majority shareholder to local private owners by admitting indigenous partners or divesting shares through the market. with changing political economy in the world, the policy was changed to encourage foreign direct investment and foreign ownerships of equity.

The vast political, economic and social differences separating developed and developing countries indicate that the global South (developing countries) is weak, vulnerable and insecure with these traits being the function of both domestic and external factors. The global South is born into a political-economic order with rules they had no voice in creating. The power is concentrated in the rich western European and North American countries who during the formation of Bretton Woods institution reduced the number of State whose agreement was necessary for effective management by restricting the global South and the communist states of Eastern Europe and Soviet Union³⁹

³⁷ Burgess, S. F., Structural Adjustment and Economic reform in P. J. Kaiser and F. W. Okumu (eds) *Democratic Transition in East Africa* (England: Ashgate, 2004) P. 132

³⁸ Indigenization refers to the transfer of ownership or managerial control from foreign to domestic hands.

³⁹ W. C. Kegley & R. E. Wittkopf *World Politics: Trend and Transformation*. 9th ed. (USA: Wadsworth /Thomson 2004). P. 307

The systems operation was facilitated by the dominate states shared preferences for an open international economy with limited government inventions. However, states trade policies are naturally influenced by the selfish desire to increase the domestic benefits of international economic transactions and to lessen their adverse consequences even if this will undermine the expansion of a global capitalist economy propelled by free trade⁴⁰

This asserts the realist believe that the primary actor in the international system are Nation States in pursuit of what they define as their national interest. However, the argument of this study is that the primary determinants of the role played by these non-state actors (World Bank and IMF) are the larger configurations of power among nation-states that form them. The strong states induce weak states to enter the international system because of the promise of more rapid growth and greater benefits⁴¹. Although nation states, as mercantilists suggest, do seek to control economic and technological forces and channel them to their own advantage, this is impossible over the long run. The powerful states realizing this have used the Bretton Woods institutions to influence the nature of the international political economy system. After Second World War, the United States become the world's new political hegemonic and simultaneously became the preeminent voice in international trade affairs. Removing barriers to trade became a current rounds of trade negotiations that cumulatively produced in tariff rates US market was opened to foreign producer, other countries economies grew, and rising trade contributed to a climate that encouraged others to open their market also.

⁴⁰ Ibid

⁴¹ J. R. Art *International Politics: Enduring, concepts and Contemporary Issues* (New York: Haper Collins publishers 1992) P. 249

However, the United States have not consistently advocated free trade and has not always led in the efforts to promote open trading system. Great powers national interests are sometimes put above international ideas; The United States, Japan and the EU continue to maintain some of their highest tariffs on sugar, milk, meat fruits and vegetables as well as textiles and footwear-precisely the kind of basic products in which developing countries enjoy a comparative advantage because of low labour costs⁴². In contrast, the same great powers have used Bretton Woods institutions to ensure trade liberalization in other states. These institutions have used a set of conditionalities to developing countries as they seek financial assistance. In Kenya for example, agriculture sector adjustment loan required liberalization of marketing board which main responsibility was to market agriculture produce. The World Bank cancelled the second tranche of the second agricultural sector operation because of the reintroduction of grain movement controls. This illustrates how developing countries are subject to external pressure that they cannot influence through unilateral action. Due to their economic and political weaknesses, developing countries have pass over the autonomy of decision making to existing International Institutions.

The economic aspect of the western vision is liberal, economic reform with its stress on markets. Completion strong linkages to a world capitalist economically and a minimal role for the state⁴³

⁴² Op.cit Kegley P. 335

⁴³ D. R. Slater, et al, *Global Transformation and the Third world* (London: Lynne Rienner Publishes 1993). P. 161

The IMF and World Bank have been central to the incremental but increasingly coherent processes of global economic governance, as manifested by two major trends; first increasingly sophisticated and intensive monitoring and analysis of the world economy and second, intensified efforts to manage the world economy by offering advice to the major powers and by intervening directly and quite pervasively in the political economies of developing countries via programs of economic stabilization and structural adjustment program is very intensive the process of developing these programme is laden by conditionality. It involves these institutions in the formulation and management of national economic policies in a quite detailed way a process that some are calling the "new to new colonialism"⁴⁴

The study observes that the structure of international system that prevails rewards statehood in name but not in practice. The narrow economic base has led Kenya a wealth state and has been subjected to a lot of external constraints.

⁴⁴ Ibid

CHAPTER THREE

THE IMF AND THE WORLD BANK CONDITIONALITY

3.0 Introduction

This chapter examines the International Monetary Fund and the World Bank conditionality. It starts by first defining conditionality, what it is and, its strengths and weaknesses. The main body deals on the IMF and the World Bank conditionality imposed on Kenya. This is important because it is through these conditionalities that the two institutions have influenced the policy making in Kenya.

3.1 Defining Conditionality

Conditionality entails offering a benefit if and only if the receiver takes specific actions that the donor desires or refrains from taking actions of which the donor disapproves.¹ Conditions attached to aid can reinforce reforms within recipient countries, focus the attention and maintain the resolve of governments, accelerate some decisions and shape their design. Conditionality can sometimes promote debate and revised assumptions within a country even when the government does not comply with the particular conditions. In practice, conditionality is always combined with persuasion and once a government agrees to undertake reforms, financial assistance constitutes direct and indirect support.

With relatively weak institutions and many aid-dependent economies, Africa has the highest incidence of aid conditionalities. The World Bank conviction that inappropriate

¹ Nelson, J. M. *Encouraging Democracy: What role for conditioned Aid?* (Washington DC: Overseas Development council 1992) p.9

economic policies were the main cause of flagging growth, above all in sub-Saharan Africa began in 1980s to give aid conditioned on specific economic reforms. The IMF and the World Bank attach precise conditions regarding economic reforms to their financial assistance specifying the measures that the receipt must table before funds are released. These conditionalities became increasingly ambiguous and demanding during the structural adjustment programs of the 1980s and 1990s, when a host of conditions were imposed by donors. For instance by 1989 policy based loans accounted for 30 percent of World bank assistance, and more than 60 countries had received one or more such loans.² These conditionalities have shifted from the traditional economic frontier towards political issues such as multiparty democracy, political governance and human rights.³ More conditions have recently emerged, including trade, security and environmental issues. These conditions are tailored to the circumstances of the country. For instance deterioration of economic policies and increased repression of human rights in Kenya prompted member of the World Bank chaired consultative group to suspend new aid pledges for six months in November 1991, pending greater progress on political reform, economic liberalization and corruption. The action was striking because compared to many other African nations, Kenya's economic policies and performance were not bad, nor was the government more repressive than most of its neighbours.

² Ibid

³ African Development Bank, *Aid, Debt Relief and Development in Africa: African Development Report* (London: Oxford University Press 2006) P. 54

3.2 Strengths and weaknesses of conditionality

Owen⁴ identifies these distinct reasons why aid may be made conditional. First, conditions on aid may increase incentives for policy reform by developing country governments. Second, allocating aid to countries with good policy environment may increase the impact of aid spending. Third, aid conditions may increase the ability to account for aid disbursement and its effects.

However, aid conditionality can be problematic for a number of reasons. First, these conditions tend to increase transaction costs for both donor and recipient countries. Second, conditions may reduce predictability, thus, reducing the effectiveness with which aid is used. Third, some of the policy prescription may be misleading due to errors committed, or to poor policy advice given by international consultants. Fourth, the conditions may undermine internal government systems for prioritizing, allocating, managing and accounting for public spending. Fifth, the imposition of external conditions may contribute to poor accountability of developing country governments to their own citizens.

In spite of these problems, international financial institutions led by the Bretton Woods institutions, have utilized aid conditionality as an important instrument for aid delivery. In particular, they have switched from project aid to programme aid conditional upon a wide range of policy reforms.⁵ Government related conditionalities represent the bulk of

⁴ Owen Barder *What sort of conditions should there be on aid?* 2005 available at <http://www.Owen.org/musings/conditionality.php>

⁵ Raffer, K. and HW Singer. *The Foreign Aid Business: Economic Assistance and Development Cooperation* (Cheltenham: Edward Elgar 1996).

the conditions imposed by multilateral donors. For example the average number of World Bank conditions in each Sub-Saharan African (SSA) country rose from 23 during the early 1980s to 56 by the end of the decade. In 1999, the World Bank and the IMF imposed an average of 114 conditions on 13 SSA countries that embraced structural Adjustment Programme at that time, with Senegal and Tanzania receiving 165 and 150 conditions respectively.⁶

It is noteworthy that the proliferation of aid conditionalities in Africa coincided with the rapid decline of Overseas Development Assistance (ODA) to the continent, forcing countries in the region to increasingly depend on loans from the IFIs.⁷ For instance in sub-Saharan Africa the net ODA from non-development assistance committee of the Organization for Economic Corporation and Development (OECD) decline from 685 million dollars in 1980 to 368 million dollars in 1988 and only 90 million dollars in 1989. A slight increase was experienced in 1990 when the region received 380 million dollars and a steady decline continued to be experienced and only 9 million dollars was disbursed in 1995.

The Gross disbursements from private long term loans in Sub Saharan Africa declined from 4,699 million dollars in 1980 to only 2,306 million dollars in 1989. further decline continued and in 1994 only 1,117 dollars were disbursed⁸.

⁶ Nyamugasira, W. *Aid Conditionality policy ownership and poverty reduction: A southern perspective of Critical Issues, Constraints and Opportunities*. The Reality of Aid Project (San Jose: Costa Rica 2000)

⁷ Mutume, Gumisai Africa: *World Bank study says aid cannot buy Economic Reforms*. Third world Network 27 March 2001, Washington DC Available from <http://www.twinside.org.sg/title/connot.htm>

⁸ African Development indicators 1998/99 (Washington DC: The World Bank 1998)

During late 1980s and early 1990s Africa was faced with a deteriorating World economic picture, African countries embarked upon a policy of adjusting their economies and dismantling controls and restrictions that had become institutionalized. This adjustment was generally implemented within context of IMF and the World Bank supposed stabilization and structural Adjustment programmes.

Despite the increase in policy-based conditionalities the result of lending based on those conditions are mixed. An evaluation of World Bank structural Adjustment operations found that compliance with the policy conditions was low.⁹ This problem is particularly severe in Sub-Saharan Africa, where 14 of the 37 countries in the region that took advantage of the structural adjustment lending facilities have a very poor compliance record.¹⁰

3.3 IMF and World Bank Conditionality in Kenya

In a detailed case study of ten African countries (Ghana, Uganda, Ethiopia, Mali, Tanzania, Cote d'ivoire, Kenya, Zambia, Democratic Republic of Congo and Nigeria.) that received substantial amounts of programme aid, Devarajan¹¹ found that only three of these countries (Mali, Ghana and Uganda) reformed successfully; whereas aid postponed policy reform in four other countries (Congo, Kenya, Nigeria and Tanzania). These findings support the results of earlier studies which found that a number of African

⁹ World Bank. *Assessing aid: what works what doesn't and why: World bank policy Research Report* (World Bank: Oxford University press 1998).

¹⁰ World Bank: *Adjustment lending in Sub-Saharan Africa: An update Report No. 16594*. operations Evaluation Department (Washington DC: World Bank 1997).

¹¹ Devarajan, S. *Aid and Reform in Africa: Lessons from ten case studies* (Washington DC: World Bank 2001).

countries did not implement the policy conditionalities agreed upon with donors for instance Botchway¹² cited the case of Zambia where the government did not abolish price controls as agreed upon with the IMF. Indeed, the World Bank itself has admitted that policy conditionality in the sense of compliance with conditions attached to loans has failed. This is echoed by Verschoor who states that there is plenty of evidence that by and large compliance with SAP conditions has not taken place.

The compliance with IMF and World Bank conditions may either be high or low depending with individual's country analysis. The poor compliance does not necessarily imply lack of influence. Even failed conditions may push some officials and groups to consider seriously options that had not before been on the policy agenda.

On this note, evidence makes clear that conditions attached to aid can effectively promote certain types of reforms as will be demonstrated in this study. After the end of cold war, lack of all compliance with agreed conditions attract suspensions and cancellations.

Kenya like many other African countries has received a very sizeable amount of lending for balance of payments support, also referred to as program lending, and since 1980, identified with structural adjustment programs (SAPs). Most of this lending has come from the World Bank and the IMF, which smaller amounts from the Africa Development Bank (AfDB) and bilateral donors, the later often linked to World Bank-supported Adjustment Programs. The following is a list of IMF and World Bank/ International Development Association (IDA) Adjustment lending to Kenya since 1980.

¹² Botchwey, et al. *External Evaluation of the ESAF Report by a Group of Independence Experts* (International Monetary Fund: Washington DC 1998).

Table 1: IMF and World Bank (IDA) Policy reform loans to Kenya

Year	Loan type	Amount millions of SDRS IMF	Comments
1980	Standby	241.5	Only SDR 90 million drawn other cancelled 7 th January 1982
1980	Supplemental facility	184.8	Only SDR 50.1 million drawn cancelled 7 th January 1982
1982	Stand by	151.5	Only 90 million drawn cancelled 7 January 1982
1982	Supplemental facility	96.8	
1982	Compensatory facility	60.4	
1983	Standby	175.9	
1983	Standby	85.2	
1986	Compensatory	37.9	
1988	Standby	85.0	Only SR 62.6 million drawn cancelled 15 th May 1989
1988	Structural adjustment facility	99.4	Only SDR 62.6 million drawn cancelled 15 th May 1989
1989	Enhanced structural Adjustment facility (ESAF)	261.4	November 1991, was suspended in January 1992 and expired in March 1993. balance renegotiated December 1993 and drawn by December 1994
1996	ESAF	149.6	Only SDR 25.0 million drawn suspended July 1997
1997	ESAF	220.0	Suspended
1999	PRGF	175	Considered releasing
2000	PRGF	198	150.0 million released
2001	PRGF	216	Suspended
2003		4.2	Donors committed in support over 4 years.
2004	PRGF	252.8	To support government's economic and governance reforms.

Year	Loan type	Amount in millions World Bank	Comments
1980	Structural adjustment loan I	55.0	IDA lending terms
1982	Structural Adjustment Loan II	130.9	70.0 million on IDA terms 60.9 million on IBRD terms
1986	Agricultural sector Adjustment Operation I	40	IDA terms. Also IDA reflows of 20.8 million
1988	Industrial sector adjustment	102.0	IDA terms. Also IDA reflow of 63.1 million
1989	Financial sector adjustment	75.0	IDA terms only 30.9 million of balance of payments support disbursed. Balance cancelled December 1992.
1991	Education sector Adjustment credit	100.00	IDA terms. 2 nd and 3 rd tranches affected by November 1991 aid freeze loan not fully disbursed until 1995. also IDA reflows of 96.2 million.
1996	Structural Adjustment Credit I	90	IDA terms. Only 44.5 million of credit and 35.3 million of IDA flows disbursed. Balance of credit and 42.1 million of IDA reflows cancelled June 1998
1997	Structural Adjustment Credit II	90	90 million SAC on hold. Suspended lending for 3 years
2000	Economic and public sector reform credit	157	
2001		71.6	Withdrew 71.6 million credit suspended lending.

Source; Devarajan, et al. Aid and reform in Africa (Washington DC World Bank 2001) P.
475 also government of Kenya budget data.

Kenya began its reform efforts with partial decontrols on several fronts, supported by a Stand-By Arrangement with the IMF in 1979 and two structural adjustment programs with the World Bank in 1979 and 1982. Kenya was in fact, the first Sub-Saharan African country to receive structural Adjustment funding from the World Bank and the first to receive an Enhanced Structural Adjustment Facility (ESAF) loan from the IMF. This chapter examines the IMF and the World Bank conditionalities and the Kenya's response to these conditionalities. Kenya like any other developing country had to meet the IMF and the World Bank conditions for it to acquire financial assistance to finance its budget and balance of payment deficits.

Kenya officially adopted structure adjustment programmes in 1979 as a condition when it sought financial assistance from IMF. Terms for a standby agreement was agreed upon in August 1979 but disbursements were delayed for a year because the ceiling on government borrowing from the Central Bank provided untenable. With this delay, the government needed quick-disbursing money urgently – which happened to coincide with World Bank's decision to move from medium term balance of payments supports, essentially to help countries adjust to the oil price shock.¹³ To meet World Bank demands import controls were liberalized and interest rates increased in 1980. The budget deficit worsened partly due to falling government revenue and in the second half of 1981 the external reserves were more or less depleted and had to be replenished by borrowing from the Euro currency market.¹⁴ The government conceded a measure of

¹³ Swamy, G. 1994 Kenya: Patchy, Intermittent commitment in I. Hussein and R. Farugee (eds) *Adjustment in Africa: Lessons from country case studies* (Washington DC: World Bank) P. 200

¹⁴ Blomstrom, M. and Lundath, M. *Economic Crisis in Africa: Perspectives on policy Responses* (London: Rutledge 1993). P. 64

liberalization under pressure from both the IMF and the World Bank. The Bank committed an IDA structural Adjustment credit of US\$ 55 million in March 1980.

In January 1982, a stand by agreement with tough conditions was reached with the IMF. The condition was to undertake a review of maize marketing and implement its recommendations¹⁵. This adjustment loan was stopped afterwards due to lack of compliance. In July the same year the World Bank had committed US\$ 130.9 million. However, because of Bank dissatisfaction with the government's progress in meeting the policy reform conditions, release of the US\$50 million second tranche of the 1982 operation was delayed for nine months until early 1984. These funds were finally disbursed even though the conditions especially those with cereals marketing liberalization were not fully met.

The attempted coup of August 1982, led to capital flight, and considerable policy changes were brought about. Technocrats within the domestic financial institutions gained increased influence, due to the economic and political crisis. This group managed to bring a number of reforms, and one lasting achievement was the reduced politicization of the exchange rates and interest rate¹⁶. Interest rates became positive in real terms after 1982. In monetary policy, Kenya has since then tried to maintain real interest rates positive, but the nominal interest rates have continued to be rigid and other monetary instruments have not changed much. The Central Bank has tried to control banks through liquidity ratios and use other asset requirements for non-banks financial institutions.

¹⁵ Op.cit Swamy, G. 1994 P. 194

¹⁶ Op.cit Blomstrom 1993 P. 65

Foreign Direct Investment (FDI) is matched to good economic policy. An argument held deeply by IMF and the World Bank. The multilateral cooperation (MNCs) have used this argument to push for their own interest in most developing countries. They have used their economic power to weaken the political economy of most African states .the attempted coup of 1982 acted like a catalyst in pursuing this end. Many presidents in Sub-Saharan Africa are more worried about coups, invasions and rebellions, its no wonder that the Kenya's president accommodated the view of MNCs and by so doing experienced are external constraint as they influenced economic policy making process. The realization of lost autonomy in this case might have been the major reason of total lack of compliance with the IMF and the World Bank conditionality in the same period.

In 1983 a new IMF stand by agreement of Special Drawing Right (SDR) of US\$179.5 million was signed.¹⁷ The condition attached were devaluation, increased agricultural prices, reductions in bank lending and reforms in credit policy. This was the first programme in several years that was actually implemented. The exchange rate regime was switched from one with the shilling pegged against he dollar to a more flexible rate with the shilling pegged to the SDR. Since 1983 Kenyan policy makers have pursued a fairly cautious economic policy which has meant that the macroeconomic aggregates have been kept under a measure of control.

In 1985 Kenya enjoyed coffee price boom after Brazil experienced draught. This together with falling oil prices led to an improvement in the balance of payments and faster economic growth. The boom however was short lived. Real coffee and tea prices fell to

¹⁷ Ibid

very low levels and there was again increased restrictiveness in the administration of imports and need for external funding. In the event, the sessional paper of 1986 was drafted. It contained policy statements on reforming agricultural marketing reducing protection to industry and controlling public spending.¹⁸ In the agricultural sector adjustment loan (1986) the National Cereals and Produce Board (NCPB) was to be restructured including a write-off of debt to reduce its claims on the budget. However, this restructuring never happened and the second agricultural sector Adjustment loan (1990) asked for performance contracts to raise the National Cereals and Produce Board efficiency. And conditions continued to be imposed for studies, plans and exchanges of views. The second agricultural sector adjustment loan had the following second trache conditions: to finalize studies on increasing the efficiency of private particular imports and on minimizing the distortions from aid-financed fertilizer, to complete a food security plan (started under the first loan), and to prepare a drought contingency plan.

The first adjustment attempt (1980-1984) was marked by a total lack of compliance, partly because of design and timing problems but also because the commitment to the stated policies changes was limited to top civil servants. In the second period of adjustment (1985-1991) much effort went into building a broader consensus, the pace was incremental and the committee of top official waxed and waned. The lack of transparency in the implementation of reforms often damped or nullified the structural reforms that were undertaken.¹⁹ Although almost all imports were in principle liberalized in practice there was lack of automaticity and transparency and undue influence restricted

¹⁸ Op.cit Swamy, G. 1994 P. 193

¹⁹ Ibid

imports that competed with domestic production. Each loan was fettered with too many conditions that were too general, focusing on studies and action plans partly because of inadequate sector understanding and partly because of political considerations. The World Bank also released credit tranche when conditionalities were met more in letter than in spirit.

However, this condition was not long lived. The world Bank soon found itself in a position of being unable to justify such releases. In September 1992, the World Bank decided to postpone disbursements of the second tranche for ongoing operations because several sector-specific conditions had not been met.

The IMF programmes of stabilization and the World Bank programmes of structural adjustment in developing countries impose conditions that stipulate structured reform of policy regimes. However, the terms and conditions of the rescheduling packages have been remarkably similar whether introduced under IMF stabilization agreements or under IMF/World Bank structural adjustment facilities. In both cases the scope and detail of the combined IMF conditionality rules and the world Bank's structural adjustment contracts have amounted to a degree of economic intervention in the developing countries.

At the beginning of 1992, the government was required by IMF to stabilize the macroeconomic environment by reducing the budget deficit to 2 percent of GDP in 1992-3 through improved efficiency in revenue collection, reduction of government expenditure, privatization and restructuring of parastatals and a tightening of monetary

policy using open market operations and improved supervision by the Central Bank. These, in essence served as the conditions that needed to be satisfied before aid could be disbursed. In September 1992, the World Bank decided to postpone disbursement that were in progress, due to poor implementation of a number of the conditions attached to the sectoral programmes.²⁰

In December of the same year the second tranche of the agricultural sector adjustment loan was cancelled because of the imposition of the grain movement controls that had been imposed two months earlier.

The monetary financial and external sectors were the main areas of concern for the donors in 1992. In February 1993 the government floated the shillings, reintroduced retention accounts for the traditional exports and service sectors, expanded the interbank market and understood some liberalization of the coffee and tea marketing systems in the attempt to mend its fences with the donors. Despite these efforts the IMF and the World Bank remained dissatisfied because the government had failed to implement the tight monetary policies required. The role of Central Bank of Kenya in policy making which included among others the control of foreign exchange rate diminished over time as shilling was allowed to float freely and commercial banks effected foreign payments for the clients. Its role in controlling money supply have also been constrained by subsidiaries bank who seek assistance from parent banks in the overseas.

²⁰ Geest, W. & Hoeven R. Adjustment, Employment & Missing Institutions in Africa (Geneva: International labour office 1999) p77

In November 1993, Kenya applied for a one-year arrangement under the ESAF. The IMF accepted the application so long as the following conditions were fulfilled: implementing more effective control of the fiscal deficit and of government borrowing from the central Bank and setting and observing targets on its net international reserves, putting limits on new non-concessional external loans contracted or guaranteed by the government and limiting increases in the government's short term external debt. The loan was to be disbursed in two equal installments and second disbursement was to be released only if the government fully decontrolled the pricing and marketing of maize and petroleum products, increased proportion of foreign exchange retained by exporters to 100 percent of export earnings, and relaxed the restrictions on payments and transfers for current international transactions, imports and for balance of payments.

The government has entered into a continuous series of adjustment programmes with the World Bank and IMF. The policy framework throughout emphasize macroeconomic stabilization through fiscal and monetary and exchange rate management - the preview of the IMF and the trade liberalization supported by the World Bank. But the policy agenda also encompasses a range of other measures: interest rate deregulation domestic price decontrol, cereals market liberalization decontrol of markets for agricultural inputs and other agricultural outputs such as meet, dairy products, cotton and sugar; export incentives schemes, reform of financial sector management and regulatory reforms, and even family planning and financing for reforms in the health and education sectors.²¹

Op. cit Devarajan, S. 2001 P 493-4

Nearly all administrative controls on producer and retail prices, imports, foreign exchange and grain marketing were removed. The government of Kenya has privatized a range of publicly owned companies, reduced the number of civil servants and introduced conservative fiscal and monetary policies. All this was achieved under the pressure of IFIs and the desire for foreign aid. It is no wonder then that reversals in some areas have been experienced. With coming into power of NARC government, a number of civil servants have been employed putting more emphasis on women. Further privatization have been slowed down putting more emphasis on number of shares foreign investors should hold.

Throughout the entire SAP period the timing and sequencing of the various reforms measures varied significantly reforms have been implemented at an extremely uneven pace with respect to both different policy reforms areas and time periods with intervals and steady and sometimes rapid, progress followed by stagnation and occasional reversals.

Between 1980-1985 the period was characterized by total lack of compliance while periods between 1986-1991 there was slow but steady progress in domestic price decontrol and trade liberalization. There was examination of quantitative restrictions on imports tariff reforms, more active exchange rate management, liberalization of financial sector and some initial steps in cereals market liberation.

In the year 1991-1993, slowing of reform efforts and reversals characterized the period. There was reversals of cereals market liberalization, continued progress in domestic price decontrol tariff rationalization plus introduction of ad hoc measures for limited liberalization of foreign exchange market. There was weak overall reform efforts, growing political problems and donor concerns over governance and corruption which lead to suspension of balance of payments support from November 1991 to mid 1993.

Resumption of reform effort particularly trade and exchange rate policy began mid 1993 and run upto 1995. There was complete liberalization of foreign exchange market, end to import licensing, further tariff reform and completion of domestic price decontrol. However only limited progress in privatization of state owned enterprise, civil service reform. This progress ensured resumption of donor balance of payment support from mid 1993. The donor dissatisfaction with he pace and extent of policy reforms strained their relationship again in 1996 when the government started slowing the reform efforts again. During the 1996-1998 period the government maintained liberalized trade and exchange regimes, interest rates and decontrol of domestic prices. Fiscal and monetary policy were reasonably well managed but structural problems in budget, state enterprise sector civil service and agricultural sector institutions were not adequately dealt with. This resulted in suspension of new IMF ESAF in July 1997 and cancellation of World Bank SAC in June 1998²².

Kenya has maintained a flexible exchange rate system since 1995. However, in 2000 the overall inflation rate increased from 3.5% in 1992 to 6.2 percent in 2000. the rise in

²² Ibid

inflation was explained by the increase in prices of basic food stuffs, depreciation of the shilling against the dollar and the rise in petroleum products. In an attempt to maintain real interest rates, parliament approved in 2000 the Central Bank Amendment Bill which obliged Commercial Banks to fix the lending and deposit rates at 4% points and 8% points respectively above the 91 day Treasury Bill rate. The government intention was to control the hike in interest rates, which was experienced in the two preceding years. However this was seen as a step backwards in the market liberalization. The passing of this bill by parliament and its subsequent approval by the cabinet was one of the reasons for the withholding of the second tranche of IMF PRGF²³.

Kenya has maintained a liberalized external trade system since 1993 and has progressively reviewed its tariff downwards. Now the IMF and the World Bank concerns have shifted from market liberalization to privatization. State-owned enterprises have been accused of constraining economic development. The World Bank is one of most powerful critics, has maintained that the rapid growth of the public sector along with its inefficient management and overambitious investment programs, is an important reason for the economic difficulties facing African countries. It also has maintained that the scope of public sector activities and the operating subsidies of these enterprises have acted to stifle private enterprise in Agriculture, industry and commerce.²⁴

State-owned enterprises have been accused of wasting resources and operating inefficiently with low profitability or even financial deficits. Thus the World Bank and IMF continue to emphasize privatization of the public sector. This is based on the belief

²³ OECD, *African Economic Outlook 2001/2002* OECD 2002 p. 174

²⁴ The World Bank, *Financing Adjustment with Growth in Sub-Saharan Africa 1986-1990* (Washington DC: World Bank 1986) p. 21

that private enterprise promotes greater economic efficiency through market-oriented competition with resultant increased production and lower costs. They have continued to emphasize privatization as a condition for additional aid.²⁵

In 1990 the Kenyan Government had equity in over 240 commercially oriented enterprises. Under the public enterprises reform programme the government was to retain 33 of the enterprises considered strategic while the remaining 207 would be privatized. By the end of 1999, 167 enterprises had been partially privatized. The strategic enterprises such as Kenya Ports Authority, Kenya Railways and Kenya Posts and Telecommunications Corporation had also been restructured. The commitment of the government to privatization exercise was called into question following the cabinet decision to reject the privatization of 49 percent of Telkom Kenya on grounds that the offers made by prospective investors were too low. This decision was another bone of contention between the government and the IMF and behind the suspension of the second tranche PRGF.

In developing countries privatization has been imposed by multilateral agencies within policy frameworks provided by structural adjustment programmes. Because of the fragility of domestic stock markets in these countries, the shares of those utilities were bought up by international financial conglomerates. This ensure further erosion of states autonomy in decision making in key sectors of economy.

²⁵ Delancey, V. The Economies of Africa in Gordon, A. A. & Gordon D. L. (ed) *Understanding Contemporary Africa* 3rd Ed. (London: Lynne Rienner Publishers 2001) p. 133

Nairobi Stock Market is still small and in the process of being well formed. Privatization of key sectors of the economy would ensure opening up these sectors to foreign investors as domestic investors lack adequate amount to buy shares in a level that would influence decision making. In essence privatization would ensure that foreign investors get a large slice of these shares thus further being able to influence industrial policies at the expense of the state.

The Kenya public reform programme lapsed in 1997 when the government failed to take actions that would have facilitated the release of the second tranche under the ESAF Arrangement that was supporting the reforms. The government failed to pass the legislation to initiate reforms in the energy sector, failed to establish an anti-corruption authority to investigate all suspected cases of financial mismanagement, specifically the ruling by the constitutional court declaring the Kenya Anti-Corruption Authority (KACA) unconstitutional, failed to enact the bill separating the Kenya Posts and Telecommunications Corporation, in preparation for privatization of communications and finally the failure to conclude legal proceedings relating to the Godlenburg case involving \$400 million fraud.

The KACA was established in December 1997 to track down and prosecute all cases of corruption however it did not become operational until 1999, only for parliament to reject in August 2001, the constitutional Amendment Bill that would have given KACA the much-needed police powers to investigate and prosecute suspected cases of corruption. Also the Central Tender Board which in 2000 the government opened to

private sector participation to enhance openness and accountability was abolished and replaced by Ministerial Tender Boards.²⁶

Thus the implementation of Kenya's three year PRGF (1999 – 2001) was stalled following the government failure to revamp the privatization process and take steps on governance and economic management issues.

The study finds that both international debt and dependence on large levels on foreign aid have greatly influenced the policy making process through conditionalities. Together they have grossly distorted the incentives driving policy makers and economic elites and have reduced their role in decision making process. What follows is a chapter on reforms and policy making in Kenya.

²⁶ Op.cit OECD 2002 P. 177

CHAPTER FOUR

REFORMS AND POLICY MAKING IN KENYA

4.0 Introduction

This chapter identifies all the reforms that were subject to Kenya and discusses them by linking them to policy making process in Kenya. The reforms discussed include trade liberalization, financial sector reforms, social sector reforms, agricultural sector reforms, privatization and institutional reforms. The chapter explores the reforms taken by the government in the above stated areas.

There are a number of socio political factors that put pressure on governments to make the policy choices they make. From outside the continent, sub-Saharan Africa's involvement in global trade has been influenced first by geopolitical considerations and ideological influences, external shocks of all kinds. Multilateral trade agreements and the kinds of regional grouping that countries have found themselves in. For instance, in Francophone Africa, governments were likely to survive if they were strongly pro-France. The consequence was that francophone Africa's participation in world trade was dictated by its relationship with France, which determined its exchange rate under the CFA arrangements¹. The geopolitical considerations that influenced sub-Saharan Africa's involvement in global trade came out of East-West confrontation. This resulted in major political instability in most of SSA for long periods, which was translated into significant economic instability, as the appropriate institutions for policy making were

¹ Aryeetey, E. et al, *Asia and Africa in the Global Economy* (Hong Kong: The United Nations University 2003) p. 62

hardly developed. The oil price shock affected the balance-of-payment and marked the beginning of the debt crisis.

Governments sought rescheduling of debt as a means of gaining temporary respite from repayment problems. Arrears on debt repayment kept mounting. These difficulties prompted the private sector to cease lending to sub-Saharan Africa countries by the beginning of the 1980's. The absence of such facilities forced many countries to withdraw even further from world trade. They simply lacked the means to sustain imports while their export capacity had diminished.

The absence of private capital in the 1980s increased the reliance on multilateral and bilateral government lending. It was this growing reliance and the growing threat to default on official multilateral and bilateral debt in many countries that prompted the Bretton Woods institutions to change the conditions of lending. IMF lending which had been processed according to very short term stand by agreements that incorporated stabilization policies as well as project loans, in which conditionality was targeted at project preparation and evaluation, institution building, procurement, technical pricing, and marketing issues, was restructured to provide for more medium term programmes and adjustment lending. This new structure forced governments to pay greater attention to budget deficit, exchange rate policies, and trade policies among others, under reforms in the 1980s.

The trade policy regimes that prevailed between the time of independence and the adoption of structural adjustment programmes in SSA were generally highly

interventionist and protectionists.² Imports were restricted by a web of inhibiting licencing systems, high tariffs and tight foreign exchange controls which were instituted. Exports were discouraged by substantial implicit and explicit taxes, over valued exchange rates as well as frequent use of non tariff barriers such as prohibition of certain export items.

The regimes were truly inward looking, both on the import and export sides so that many economies were locked in a permanently delinked position from the world economy.

Many of the African countries, have since the early 1980s been implementing in varying degree, fairly comprehensive packages of policy reforms under the general umbrella of Structural Adjustment Programs (SAPs) were initiated and actively supported and funded by the World Bank and the International Monetary Fund (IMF).

4.1 Trade Liberalization

Trade policy is a prominent component of African SAPs. In the view of World Bank, poor or misguided trade policies accounted for Africans economic stagnation of the 1970s and their reform would be necessary to restore both macro economic equilibrium and growth³. Under SAPs trade liberalization was aimed at shifting away from an inward looking stance to a neutral regime without incentive discrimination between importable

² Dyeyide, A. Trade policy and regional integration in the development context : Emerging patterns, issues and lessons for sub-Saharan Africa (paper presented at the plenary session of the AERC Workshops, Nairobi, May 1977)

³ Mkandawire, T., & Soludo C. C. *African voices on Structural Adjustment: A companion to our continent, our future* (Eritrea: Africa world Press, INC 2003) pp. 73-76

and exportable or further to an outward oriented regime that could actively promote exports as well as attract foreign investment and facilitate technology transfer.

Trade liberalization carried out as part of the SAPs is the most comprehensive and longest sustained attempt in Africa post independence history. The conditionalities attached to it have been numerous. They include the examination of quantitative restriction, the removal of import licensing and foreign exchange controls, rationalization of tariff and price decontrol on all commodities.

Attempts has been made to compress and rationalize tariff structures with a sharp reduction of the average number of tariff categories and less-varied tariff rates. Consequently, the scope for discretion has been cut with the enhanced transparency of tariff policy. Non tariff barriers and quantitative restrictions have been eliminated in several countries and partly or fully ratified in many cases. The traditional reliance on trade policy instruments for balance-of-payments management has been reduced with shifts to flexible exchange rate systems to take the burden of payment adjustments.

In the process of implementation, many reforming countries find it difficult to adhere consistently to trade liberalization. The suitability and credibility of trade reforms have become a worrisome issue in Africa. Frequent reversals have been observed in many countries. Either removed restrictions were reinstated or some existing barriers were strengthened to offset reductions. For example, Nigeria, which eliminated the most quantitative restrictions (quotas and licensing), increased dramatically the number of

imports bans. Ghana which previously made great strides in cutting formal tariffs, introduced large special taxes on imports. Both Nigeria and Kenya experienced virtually total reversal in 1994 and 1986 respectively, while Kenya and Ghana have had a history of frequent reversal since the early 1970s. All these reversals are traced by and large, to fiscal and balance of payments incompatibility.⁴

4.2 Trade policies in Kenya

The trade regime in Kenya since independence fostered on inward-looking industrial development. However, the country was constrained by the World Bank policy recommendations of 1980s. Trade policy has been a central aspect of structural adjustment reforms in Kenya since 1980 supported by structural adjustment credits from the World Bank. The 1980 and 1982 structural adjustment credits required the country to promote more efficient and outward looking pattern of industrial growth by rationalizing the structure of protection and enhancing export incentives. In response to this the export compensation mechanism which was to compensate exporters for the taxes on imported inputs was raised from 10 to 20 percent of the value of exports, then suspended and reintroduced at 15 percent⁵. The nominal exchange rate was devalued several times during 1980-1982 but the real exchange rate did not depreciate.

After a slow start, the reform of the trade regime in Kenya was finally abandoned at the end of 1982. As a result and as with other aspects of the Structural Adjustment Programmes, conditionalities relating to the overall balance of payments gap and its

⁴ Op cit Aryeetey et al, 2003 p. 74

⁵ Foroutan, F. Kenya in Nash, J. & Foroutan, F. (eds). *Trade policy and Exchange rate Reform in Sub-Saharan Africa* (Australia: National centre for Development Studies 1997). P. 249

financing and the exchange rate were incorporated in IMF programs, while quantitative restrictions on imports, tariffs and foreign exchange licensing were incorporated in policy agreements with the World Bank. A number of trade reforms measures were implemented with the overall objective of making the industrial sector more efficient and more outward oriented as per World Bank policy recommendations. These measures included the removal of quantitative restrictions, the reduction of tariff levels and export promotion and the establishment of a flexible exchange rate regime.

Limited devaluation of shilling and increased export compensation were also undertaken during the 1980-1984 period. For instance in December 1982, the government devalued the shilling and pegged it to the Special Drawing Rights basket of currencies with weights reflecting Kenya's trading pattern. The devaluators were meant to devalue the real exchange rate in parallel with the terms of trade deterioration and import liberalization. However, there was at that time a tendency to resort to selective import controls, especially during periods of deteriorating balance of payments. During the 1982-1984 for instance, as a result of a foreign exchange crisis, tariffs were increased by 10 percent across the board.⁶

Import liberalization has made considerable progress since the early 1980s steady progress have been made in eliminating quantitative import restrictions and in reducing tariff. Between 1980 -1985 the share of items that could be imported without any restrictions rose from 24 to 48 percent of the total value of imported items. The average

⁶ Swamy, G. 1994 Kenya Patchy, intermittent Commitment in I. Hussein and R. Faregee (eds) *Adjustment in Africa: Lessons from country case studies* (Washington DC: World Bank) p. 209

tariff rate was also reduced by about 8 percent over the same period.⁷ An improved import licensing system with restricted and unrestricted schedules was established. Also a more active exchange rate was implemented in the second half of 1980s. Export compensation was raised to 20 percent in 1985 and manufacturing under bond was introduced in 1988.

The trade regime adopted in Kenya in the early 1980s remained in effect with marginal changes until 1988, when again with the support of the World Bank and IMF, the government launched a new effort a liberalizing Kenya's trade regime and revamping its non-traditional exports.

Following its infelicitous experience with global Structural Adjustment operations in Kenya, the World Bank supported the renewed attempt at reform through a series of six less ambitious sectoral adjustment loans beginning in 1986, two of which were primarily concerned with trade reform.⁸ The new package of reform put greater emphasis on direct export promotion with the explicit purpose of building a strong pre-export constituency in the country. However, the World Bank emphasized that these objectives were to be achieved through the rationalization of the import regime and the reduction in import protection as well as through a series of direct export promotion measures.

Import liberalization reforms aimed at first reclassifying imports into five categories; schedule I (unrestricted licensing), II, IIIA, IIIB and IIIC, with progressively stricter

⁷ Ibid

⁸ Op.cit Foroutan 1977 P. 249

licensing requirements.⁹ Over time automatic or unrestricted licensing was extended to schedules II, IIIA and IIIB. Trade liberalization had started with conversion of quantitative restrictions to tariffs equivalent in the early 1980s, though less successful. The tariff reform made some progress as depicted by a declining trend in the economy-wide average tariffs. The government embarked on phased tariff restrictions and rationalization of tariff bands. For instance, between 1987-1988 the maximum tariff was reduced from 170 percent to 25 percent, the number of tariff bands was reduced from 24 to 4 and the average tariff was lowered from 49 to 17 percent.¹⁰ Tariff reform was progressively implemented with tariff rates gradually lowered and tariff bands or categories reduced. For instance between 1989-1990 and 1991-1992 the overall production weighted tariffs had declined from 62 to 48.5 percent and by 1991, quantitative restrictions affected only 5 percent of imports compared with 12 percent in 1987¹¹. The average unweighted tariff rate declined from 41.3 percent in 1989-1990 to 34 percent in 1992 – 1993.¹²

The maximum tariff rate had been reduced from 135 percent in the 1980s to 45 percent. By 1994 while the number of non-zero bands were reduced from 25 to 6 over the same period. Harmonization of tariff was another policy pursued especially between 1985-1991. However, average tariff reached their highest level in 1989 -1990 as a result of the

⁹ Op.cit Swamy, G. 1994 p. 211

¹⁰ Devarajan, S. *Aid and Reform in Africa: Lessons from Ten Case studies* (Washington D.C: The World Bank 2001) p. 498

¹¹ Op.cit Swamy, G. 1994 P. 211

¹² Mweya, F. (1999) Trade liberalization, credibility and impacts: A case study of Kenya 1972 -94, in Oyedije, A., B. Ndulu and J. W. Gunning (eds). *Regional integration and trade liberalization in Sub-Saharan Africa* Vol 2: Country case studies. London: Macmillan Press.

replacement of quotas with equivalent tariffs. Crisis management in 1993-94 raised tariff temporarily to cater for a shortfall in government revenue¹³.

The other area of trade liberalization that received considerable attention was export promotion. Under the export promotion strategy, various export incentive and promotion programmes were initiated. Besides the Export Compensation Scheme, the Manufacturing Under Bond (MUB) scheme was introduced in 1988. This scheme carried incentives such as waivers of import duty and tax on imports used for the production of export goods. Both schemes were highly abused as other issues such as vested interests and patronage cropped in¹⁴. Both schemes were linked to "Goldenberg scandal" in which the government swindled off billions of shillings, leading to one of the country's biggest financial scams¹⁵.

A more general import duty and VAT exemption scheme was introduced following the short coming of the MUB. This was accompanied by regulatory reforms and new improved and simplified investment procedures. In 1990, Export Processing Zones (EPZ) were started under which investors enjoyed 10 years of tax holiday, unrestricted foreign ownership and employment of foreigners and complete control over their Forex earnings. In addition, a number of changes were made to create a more conducive environment for export growth including a substantial reduction and restructuring of

¹³ Geest, W. & Hoeven, R., *Adjustment, employment and missing institutions in Africa* (Geneva: International Labour Office 1999) p. 80

¹⁴ Were, M. et al, *Kenya's Reform Experience: What have we learnt* (Nairobi: KIPPRA working paper No. 12 December 2005) P. 22

¹⁵ Goldenberg Scandal arose when government acceded to a request to pay additional export compensation to a company that claimed it would buy and export gold and ostensibly assist with the forewing exchange and BOP problems Kenya was experiencing due to donor freeze.

tariffs, especially on raw materials and capital goods, abolition of export duties, improvement of capital allowances, improved provisions of short term export finance and improved foreign exchange and insurance regulations¹⁶.

The area that proved most difficult to reform was the import and foreign exchange licensing system. The World Bank financed Export Development Program (EDP) and the system underwent further changes. The Foreign Exchange Allocation Committee, the Import Management Committee and the requirement for a foreign exchange allocation license were abolished. The government was moving showing and reluctantly to meet the EDP conditionalities. However, foreign exchange market was rapidly liberalized.

In October 1991, foreign exchange bearer certificates (Forex-Cs) that could be resold to private parties were introduced and currency declaration forms were abolished in November 1991.¹⁷ In August 1992, 100 percent export retention accounts were permitted for exporters of non traditional goods and the import licensing regulations were revised to permit automatic issuing of import licenses to those holding their own foreign exchange. Before foreign exchange reforms all the foreign exchange transactions were referred to the central bank of Kenya. In 1993, the foreign exchange system was liberalized, allowing commercial banks to effect foreign payments for their private clients without referring them to the central Bank of Kenya.

¹⁶ Republic of Kenya Budget speech fiscal year 1995/96t (Nairobi: Government printer) p. 18

¹⁷ Mwega, F. Manufacturing in Kenya in Mwega, F. & Nyangito H. *African Imperatives in the World Trade Order: Case Studies Of Kenya* (Nairobi: AERC & KIPPRA June 2005) p. 114

In February 1993, foreign exchange allocation by the Central Bank of Kenya was abolished. However, in March of the same year, retention accounts were suspended and import licensing and exchange controls reinstated. Apparently, this led to unsuccessful negotiations between the government and IMF for the resumption of quick-disturbing loan. Consequently, in May 1993, import licensing was again abolished and retention accounts reintroduced for all exports of goods and services at 50 percent rate.

The economic crisis of 1993 forced the government to hurriedly implement some of the donors demands such as liberalizing the foreign exchange market. Unfortunately, looming financial crisis and in a bid to minimize the resultant short run cost of the reforms, the president reinstated foreign exchange controls and import licensing in March 1993.¹⁸

In October 1993, the official exchange rate was abolished, paving way for a freely floating exchange rate. Other controls on foreign exchange were eased in December 1993. Capital controls were relaxed for offshore borrowing in February 1994 subject to qualitative limits and over 1993-94, all current account and virtually all capital account restrictions were lifted. By 1995 all the foreign exchange restrictions had been eliminated – foreign exchange bureaux were permitted and the exchange control act was repealed.

The government policy to make the shilling convertible by fully liberalizing the current and the capital accounts was to abide by obligations of Article III of the IMF's articles of agreement to promote full convertibility of the Kenya shilling at least for current account transactions.

¹⁸ Op cit Were, M. et al, 2005 p. 21

4.3 Social Sector Reform

The government was also under pressure to implement cuts in expenditure in social sectors, particularly health and education. The donor-funded studies used friendly terminologies such as cost sharing or user fee. The government finally, introduced user charges in public hospitals and health centres in 1st of December 1989. The poor and the vulnerable were exempted from paying the fees on production of evidence of inability to pay, and government dispensaries continued to provide outpatient services free of charge. The policy was, however reversed in September 1990 by suspending the outpatient fee, only nine months after its inception, following public outcry through the press that the poor were being denied access to services and there was no improvement in quality.¹⁹

Cost sharing in public universities was introduced in 1991. In the health sector, the government announced a phased reintroduction of user fee in April 1991. The revised policy was introduced in phases, it was sequenced starting with the national referral hospitals, provisional hospitals, district hospitals and health centres. No fee was charged for services offered at the dispensaries.

4.4 Financial sector reforms

In the financial sector amendments were made to the banking Act and interest rate adjustment. The shift to indirect monetary policy instruments was initiated in 1988 while the Treasury Bill rate was liberalized in November 1990. Achievements in the financial sector reforms included liberalization of interest rates, removal of credit controls, and

¹⁹ Collins D. et al. The Fall and rise of cost sharing in Kenya: Impact phased implementation, Health policy and planning, Vol 3 No. 1 Pp. 52-63

streamlining of the money market trading systems²⁰. Interest rates were liberalized in July 1991, a month after the introduction of open market operations. However the reform effort were thwarted by political interference. The politically connected got unsecured loans from the banks especially state-owned and politically-connected banks just before the first multi-party elections. KANU devised several schemes to finance its election bid, including printing lots of money. Inflation rose drastically to over 50 percent. This had immediate repercussions in the exchange rate market and in April 1993, a financial crises was imminent, causing a major drawback to the reform effort by IFIs.

Donors, particularly the IMF pointed to the need to restore financial prudence, in particular, the situations created by exchange bank and other political banks was of great concern. Stiglitz²¹ argues that it was wrong for IMF to have insisted on financial liberalization at the time when the banking legislation and bank supervision were inadequate.

The same year, treasury bills were issued and this created another problem of a soaring treasury bill rate which attracted interest of over 70 percent. This was one of the bases of the high interest rate structure, which became almost permanent feature in the economy. The lending interest rate reached over 30 percent Rolling over the Treasury bills and selling more kept interest rates high and the Kenya shilling strong. The beneficiaries were financial institutions, especially Commercial Banks, which held over 50 percent of total stock of Treasury bills.

²⁰ Op.cit Were, M. et al 2005 p. 24

²¹ Stiglitz, J. *Globalization and its discontents*. (England: Penguin Books 2002) p. 87

Financial markets liberalization is based on the believe that competition among banks will lead to lower interest rates. However, that was not the case in Kenya. Pill and Pradhan²² observe that the success of financial liberalization depends on the appropriateness of macroeconomic policy, institutional development and structural reforms. Leite²³ adds that strong banking regulatory and supervisory policies ensure viability and health of the industry and enhances effectiveness of interest rate liberalization. The hurried financial market liberalization saw a situation where such measures were undertaken after reform implementations.

Before liberalization the government of Kenya relied mainly on three instruments of the monetary policy to control money supply. These include stopping of unsecured credit to commercial banks, raising the cash ratio and enhancing the sale of Treasury bills. However, as a result of the reforms, there was a requirement that ceiling on loan interests rates must include all lending related charges and fees removed, permitting institutions to set their handling rates to reflect current market conditions. Further, the Central Bank act that allowed the Minister of Finance to override the decisions of the Bank was amended to give way to independence of the Central Bank of Kenya.

4.5 Agricultural Sector Reform

Another important area of Kenya's adjustment program is reform of agricultural sector. This has been perhaps the most difficult and contentious area of policy reform throughout

²² Pill, H. and Pradhan, M., Financial Liberalization in Africa and Asia, *Finance and Development* vol. 34 No. 2 June 1997 pp. 7-10

²³ Leite, S. P. Coordinating Public Debt and Monetary Management. *Finance and Development* March 1993 pp. 30-33.

the entire period of structural adjustment. It is the area of economic policy that has created the most misunderstanding and ill will between the donors and government and probably the area where the gap between agreed policy conditions and implementation has been widest.²⁴

Trade policies have a major impact on agriculture because Kenya's external trade is dependent on agriculture. In the early 1980s, the key concern in trade policy reforms under Structural Adjustment Programmes was to liberalize markets which were dominated by government controls. In agriculture focus was on removing government monopoly in the marketing of agricultural commodities, lifting associated price controls and ending government control on the importing, pricing and distribution of farm inputs. Prior to market liberalization the government had established a number of public institutions that operated as monopolies or regulatory bodies in Agriculture markets. Formal agricultural credit was provided at subsidized rates through the Agricultural Finance Corporation and the government controlled input marketing through price controls, import licensing quotas and subsidized inputs such as fertilizer, improved seeds, pesticides, vaccines, machinery and other services. With reforms input markets have been liberalized and the country has developed a network of markets for agricultural inputs²⁵.

²⁴ Op.cit Devarajan 2001 P. 503

²⁵ Nyangito, H., & Nzuma, J. Kenya Agriculture's Domestic trade Regime and External Market Access conditions: 1980-2000 in Mwea F. & Nyangito H., *African Imperatives in the World Trade Order: Case studies of Kenya* (Nairobi: AERC and KIPPRA June 2005) P. 36

4.6 Public Sector Reforms

Public institutions were viewed as inefficient and claimed a substantial amount in budget allocation.²⁶ The most deeply entrenched of all these institutions has been the National Cereals and Produce Board (NCPB). The NCPB monopoly was sustained by tightly restricting inter-district movement of cereals by private traders, payment of high fixed prices normally in excess of export parity and guarantee to purchase all maize supplies. Agricultural policies in Kenya since independence can be grouped into two categories. First are policies where direct government controls and participation dominated Agricultural production, marketing and investment activities that is before 1980. Second are policies where government participation was reduced and market forces and private individuals and organizations played a major role in agricultural production, marketing and investment, that is after 1980 which is also referred to as liberalized period. This study is centered on this period.

Under liberalized period, the policy reforms recommendations are aimed at reducing the involvement of government in economic activities and therefore letting the country move towards a free market economy²⁷.

Under the SAPs framework, market reforms such as liberalized marketing of agricultural commodities and reduced government expenditures were started. However, as demonstrated in this study Kenya find it difficult to implement these reforms especially

²⁶ Delancey, V., *The Economies of Africa* in Gordon and Gordon, *Understanding Contemporary Africa* (London: Lynne Rienner Publishers 2001) P. 132

²⁷ The World Bank, *Financing Adjustment with Growth in Sub-Saharan Africa 1986-1990* (Washington DC: World Bank 1989) P. 21

in cereal market which attracted attention of the world bank. The World Bank attempted to promote limited deregulation of the cereal market through Agricultural projects back in the 1970s but without success. Liberalization of the grain market was stated government policy in the 1979-1984 development plan and the World Bank moved in to support. Cereals policy became a component of SAL I and II. The straight forward approach did not work in SAL I and the World Bank and the government agreed, in SAL II, that government would undertake a review of maize marketing and implement its recommendations. The second tranche release was held by the Bank for nine months but finally agreed to release the tranche on government assurance that the agreement would be carried out.

The move to dismantle price controls provoked sharply different reactions from the business community and the labour movement. While manufacturing and most other sections of the business community welcomed the move as a way of removing distortions in the economy, removal of price controls was strongly resisted by the labour movement, which argued that the process should lead to major increases in the cost of living and erode the workers purchasing power. Trade unions argued for the removal of the existing wage guidelines, introduced in 1973, to enable the workers to negotiate freely with employers.

Under Sectoral Adjustment loan the World Bank called for the introduction of annual performance contracts for NCPB and provided for the gradual liberalization of inter district maize movements starting with waiver of the permit requirement for movements

of up to 44 bags (one track load), then moving to 88 bags, and so forth. Permission to move 44 bags without a permit was announced in April 1991 by the ministry of supplies and marketing, but was revoked in July 1991 by NCPB. The gradual deregulation was put back on track in early 1992 but was cancelled in November by a presidential decree that cited fear of worsening drought as the rationale. However, since 1992 some progress has been made in opening up the cereals trade to private traders and in reducing the role of NCPB.

The major policy reforms in the coffee sub sector are deregulating market and prices was aimed at encouraging the private sector to play an important role in producing, marketing and processing agricultural commodities. The government has therefore liberalized coffee processing and milling. However, farmers and other stakeholders have wrangled over the new rules published in 1999 on liberalizing the coffee trade particularly on processing and marketing.

Institutional reforms were aimed at reducing the government's involvement in managing institutions that deliver services such as processing, milling and marketing coffee. These reforms have been implemented by way of restructuring the Coffee Board of Kenya (CBK) and leaving farmers to control its management. The coffee factories, societies and millers have also been left to operate relatively independent by CBK²⁸. Policy reforms are implemented more in letter than in spirit. This is because these reforms are not homegrown and the government tend to reverse to their best known policies. Despite the restructuring of CBK, it still dominates the decision making environment as it controls

²⁸ Nyangito, Hezron, *Policy and legal framework for the coffee sub sector and the impact of liberalization in Kenya* (Nairobi: KIPPRA policy paper No. 2 Feb. 2001). P. 12

and regulates the coffee marketing and dominates provision of extension services to farmers.

Reforms in macro policies include removing restrictions on the exchange rate, retaining and remitting foreign exchange and liberalizing interest rates. Removing restrictions on foreign exchange has allowed exporters to retain most earning in foreign exchange. Coffee farmers are paid in foreign exchange by CBK and are allowed to operate foreign exchange accounts. However most small scale farmers are paid through their cooperative societies, thus they do not directly benefit from payments in foreign exchange for coffee exports because the cooperative societies pay them in local currency. The government has removed the implicit tax on coffee earnings, but farmers still campaign about prices they receive, possibly because the society make high deductions and because both societies and factors are managed ineffectively.

With policy reform aimed towards liberalizing the market, some modification have been made. The policy reforms and changes in the coffee act through Gazettee supplement No. 7 empower CBK to act as a regulator of the coffee industry and a marketing agent for all the coffee produced in the country. Although the supplement allows for more players in coffee pulping, milling and marketing these players must be licensed and registered by the Board.²⁹

In my view simple privatization strategies will not work. There is substantial evidence that institutional context is much more important to development than free market. Since

²⁹ Ibid

the institutions that are feasible are shaped by a country's history, there is no way to shape market friendly institutions. The World Bank, focus of economic reform has shifted from the aspects of macro economic policy to microeconomic matters of sectoral policy. Without proper institutions the bank's ability to enforce the conditions on its loan will traumatically decline as it is evidenced by CBK. Despite liberalization of the market and gazetting of coffee act, CBK plays a monopolistic role in marketing of coffee in Kenya. However, despite this the external constraints have had an effect in the policy making process. More than ever before a number of players have been involved in processing, milling and marketing. Marketing is done under the umbrella of Kenya coffee auction.

Policy reform has diverse effects on farms and on the institutions involved in the coffee trade. CBK controls and regulates coffee marketing, which is done through a central marketing auction system. Before 1998, the auction market has wholly handled by Kenya coffee auctions, a subsidiary of CBK. Currently other auctioneers are allowed to participate in the market. the auctioneers sell on behalf of CBK, or any other marketing agencies.

Despite the policy reforms in coffee processing and milling, CBK remains the regulatory agency in the coffee industry and also controls coffee marketing.

The board also provides extension services to farmers carries out research and promotes coffee in the export markets. Its control over coffee marketing and regulatory functions in the industry has been a bone of contention between CBK and other stakeholders,

particularly coffee millers. The conflicts among CBK millers, cooperative societies and farmers forced the government to revert CBK management bank to government control in 1999. The aim was to reduce the wrangles among farmers, millers and CBK management and to develop a better system of liberalizing the industry. This justification implies that the policy reforms are implemented without clearly defining roles of the various stakeholders or putting in place an accompanying regulatory framework for enforcing the rules governing transactions among stakeholders in the industry.

Coffee production in the country has generally declined. The priority of the government in coffee industry is to improve its production which has been generally declining since the implementation of IFIs policy package hence the reversal of sector's management role back to the government. The main reasons is that coffee farms have been neglected. The most common production constraints are the high price of inputs since subsidies were removed with liberalization of the inputs markets and high transport cost. Next is the low use of inputs such as fertilizers and pesticides which is attributed to problems of access to funds in the societies³⁰.

Kenya has reduced domestic support measures in Agriculture largely due to pressure from international financial institutions and policies related to SAPs rather than homegrown policies. The response in agricultural production towards liberalization has been dismal. Most commodities show a decline in production while some like tea and tobacco show a general increasing trend which is attributed to increases in acreage. The mixed trend in production is attributed to number of factors including climatic factors,

³⁰ Op.cit Nyangito, H. & Nzuma J. 2005 P. 52

technological changes and prices. However, the major reasons are policy-related and include liberalization of input and exchange rate. Inputs price are sensitive to exchange rate policies because most of the inputs are imported or have large import components.

Liberalization of the fertilizer market led to increase in the number of companies involved in importation and distribution. This has resulted in wider access of fertilizer by farmers, which was a major problem before the policy reforms. Unfortunately the levels of use are low and almost constant since then because of the high prices charged by the few companies involved in the market.

The observation here is that reforms in Kenya which have been part of structural Adjustment Programmes are almost wholly donor driven. The policy making process in trade, financial sector, social sector, agricultural sector and partly in public sector have been dominated by donor through aid conditionalities. Public sector reforms which include civil service reform and parastatal (privatization and restructuring of strategic enterprises) reform, the government have been reluctant to implement these reforms.

According to Anyang'nyong'o fear of privatizing some of the state corporations is due to vested interests such as business contracts and patronage that has led to resistance to reforms. He argues that privatization would prevent the then ruling party KANU from using parastatals financial resources and employment opportunities for private or partisan benefit. However, even the current government under NARC is slow in liberalizing key sectors of the economy and opening them up to foreign investors.

The government has implemented a substantial number of reforms in all areas. However, reversals have been experienced mainly in trade liberalization and agricultural sector reforms. The Bretton Woods institutions highly influenced these reforms explaining why reversals have often been experienced especially in cereal making liberalization. The next chapter reports the findings of the study.

CHAPTER FIVE

ASSESSMENT OF THE FINDINGS

5.0 Introduction

This chapter reports the findings of the study. The chapter analyses the role of Bretton Woods institutions in policy making process in Kenya and critically tries to answer the question: what difference did policy conditions attached to the World Bank programme loans make to the economic and political policy environment in Kenya?

In its various expositions of the rationale for policy based lending the Bank has made it clear that its fundamental purpose is to improve levels of output, exports foreign finance and balance of payment. This is assessed in Kenya's case.

The method of analysis employed is with versus without the influence of programme loan. This means that the policies that government employed without conditionalities and those that prevail after imposition of conditionalities. That is what actually happened versus what is believed would have happened in the absence of policy based loan. There is no ready made estimate of the without policy or counterfactual situation is available for Kenya. The estimate is constructed from plausible assumption that without policy based loan, no modification of policy instruments whatsoever inspite of the crisis which promoted the programme assistance.

5.1 Policy Scenario

Three policy scenarios are employed. Scenario one consists of counterfactual price policies and other policies representing the hypothetical case of zero compliance with SAL conditionalities that is the government's own first best policies. Scenario two consists of the actual policies implemented over the period which represents the government's partial compliance with SAL agricultural pricing conditionality and other conditionality. Scenario three of counterfactual price policies and other policies representing the hypothetical scenario of the government's full compliance with SAL conditionality that is the Bank's own first best policies. The evaluation would revolve around these three policy scenario.

The first policy scenario of zero compliance assumes that the government implemented its own first best price policy. Food sufficiency is the top policy priority in Kenya, giving rise to frequent increases in the maize producer price throughout the period between 1980-1984. The government also maintained its policy of subsidizing fertilizer with increases in fertilizer prices linked to increases in the producer price.

In the early 1980s the government pursued its own desired policies in direct defiance of Bank conditions. For example the study revealed that large maize prices increases were implemented, fertilizer continued to be heavily subsidized and small holder export crops were implicitly taxed via low producer prices in order to finance maize production and distribution. Cereals policy had become a component of structural Adjustment Loan I and

II where World Bank is first best policy was liberalization of grain maize. However this approach did not work.

Scenario two reflects partial compliance with SECAL policy conditionality. The first agricultural sector adjustment loan (1986), the national cereals and produce board was to be restructured while second sector adjustment loan (1990) asked for performance contracts. However the first step to liberalize grain market took root in 1991 when permission to move 44 bags without a permit was announced.

However, under Sectoral Adjustment Loan (SECAL) I and II government compliance with the Bank's first best set of policies, reflects the bank's belief that structural weakness in the small holder sector took the form of: inadequate price incentives offered by the state marketing board for smallholder exportable crops allocative inefficiencies resulting from distortions; that is subsidized input prices, and excessive policy emphasis on the production of food crops.

The government have liberalized a number of state marketing boards including the NCPB, Coffee Board of Kenya, Kenya Tea Development Authority among others. However, the production of both maize and coffee have declined while that of tea have increased because of increases in hecterage policy of zero compliance had a favourable outcome of increased production. However, this study argue that the government is still under second scenario of partial compliance. This is because more often than not the minister of finance keep setting prices of maize and allocating funds to NCPB towards

this end. Though liberalized, the NCPB is the major buyer of smallholders maize producers.

Other areas of reform have had both second and third policy scenario due to policy reversals where there is either partial or full compliance with policy recommendation. The major policy area are analyzed below reflecting policy decisions without conditionality and with conditionality (IFIs influence on policy area).

Policy area	Without conditionality	With conditionality
Reform of protection	<ul style="list-style-type: none"> - Import duty or tax - Import licence required - Import classified in five categories with schedule I as unrestricted licensing - Quantitative restriction 	<ul style="list-style-type: none"> - Reduction of import tax - Import licensing abolished - Unrestricted licensing was extended to schedule II, IIIA, IIIB - Removal of quantitative restrictions - Sometimes restore selective import controls
Tariff reform	<ul style="list-style-type: none"> - Maximum tariff of 170 percent 	<ul style="list-style-type: none"> - Maximum tariff reduced to 25 percent. - Reviewed tariff downwards
Exchange rate management	<ul style="list-style-type: none"> - Fixed exchange rate 	<ul style="list-style-type: none"> - Flexible exchange rate policy
Export promotion	<ul style="list-style-type: none"> - Export compensation scheme that compensated 10 percent - Tax free capital imports 	<ul style="list-style-type: none"> - Increased export compensation from 10 to 20 percent - Introduced manufacturing under bond and export processing zone - Foreign exchange retention by exporters of 50 percent of export earning.
Public enterprises	<ul style="list-style-type: none"> - Government owned 240 commercially oriented enterprises 33 of which are considered strategic 	<ul style="list-style-type: none"> - Have privatized 168 enterprises and restructured six strategic enterprises
Tax reforms		<ul style="list-style-type: none"> - Have rationalized taxation system.
Price controls	<ul style="list-style-type: none"> - Controlled pricing and marketing of maize 	<ul style="list-style-type: none"> - Full decontrol of petroleum

	<ul style="list-style-type: none"> - and petroleum - Subsidized farm inputs 	<ul style="list-style-type: none"> - Maize liberalization - Took liberalization of tea and coffee marketing - Removal of subsidized on farm inputs
Interest rates	<ul style="list-style-type: none"> - Controlled interest rates 	<ul style="list-style-type: none"> - Interest rates flexible at levels dictated by market forces. Also influenced by Treasury bill rate
Budgetary	<ul style="list-style-type: none"> - Subsidized social sector especially education and health - Main employer 	<ul style="list-style-type: none"> - Introduced user fee or cost sharing system - Reduced government spending through retrenchment
Political areas	<ul style="list-style-type: none"> - Constitutional court – ruling of court is final - Single party system 	<ul style="list-style-type: none"> - Constitutional reform underway - Multi-party democracy - Establishment of Kenya anti-corruption Authority KACA
Human right	<ul style="list-style-type: none"> - Detention without trial 	<ul style="list-style-type: none"> - Detention without trial abolished

This table is generated from the findings of the study taking into consideration policy environment that prevailed before the introduction of structural adjustment programmes and policy environment that prevail today.

Under the leadership of president Kibaki, the Government of Kenya began an ambitious economic reform program and resumed its cooperation with the World Bank and the IMF. The government enacted the anti-corruption and economic crimes Act and public officers Ethics Action May 2003 aimed at fighting graft in public offices. This was a policy recommendation after the Goldenberg scandal. There was some movement to reduce corruption in 2003, but the government did not sustain the momentum.

The government's ability to stimulate economic demand through fiscal and monetary policy remained fairly limited while the pace at which the government was pursuing reforms in other key areas remains slow. Although the privatization law was enacted in 2005, modest steps have been made on privatizing of parastatals apart from Kenya Electricity Generating Company (Kengen) and Kenya Re which has been privatized in 2006 and 2007 respectively. Civil service reform is limited despite the government's assertion that reforms would be undertaken. Further more once the government came into power the reversal was evident in civil service where civil servants payrolls were increased while cost sharing element in primary school and health were removed.

My conviction is the World Bank and IMF did not resume its donor aid due to implementation of reform but largely because of the president's action. The president got more involved with Middle East, India and China. The move in my view would limit the western states influence in Kenya hence the IFIs move to resume aid to safeguard their interest in the economic fields.

There is no question that external actors namely the World Bank and the International Monetary Fund continue to play an important role in policy making process. One senior officer in economic department in Ministry of Finance and Planning is concerned that many donor initiatives lack analysis of what is on the ground. She observes that the letter of intent, (Memorandum of Economic and Financial policies and Technical memorandum of understanding) which describes the policies that Kenya intends to implement in the context of its request for financial support from the IMF is constrained by previous conditionalities.

Another interviewee in the Ministry of Trade and Industry observed that ever since independent external actors have influenced the policy making process in Kenya. However, he have different view in that international donor participation have increased during the 1990s.

Reforms became a donor agenda and could be hurriedly implemented in a bid to appease donors to release funding. As it turned out this often left little or no room for consultation with stakeholders. The IFIs took institutional capacity and political will for granted, leading to in consistency and policy reversals in the reform process. More effort need to be made to rationalize and channel donor involvement toward the creation of self – sustaining public policy capacity.

Kenya's path to reforms was largely driven by external pressure from donors particularly the IFIs and domestic economic factors. Continued borrowing from abroad was

predicated on conditionalities. Little was achieved in the 1980s and only in the 1990s were comprehensive reforms implemented. Donor conditionalities were broadened to include political democracy and good governance besides the traditional economic policies. The economic reforms coincided with political reforms, mainly the change to multi-partyism and agitation for constitutional reform. Despite external pressure the civil society and religious groups played a critical role, particularly in pushing for political reforms.

Policy reversals and uncertainty about the reform was evident from the study. This can be attributed to lack of a clear analysis of the reform impact, poor preparation, limited consultation in the design and implementation, with issues of timing and sequencing often not considered. In some cases, the reversals were made to minimize the short run cost of the reforms or inherent political uncertainty.

The reform process was reactive rather than proactive, resulting in weak ownership of reforms. There was no specific attempt to coordinate and prioritize reforms.

So far Kenya has implemented most of reforms however, there are marginal gains with economic growth and investment, especially in the 1990s. Economic growth and foreign direct investment which was argued would increase dramatically decreased reaching to a negative real GDP growth rate of -0.3 percent in 2000. Further the reforms disproportionately affected the poor and the vulnerable groups deepening the asymmetries in income and access to resources.

The IFIs disregard the fact that economic reforms are deeply intertwined with political dynamics. Although IFIs are the major actors, political institutions wield immense power in the process of policy making. Future economic reforms need to consider the self-seeking interest groups, patron-client relations and political elites interested in pursuing personal welfare functions and the timing of reform implementation in terms of political climate. There is need for home-grown policy formulation to ensure sustainable development efforts. This can be achieved if all stakeholders are involved who will ensure that policy formulated best suit the country.

The world is going through political and economic changes of monumental proportions Kenya has to cope with new international situation along with its continuing search for new ways to promote recovery and future growth. Macro economic policies particularly in the field of trade, monetary policies and human capacity development are critical issues of economic policy that Kenya must pursue successfully if it is to emerge from the present crisis and resume the path of sustainable economic growth.

Using the three policy scenarios employed in the analysis, the study concludes that the government have shifted from the first scenario where its characterized by zero compliance and dominance of the government's own first best policies to second and third scenarios. Although some conditionalities have had partial compliance they have influenced the decision making process. Full compliance have also been observed where the government have moved from its best policies and implemented the International Financial Institutions policy recommendations to the word.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

This chapter highlights conclusions, recommendations and provides areas for further research.

6.0 Conclusions

Africa states and their political systems operate within an international environment in constant transition. Africa's divergent transitions towards political reform and democratization are the result of variety of factors that have an impact on the actions and policies of those in power in African states at the beginning of the twenty first century. Almost from the start of Africa's precipitous economic decline that began in the late 1970's and early 1980's African economic and political systems have been increasingly influenced by donor nations and especially the World Bank and IMF operating on assumption that only a major restructuring of the economic and political system of African countries would bring about economic growth thus need for structural Adjustment programs.

The economic and political conditionalities imposed by the IMF and the World Bank completely disregarded the political realities confronted by African leaders. For example the IMF and the World Bank economists failed to take into consideration that the four pillar of private sector reform; end of food subsidies, the devaluation of national currencies, the trimming of government bureaucracies and the privatization of parastatals (state owned cooperation) could led to often violent urban riots.

The end of cold war has had a dramatic effect on the role of conditionalities in the African continent's international economic relations. The terms of the debate have shifted away from such cold war inspired questions as whether Marxism or an African variant of socialism is favourable to capitalism or whether single party or multi-party regime can better promote the welfare of their respective peoples. Instead, the IMF and the World Bank now consider how to best facilitate the creation of capitalist multiparty political systems throughout Africa.

The globalization of a market economy and the collapse of communism transformed donor interest in developing countries and modified the purpose and philosophy of aid provision.

With majority of countries having implemented Structural Adjustment Program and multiparty democracy, the concern currently is on the consequences of using Technical Barriers to Trade (TBT) and the Sanitary and Phytosanitary Standards (SPS) by the developed countries. Most developing countries including Kenya find it difficult to implement. SPS Agreement partly because of numerous problem in its implementation and lack of technical capacity to implement it. This is unlike in the developed countries which are using the agreement to limit access of commodities from developing countries. The new emerging non-tariff issues such as trade and labour standards, trade and environment, trade and competition and trade and investment are seen as strategies by developed countries to create barriers to trade for commodities from developing countries while preaching trade liberalization in developing countries.

As in the rest of Africa, and the developing world, donors – especially the United States and the Bretton Woods institutions have strongly pressured Kenya to liberalize its economy and to enact a number of related macro-economic reforms that are often referred to as Structural Adjustment Programmes.

From the 1980 onwards Kenya witnessed the emergence of multilateral and bilateral donor institutions as crucial actors in the country's economic formulation. These changes started in 1980 when the country joined a group of other African countries implementing the World Bank – IMF SAPs. This participation of donor was particularly enhanced by the economic crisis which gripped the country in the second half of the 1980s making the country heavily dependent on external donor resources. These measures initiated in 1980s, progressively reduced the state's control over the economy and by close of the 1990s, the role of the donor community had become perhaps the most important force in Kenya's policy formulation process.

This has been witnessed by the extensive use of conditioned aid by international and bilateral donors to promote political, economic and environmental reforms which have added up to, a considerable erosion of the concept of sovereignty as a constraint on external intervention in nations' domestic policies. The conditionalities attached to adjustment operations have been numerous, highly detailed and challenging. Donors and especially applied conditionality in Adjustment operations in many developing countries including Kenya. As pointed out earlier conditions have an important role to play in aid agreements to the extent that they build recipient institutional capacity. Conditions that are limited, jointly negotiated with policy makers, and consistent with learning by all

parties can support donor aid constituencies while enhancing the quality of policy formation and implementation. However, the international donor communities have imposed conditions on recipient government rather than using negotiation platform. To acquire financial assistance to finance the budget and balance of payment deficit, Kenya has had to meet the donors conditions or otherwise the funds would either be delayed or suspended as it was the case in 1982, 1989, 1991, 1996 and 2001.

The reform measures undertaken by the government are imposed by the World Bank, the IMF and other donors. This is evidenced first, by the constant reversal of policy when the negotiations between the government and the two international financial institutions went sour. Second, the Moi regime could find ways to circumvent conditionality in many occasions. Moi regime failed to live up to the agreement with donors and only implemented policy recommended when under pressure from external institutions.

During 1990, the country came under intense international pressure to liberalize its economic policies, to reinstate a de jure multiparty system and to halt its abuse of civil liberties and rights. Pressure for change rose to a crescendo towards the end of 1991 when key donors (among them the IMF, World Bank, United States, Germany, Norway, Britain and Japan) met in Paris and announced that Kenya's foreign aid would be held for six months pending the initiation of political and economic reforms. This led to policy change from single party to multi party democracy.

However, the transition to a multi party democracy and the desire of the extent political rulers to hold on the power contributed to fiscal and monetary policy as unpopular fiscal retrenchment measures were postponed and money creation was accelerated to cover increased spending on populist projects to buy the support of the voters. Despite the charges, in political system, Kenya experienced a drastic reduction of donor aid. Although political factors alongside economic ones contributed to donor decision to suspend aid to the Kenyan government, it was mainly or exclusively progress on economic matter that led to aid renewal in 1993. From the analysis it is clear that donors especially the Bretton Woods institutions valued economic reforms more than political ones.

Progress in liberalization of the trade regime has been sporadic with periods of significant progress followed by slower movement and even reversals. The trade reforms of the late 1980s and those after 1992 proceeded with greater vigour and commitment but even then the government appeared to respond more to external donor pressure than to internal changes in policy orientation. Ikiara et. al. skillfully demonstrate that liberalization of cereal market did not result in decreasing NCPB's monopolistic role in the cereals chain; many farmers prefer the NCPB because they offer better prices than private traders, wholesalers were often unable to exploit market opportunities because they lack working capital, storage facilities and transport and many traders are unable to do business in small holder areas because profit margins are too small. Despite the market oriented reforms, there are marginal gains with economic growth and investment. The production of traditional exports have generally declined. The observation is that most policy

measures were implemented during the country's economic crisis to seek favour from international community for more funds to finance budget and balance of payment deficit.

Weak commitment to the reform process strained the relationship between donors, leading to stop go pattern in lending and reform implementation. The government often outlined policy reforms but implementation was often characterized by delays, policy reversals or back tracking. This is because the government had weak ownership of reforms for instance president Moi had publicly resisted the idea of multi-party democracy arguing that it would lead to ethnic conflict.

International constraints on domestic choice are not limited to issues of personal freedoms and economic affairs. They affect the very manner in which governance is structured and operates. Multilateral financial institutions have turned from offering free economic advice and assistance to imposing conditions for political and economic reform. The international community is imposing itself on Kenya as never before, and the circumstances and potential consequences of these pressure are more complicated and unpredictable.

It remains to be seen whether the country will be able to prosper in changing international environment by renewing its policy making role and its quest for prosperity in economic development.

6.1 Recommendations

The policy-making environment in any country is determined to a large extent by the kind of political set up that a country has in place including the legal and institutional mechanisms established to guide the policy making process. In Kenya institutions that are expected to manage the reforms are generally perceived to be very weak therefore leaving significant room for the engagement of donor technical assistance. There is therefore a need to develop strong institutions in the field of policy making process. This can be done through development of human capacity in the area of concern and encouraging innovative ideas.

Government with weak institutions lack the mechanism for sifting through the policy advice in order to make optimal choices. They are therefore likely to make the wrong policy choices. In Kenya short term political considerations are the main motivating factors. They have not developed mechanisms for restraining themselves in the misuse of the resources under their control. The situation is that president can announce new directions in policy without extensive consultation with his advisors or the heads of departments charged with their implementation.

On this note, public debate of new policies initiatives should be encourages and also meaningful debate in the national assembly. The assembly should exercise its role in parliament by questioning the wisdom of a particular policy to pave way for modification to come up with best policy.

The effective participation of state institutions mainly the legislature, judiciary and the political parties in the policy making process should be enhanced. The contributions of research institutional, the private sector and civil society should be given adequate attention and priority in policy making process.

Heavy foreign involvement in policy making process is often employed to compensate for a lack of commitment within the domestic leadership. As a result the government adopt weak policies among the donor agencies, delays and interruptions in funding and absence of local involvement in the formulation process. The government should be committed to give its best to its citizens. Strong negotiation capacity is required. For instance, the weakness of Moi regime led to a series of struggles with IMF and World Bank over reform whereas despite slowness of economic reform and reversal of earlier reforms, (Retrenchment to reduce government spending and introduction of cost sharing increasing salary for civil servants and reopening state-owned cooperatives such as KCC, KMC} Kibaki regime was able to argue this case out that inspite of several budgetary constraints his government spending is restructured in favour of important social and economic sectors including education and health.

Despite the origin of policy and conditions attached to it, the policy package should be socially, politically and economically sound. The social impact of adjustment should be weighted .

For instance the policy makers in Kenya should question the wisdom of continued pressure to liberalize maize market which affects maize meal which is a necessity and affects the vulnerable groups and laxity that exist in other commodities like sugar which is a luxury. The observation is that Kenya has become increasingly unable to present a vigourly argued, disappasionable and objective bargaining position to the outside world, including the development agencies. Consequently, the country has increasingly accepted reform recommendations combined with slow pace of implementations in areas where issues are not clear or are socially and politically sensitive. To overcome this the country should develop strong legal and economic institutions capable of formulating individualized and strategic visions, polices and programmes for development. This can be achieved through formulation of home grown solution to complement the standard reform prescriptions by IFIs in order to promote ownership and sustain development efforts. Government commitment, proper timing and sequencing of policies are also core.

African countries Kenya included need to improve day-to-day economic policy making. Such an improvement will require research analysis and policy advice that is country specific. This suggests the importance of building up policy analytic capabilities at the national level. The mandate of Africa Economic Research Centre which is a continental research centre should be strengthened and broadened to accommodate individual country. There is need to strengthen and enhance the sustainability of polices through a strong sense of African ownership of the policy making process, which can be accomplished through first rate indigenious research and policy design capacity.

6.2 Area for further research

This study focused on external constraints to policy making process in Kenya. The study focused mainly on Bretton Woods Institutions. A more detailed study on bilateral donors influence on policy making process would shed more light on the understanding of how policy makers in the aid recipient country make their policy decisions. It may be interesting to assess whether a distinction between bilateral and multilateral aid influence the policy making process.

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