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Part I

Early Reformers

Introduction

Joseph Mensah

Part I of this book has four chapters, the first of which, 'Understanding the Economic Reform Process in Kenya', is written by the Kenyan policy analysts Maureen Were and her colleagues Rose Ngugi and Phyllis Makau. The chapter focuses primarily on Kenya's reform process since the early 1980s and discusses the Kenyan government's reluctance to embark on SAPs, despite long-standing macroeconomic instability in the country. The chapter sheds light on the various resistance mechanisms deployed by those opposed to SAPs, and discusses how the government used various forms of political patronage to facilitate the implementation of some of its reform policies. It is clear from the chapter that while the government made bold moves in implementing certain reforms (e.g. trade liberalisation), it engaged in discernible foot-dragging, for reasons of vested political interest, in other areas such as good governance and public sector reforms. With regards to impact, the authors note that Kenya's SAPs, like many of the cases in this book, disproportionately affected the poor and worsened the asymmetries in income distribution in the country.

The Ugandan political scientist Julius Kiiza and his colleagues Godfrey Asimwe and David Kibikyo begin their analysis of Uganda in Chapter 2 with a brief overview of the historical and macroeconomic context of the nation's SAPs. Following this, they explore the veracity of three main hypotheses (or what they called propositions), not by way of statistical testing, but via a qualitative approach which relies mostly on institutional and political economic analysis. These propositions are: (a) that Uganda's reforms reflected the preference of those who controlled the state at the time of their implementation; (b) that vested interest in developing nations, such as Uganda, tends to be inactive, or even apathetic, at the stage of reform design, but active at the point of implementation; and (c) that reform ownership tends to change with the changing phases of reform. After providing an empirically grounded theoretical narrative in support of these three propositions, Kiiza and his colleagues then lament the fact that Uganda's economic reforms, like nearly all others discussed in this book, have relied too much on donor

funds to be sustainable in the long run. Unsurprisingly, the authors conclude by calling for the use of domestic resources to effect the structural transformation of Uganda's economy from its long-standing dependence on primary exports to higher, value-added and technologically enhanced industrial and information activities.

Chapter 3, on Ghana, is written by Joseph Mensah, a human geographer, together with his colleagues Roger Oppong Koranteng and Kwame Frempah-Yeboah. As with the chapters on Kenya and Uganda, Mensah and his co-authors rely on both quantitative and qualitative data to profile the historical, socio-economic and political contexts of Ghana's economic reform. They examine a number of key issues and ask the questions: Why did Ghana embark on reforms? To what extent did the major stakeholders and institutions participate in the design and implementation of Ghana's reform? What institutional and regulatory instruments were initiated to facilitate the implementation of the reform? And how well did the reform perform? The authors note that while many factors instigated Ghana's shift towards SAPs, the leading trigger was the economic crisis that prevailed in the country from the early 1970s to the early 1980s, an observation that is reiterated in nearly all the chapters in Part I. The analysis in Chapter 3 lends some credence to the common finding, by previous World Bank and other supporters of SAPs, that Ghana witnessed noteworthy growth in her real GDP, industrial capacity, domestic investment and infrastructural development as a result of the economic reforms. At the same time, there are indications from this chapter to suggest that Ghana's SAPs, like those of Uganda, severely aggravated the nation's debt situation, and increased income polarisation among Ghanaians, similar to the discovery made by Were et al. in Chapter 1 on Kenya.

The final chapter of Part I, on Morocco, is written by the economist Brahim Mansouri, with the assistance of Brahim Elmorchid, Mustapha Ziky and Mohamed Rigar. Starting with the premise that many of the previous studies on Morocco's reform have been ideologically driven, Mansouri and his colleagues set out to give an objective account of why Morocco embarked on economic reforms, what types of reform were implemented over the years, and how well the reforms fared. The chapter divides the Moroccan reform into three main episodes: the first, from 1983 to 1993, dealing with macro-economic stabilisation of the initial structural reforms; the second, from 1993 to 1998, on the reinforcements that were made to the earlier reform period; and the third, from 1998 to the present, characterised by a number of political and institutional reforms. The recurrent theme of this chapter is its call for the incorporation of cultural factors into the planning and implementation of economic reforms. This call is certainly warranted, given the long-standing resistance to reforms posed by pre-capitalist cultural traditions in Morocco.

Part I of the book, therefore, brings together four countries from different parts of Africa – Morocco from the north, Ghana from the west, and Uganda and Kenya from the east – with a wide diversity of history, economic policies,

and relationship with, and resistance to, the Bretton Woods institutions. At the same time, a careful reading would show that they share some common characteristics. For one thing, like most African countries, their economies are overwhelmingly dominated by agriculture, in particular, and primary production in general. Also, their level of urbanisation is relatively low, and – with the notable exception of Morocco, whose GNP per capita is \$1180, according to the World Bank's *World Development Report (2000)* – they all have fairly similar GNP per capita: ranging from \$300 for Uganda to \$350 for Kenya, with Ghana in between with \$340. More importantly, one should notice from reading Part I that nearly all the four countries relied on the so-called *authoritarian advantage* for the implementation of their SAPs for a longer period of time than the countries in Part II.

1

Understanding the Reform Process in Kenya¹

Maureen Were, Rose Ngugi and Phyllis Makau

1 Introduction

Kenya gained independence from Britain in 1963. Since then, the country has gone through a number of political and economic changes. Like most African countries, Kenya's economy in the 1960s and 1970s was characterised by state controls and a protective, inward-looking trade regime. The economy was able to achieve outstanding economic growth in the first decade after independence – with an average real Gross Domestic Product (GDP) growth rate of 6.6 per cent during the period 1964–73. However, in the 1970s, the nation witnessed a series of economic crises: trade shocks, fiscal indiscipline and several structural distortions. The oil crises of the 1970s compounded the problems by exposing the country's vulnerability to external shocks. This was a major blow to the nation's import-substitution industrialisation programme. The government responded to these crises by tightening the trade regime and by seeking financial assistance from donors. By the late 1970s, the economy had deteriorated even further, but the government resisted dismantling the control regime for market-oriented reforms.²

However, as the economic crisis deepened, the easiest option of borrowing from abroad demanded the liberalisation of the Kenyan economy. Thus, the government, reluctantly, embraced economic reforms under Structural Adjustment Programmes (SAPs) in 1980, making Kenya the very first Black African country to embark on a major adjustment programme. However, little was achieved in the 1980s; it was not until the 1990s that the nation's SAPs were revamped.

This chapter offers an in-depth analysis of the reforms in Kenya. More specifically, it investigates the reform process, with the aim of exploring the impetus for reform; the role of key stakeholders, especially the state and the donor community; the political constraints faced in the implementation process; matters concerning the reform's ownership and outcomes; and the successes and failures of the various aspects of reform. Our analysis is guided by three key questions: Why reform? What kind of reform? How well did the

reform perform? In seeking to answer these questions, we rely on analytical narrative³ to help us understand some of the subtle issues and to gauge causal and logical relationships in the reform process in Kenya. Undoubtedly, any attempt to understand reforms engenders questions that give rise to difficult methodological issues. Economic reform is a complex, dynamic and multi-faceted process that calls for a multidisciplinary approach that pays due attention to political, historical, economic, cultural and geographical matters simultaneously (Fanelli, 2003). Consequently, rather than using the traditional time series or panel data econometric models, we deploy a historically grounded, institutional and political economic approach to the study of Kenya's reforms.⁴

The chapter proceeds as follows: section 2 profiles the political economy of Kenya since its independence in 1963. This is followed by an in-depth analysis of the economic reforms that were implemented during the 1980s and 1990s in sections 3 and 4, respectively. Section 5 examines the outcomes of the reform, while section 6 focuses on the 'winners' and 'losers' of the nation's reform, before drawing the chapter to a conclusion in section 7.

2 Kenya: political economy prior to economic reform

Throughout the colonial period, the country was run as a unitary entity in which the colonial centre in Nairobi exercised overwhelming authority over the peripheries. The decision by the outgoing colonial authorities to replace such a system with a loosely organised federal structure was bound to fail, as it did, largely because the country had no meaningful experience with power sharing between the centre and peripheral localities in the governance process (Oyugi, 1994).

Upon winning the first post-independence elections, the Kenya African National Union (KANU), which favoured a unitary system, embarked on a deliberate effort to destroy the opposition and the federal constitution (Tamarin, 1978). In the face of mounting frustration from the ruling party, politicians from the opposition party, the then Kenya African Democratic Union, found it difficult to operate, and ultimately defected to the ruling party. The demise of the opposition was quickly followed by the dismantling of the federal constitution, which had ceased to function by the end of 1964 (Oyugi, 1994). By 1969 Kenya had become a *de facto* single-party state (Throup and Hornsby, 1998). The Kenyatta government quickly 'Africanised' the civil service and other public sector appointments in order to consolidate national sovereignty (O'Brien and Ryan, 2001).

Having assumed power at a very advanced age, President Kenyatta surrounded himself with a group of trusted ministers and personalities, drawn largely from his ethnic community, the Kikuyu, who constituted the 'kitchen cabinet'. The group had a vested interest in maintaining the presidency in the central province (the president's home province) to protect and perpetuate

their political and economic interests. The foundation of a deep-seated politico-economic client system was slowly being laid. The stakes were very high, and the group orchestrated a series of manoeuvres to dilute the independence constitution (Okoth-Ogendo, 1972). By the end of the first decade of independence, the constitution had been amended ten times to strengthen the position of the presidency over parliament. The powers and authority of the executive were also enhanced. These powers were used discriminately on the basis of patronage, as senior civil servants understood that they served at the pleasure of the president (Anyang' Nyong'o, 1989). The civil service, however, enjoyed more powers over routine and technical policy issues during the Kenyatta era relative to the subsequent regime. By the mid-1970s, Kenyatta had grown old and feeble. Without any opposition party, the inner cabinet became dictatorial and resorted to assassinations and detentions of government critics, mainly backbenchers in parliament. Corruption, nepotism, favouritism and inequity grew dramatically over every aspect of the Kenyatta administration's sunset years.

It is against this background that Daniel Arap Moi assumed power in August 1978 following the demise of Mzee Jomo Kenyatta. He moved fast to assure the mourning nation that he would follow in the footsteps of his predecessor. True to his word, the new president embarked on the business of leading the country using the same state apparatus. Thus parliament remained subdued. In no time, Moi resorted to issuing populist policy statements and directing civil servants to implement them (Odhiambo-Mbai, 1998). By the early 1980s, the constitutional amendments had created an overarching executive with immense interventionist powers in the economy (Gacheru and Shaw, 1998).

As with many developing countries at the time, Kenya's post-independence economy was influenced by the prevailing development paradigm, namely, import substitution industrialisation, with a significant role accorded to the state in the economy. At the time of independence, Kenya's colonial heritage provided a variety of rent-seeking opportunities to the country's newly elected government (Ryan, 2004). The new government elites maintained and endorsed colonial institutions so as to capture the consequent privilege when expatriates were replaced by Kenyans. The colonial government had already established marketing boards for the sale of commodities such as coffee, and in the quest for economic sovereignty, the new government expanded its involvement in productive activities through the creation of more state-owned enterprises (O'Brien and Ryan, 2001). The impetus for this move came mainly from the recommendations of the infamous *Sessional Paper No. 10 on African Socialism and its Application to Planning in Kenya*, which sought to 'Africanise' the economy and jump-start industrialisation.

The government managed to expand economic output and employment, fuelled mainly by expansionary fiscal policy and increasing exports to Tanzania and Uganda under the newly established common market – the East African

Community (EAC) (Wagacha, 2000). However, after the remarkable economic growth in the first decade, Kenya started experiencing macroeconomic instability in the 1970s. For instance, in 1971, deterioration in terms of trade led to the first balance of payments (BOP) crisis. Following the first oil shock of 1973, the economy experienced escalating BOP and current account problems, to which the government responded by introducing import controls. Then came a positive shock in the form of a commodity (coffee) boom in 1977, which sparked of a spending spree on the part of both the government and the private sector, leading to a fiscal deficit of 9.5 per cent of GDP in 1975/6 (O'Brien and Ryan, 2001). The economy was also set back by the collapse of the EAC in August 1977. The second oil crisis of 1978/9 compounded the problems and exposed the country's vulnerability to external factors (Were et al., 2002). But the government was not ready to dismantle the controlled policy regime. Instead, it reacted to these crises by tightening the trade regime and seeking external financing assistance. Despite the shocks, the economy performed fairly well in the 1970s, and was able to achieve a real GDP growth rate of 5.6 per cent for the period 1974–9. However, the country had serious problems of unemployment and underemployment, income distribution and land ownership. It is clear from the turn of events that there was a need for reform from as early as the beginning of the 1970s.

3 Economic reforms in the 1980s

By the early 1980s, it was clear that the macroeconomic policies pursued before had glaring loopholes. At the same time, the economic management had begun to weaken and fiscal indiscipline was rising. The public sector was overextended. By the end of the 1970s, the government had shares in about 250 commercial firms (Ikiara, 2000). The state-owned enterprises were not only lagging behind in economic performance, but were also draining the national budget. The inability to control expenditure was partly the result of a general lack of discipline in expenditure allocation and execution. Most state corporations were highly inefficient, despite enjoying economic privileges such as direct subsidies. In the social sector, the overstretched public sector and increased inefficiency became a major challenge to the ambitious programme of free university education and health.

Table 1.1 shows some of the macroeconomic indicators during the reform process. As can be seen, in the early 1980s, when the reform process was getting started, the BOP and current account were both in huge deficits. For example, in 1980, the BOP and current account deficits amounted to US\$317 million and US\$878 million, respectively. There was also a scarcity of foreign exchange reserves as exemplified by the huge negative net foreign reserves. In addition, the ratio of budget deficit to GDP in 1981 and 1982 was over 7 per cent and inflation was relatively high. The economy was in crisis. Some action had to be taken. This happened to be the time when the

Table 1.1: Kenya: selected macroeconomic indicators, 1971–1999

PERIOD	GDP	INVEST	NETRES	RES	BOP	CAB	DEF	LEND	TBILL	EXR	INF
1971	5.23	25.3	1200	1230			-2.6	9	1.42	7.143	
1972	4.62	23.2	1331	1416			-5.7	9	3.45	7.143	
1973	4.01	21.2	1546	1603			-4.4	9	1.92	6.9	8.89
1974	3.06	30.8	962	1347			-3.0	9.5	4.63	7.143	17.33
1975	2.89	20.5	534	1427	(43)	(220)	-6.0	10	6.08	8.26	16.06
1976	4.40	23.0	1446	2301	84	(120)	-6.1	10	5.54	8.31	10.47
1977	8.13	27.0	3610	4259	269	35	-3.1	10	2.13	7.947	13.53
1978	7.66	34.3	1954	2732	(220)	(661)	-2.4	10	4.29	7.404	14.77
1979	4.92	26.1	3275	4780	72	(495)	-6.1	10	6.01	7.328	7.80
1980	3.99	35.4	1830	3784	(317)	(878)	-2.5	10.58	5.26	7.569	13.16
1981	5.97	33.3	128	2577	(306)	(563)	-7.5	12.42	7.61	10.286	12.23
1982	3.40	26.4	(2167)	2957	(160)	(308)	-7.7	14.5	12.58	12.725	22.30
1983	3.04	25.0	(1027)	5459	98	(50)	-2.4	15.83	14.15	13.796	12.83
1984	0.35	25.5	(374)	6444	62	(130)	-3.7	14.42	13.24	15.781	9.75
1985	5.13	25.5	(1975)	6807	(52)	(118)	-3.7	14	13.9	16.284	12.25
1986	5.54	21.8	(411)	7115	137	(47)	-4.8	14	13.23	16.042	5.16
1987	4.87	24.3	(2159)	4753	(25)	(503)	-7.5	14	12.86	16.515	6.25
1988	5.14	25.0	(3651)	5558	(44)	(472)	-3.7	15	13.48	18.599	9.91
1989	5.09	24.7	(2370)	7310	122	(590)	-3.8	17.25	13.86	21.601	11.09
1990	4.21	24.3	(5450)	6630	(93)	(527)	-4.3	18.75	14.78	24.084	13.31
1991	2.08	21.3	(7945)	5339	(44)	(213)	-5.0	19	16.59	28.074	17.55
1992	0.48	16.9	(5975)	6315	(257)	(180)	-1.3	21.07	16.53	36.216	25.01
1993	0.24	17.6	30 146	34 527	412	71	-4.5	29.99	49.8	68.163	43.46
1994	3.03	19.3	15 903	28 227	62	98	-5.8	36.24	23.32	44.839	29.80
1995	4.82	21.8	23 546	25 683	(142)	(400)	-1.3	28.8	18.29	55.939	0.50
1996	4.64	20.4	47 434	47 266	39	(74)	1.2	33.79	22.25	55.021	7.87
1997	2.36	18.5	55 669	44 499	120	(377)	-2.2	30.25	22.87	62.678	10.91
1998	1.77	17.3	53 787	47 103	74	(363)	-0.8	29.49	22.83	61.906	5.44
1999	1.42	16.1	55 121	57 816	87	(90)	-0.7	22.38	13.87	72.931	4.48

Key: GDP is real gross domestic product growth rate; INVEST is investment rate defined as the ratio of gross investment to GDP; NETRES is net foreign reserves; RES is foreign reserves; BOP is balance of payment (US\$m); CAB is current account balance (US\$m); DEF is the ratio of budget deficit to GDP; LEND is nominal lending rate; TBILL is the nominal treasury bill rate; EXR is the exchange rate (Kshs/US\$); INF is the inflation rate.

Source: IFS and KIPRA.

international financial institutions (IFIs)⁵ were ready with a reform recipe in the form of SAPs.

While the government at first resisted dismantling the control regime, the easiest option of borrowing from abroad then (and even now) invariably demanded liberalisation. Consequently, with the rising pressure from the IFIs, the government started, reluctantly, to liberalise the economy – a major component of which was the removal of import controls and a shift from import-substitution to an export-promotion strategy (Were et al., 2002). Indeed, as hinted earlier, Kenya was the first sub-Saharan African country to receive structural adjustment lending from the World Bank and later on among the first to receive an Enhanced Structural Adjustment Facility (ESAF) loan from the IMF⁶ (O'Brien and Ryan, 2001).

The reform programme was therefore driven by both domestic and external factors. Besides the imbalances in external accounts, there was immense pressure from outside – notably from the IFIs – to implement reforms as part of the preconditions for donor funding. The policy-based structural transformation programmes included several conditions within their policy matrices (Ryan, 1998). The domestic factor was mainly the economic crisis propagated by such factors as budgetary problems, inefficiency problems, deteriorating economic performance, and increasing demand for services in the face of declining per capita real public expenditures. The external pressure from the IFIs acted as a catalyst, hence facilitating the process.

Stallings (1992) argues that international influences can affect domestic policies. However, as cited by Liew et al. (2003), Kahler (1992) writes that the prominence of IFIs and the lack of alternative sources of finance in the 1980s did not increase the leverage of IFIs as expected because the proposed programmes were in conflict with the political interests in developing countries. Despite the pressure from IFIs and the economic crisis that had deepened by the early 1980s, the government only managed to implement piecemeal reforms. Among other factors, the control regime was still attractive for maintaining the status quo, and for providing rent-seeking opportunities and political patronage. Following Swamy (1994), we divide Kenya's SAPs period into two major phases: 1980–4, which forms the first phase of reform, and the 1985–91 period, which forms the second phase, during which a sectoral approach was adopted.

3.1 Economic reforms: 1980–4

The first phase of reforms mainly targeted the BOP, with the removal of import controls. The government presented its structural adjustment programme in *Sessional Paper No. 4 of 1980 on Economic Prospects and Policies*. Among other policy changes, the programme suggested the need to eliminate quantitative restrictions on imports and replace them with equivalent tariffs; to relax industrial protection; and to institute a relatively high interest rate regime.

With the escalating economic crisis, the government urgently needed quick disbursement, which happened to coincide with the World Bank's decision on medium-term BOP support (programme lending). A planned industrial sector loan was thus converted into a Structural Adjustment Loan (SAL) by adding conditionalities, which included the replacement of quantitative restrictions with tariffs and their rationalisation by 1983 (Mwega, 1999). This was done with the hope of effecting a quick response in exports, but the response did not materialise as expected. However, in the 1980/1 budget, some of the proposals were implemented. For example, import controls were relaxed and interest rates were adjusted upwards. Also, a new system of licensing was put in place in November 1981. At the same time, it was proving difficult to contain government spending and to achieve the income policy.

In 1982, faced with a worsening economic situation, the government approached the IMF again and also requested another SAL from the World Bank. However, by mid-1982, the Kenyan Central Bank's credit to the government had exceeded the agreed ceiling and the agreement was thus suspended. The second SAL was even more ambitious, taking on trade reforms, grain marketing, interest rates, energy and family planning (Swamy, 1994). However, the trade reforms were largely not implemented and grain marketing was not liberalised. The *Sessional Paper No. 4 of 1982* spelt out further attempts to reform import controls, by which items could be moved from the quota-based schedules to quota-free ones, at a rate to be determined by the availability of foreign exchange. But because of the growing foreign exchange crisis, this shift was never implemented. The individual scrutiny of import licences was also reintroduced in mid-1982.

In terms of export promotion, the idea was to reduce anti-export bias and increase industrial efficiency. The proposals included simplifying the administration of the incentive system, and introducing an export insurance and finance system. These were in addition to the Export Compensation Scheme (ECS), established in 1974 primarily to compensate exporters of eligible products for the additional input costs due to the imposition of duties on imported inputs whose burdens were considered excessive. In 1984, the compensation was revised upwards from 10 per cent to 15 per cent for general ECS and downwards from 15 per cent to 10 per cent for new and additional exports.

By the end of 1983, when the exercise was expected to be completed, minimal achievements and policy reversals had been witnessed. Moreover, to the extent that quantitative restrictions were removed, tariffs were raised on restricted items even to over 100 per cent. In addition, with the foreign exchange crises of 1982–4, tariffs were increased by 10 per cent across the board. The programme was implemented without a consistent framework so that the imposition of high tariffs on some goods and the reduction of tariffs on others were done in an ad hoc manner. Efforts to improve BOP position, therefore, had very minimal results. The fixed exchange rate regime was not

conducive for export promotion; and the ECS did not function well. The design of ECS was flawed, as it left loopholes that could easily be exploited, thus defeating the purpose of the reform. For example, given that new exporters were eligible for the additional compensation, all they needed to do was to change the company's name and, thus, requalify for it. There was also mounting pressure from the urban elite group (i.e. urban salary and wage earners, especially employees of state corporations) who were thought to be a political threat if drastic changes were implemented.

Swamy (1994) argues that this episode of import liberalisation was not successful because it coincided with a period of macroeconomic crisis, which was followed by rapid stabilisation, hence making trade policy become hostage to the needs of stabilisation. He describes the first adjustment attempt as one marked by the lack of compliance, partly due to design and timing problems, and lack of government commitment to the reform process. The pervasiveness of the import licensing and regulatory system created enormous opportunities for rent-seeking and for executive discretion. Commitment to the stated policy changes was limited to a small coterie of top civil servants. The group seemed to underestimate the strength of the vested interests or overestimate the World Bank's willingness and ability to enforce the conditionalities. Due to the unsatisfactory implementation, there was a pause in adjustment lending for nearly four years.

Vested interests aside, the reform agenda was overambitious and at the same time underestimated state capacity constraints in undertaking a myriad of reforms within the stipulated time.⁷ This confirms the observation made by Rius and van de Walle (2003) that the first generation of reform programmes typically did not view implementation issues as paramount. However, as they rightly argue, state capacity is generally posited to be positively correlated with the level of development, but it would be a mistake to treat state capacity as entirely exogenous to the political system. The government's capacity to implement reforms was compromised by a weakening economic management brought about by the policy drift of the late Kenyatta years and a corresponding loss of influence of the cabinet and civil service technocrats (O'Brien and Ryan, 2001). The constitutional powers bestowed upon the president to appoint and dismiss top civil servants at will interfered with professionalism of the civil service as other factors such as ethnicity, tribalism and patronage became central in appointment and promotion within the service.

Unlike Kenyatta, Moi lacked adequate room for manoeuvre and the personal authority that Kenyatta enjoyed. He also lacked a broader ethnic political base comparable to Kenyatta's (Hyden, 1995). He thus resorted to concentrating power and authority in the presidency in order to maintain control of the state. In 1982, the president made a major constitutional amendment, which made Kenya a *de jure* one-party state. During this period, the presidency increasingly dominated the public policy-making process,

especially through presidential decrees (Odhiambo-Mbai, 1998). The civil service was relegated to the position of mere policy implementers. Even in situations where technocrats had been empowered to come up with coherent policies, the policies could be contradicted by 'presidential decrees' at the implementation stage.

In terms of economic outcomes, the first half of the 1980s performed poorly, with real GDP growth rate declining to about 3.4 per cent. Although the economy showed some stability between 1982 and 1984, virtually no progress was made towards structural adjustment. As in many African countries (e.g. Uganda and Ghana, see Chapters 2 and 3), SAPs paid off rapidly in terms of macroeconomic stabilisation such as lowering of inflation and fiscal deficits at the expense of investment and growth (Table 1.1).

3.2 Economic reforms: 1985–1991

Due to the lack of adequate commitment to the reform process and limited implementation in the first phase, the international funding agencies had to slow down the pace of an otherwise ambitious reform programme. On its part, the government prepared a long-term policy document – *Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth* – to demonstrate that it had a clear reform strategy. In the policy document, the government committed itself to adopt an outward-looking development strategy and proposed several measures to liberalise the economy. The government also acknowledged the need to limit its primary role in the development process to facilitating the growth of the private sector. In terms of comprehensiveness, the document marked a major policy shift towards liberalising the economy, and was later used as the basis for sectoral reforms.

With minimal success in the implementation process, there was a shift in the implementation strategy from a broad to a sectoral basis. The World Bank moved into sectoral adjustment lending as a way of focusing structural transformation into narrower areas, while the IMF was to continue monitoring the macroeconomic balances. This was justified on the basis of the limited implementation capacity of the government, and the need to build greater consensus in support of the reform process (Swamy, 1994). Hence, adjustment programmes were developed in agriculture (supported by two sector loans in 1986 and 1990), industry (in 1988), the financial sector (in 1989), export development (in 1990) and education (in 1991) (O'Brien and Ryan, 2001; Swamy, 1994).

During the reform period, some attempts were made to liberalise the economy, but the level of progress was still limited. With regards to import liberalisation, the reform programme first reclassified imports into five categories: Schedules I (unrestricted licensing), II, IIIA, IIIB and IIIC, with progressively stricter licensing requirements (Swamy, 1994). Over time, automatic or unrestricted licensing was extended to Schedules II, IIIA, and IIIB. Trade liberalisation had started with conversion of quantitative restrictions to tariffs

Table 1.2: Economy-wide average tariffs, fiscal years 1985–1991 (in percentages)

<i>All schedules</i>	1985	1988	1989	1990	1991
Unweighted	40	39.6	41.3	41.0	38.8
Import-weighted		29.6	27.3	24.5	22.0

Source: Swamy, 1994.

equivalent in the early 1980s, though less successfully. The tariff reform made some progress as shown by a declining trend in the economy-wide average tariffs in Table 1.2. In 1990, the government embarked on phased tariff reductions and rationalisation of the tariff bands. The highest tariff rate was reduced from 135 per cent to 60 per cent, while tariff rates on non-competing imports were lowered.

That notwithstanding, the liberalisation process was far from complete. The tariff rates were still on the high side (hence high effective protection), the import licensing system was still in place with considerable executive discretion, and foreign exchange restrictions were still in operation.

Under the export promotion strategy, a host of export incentive and promotion programmes were initiated. These included Manufacturing under Bond, Export Processing Zones and the Export Promotion Council, among others. In addition, the general rate under the ECS was increased from 15 per cent to 20 per cent while additional compensation was abolished following concerns over its sustainability.

Other reform efforts included decontrolling domestic prices, which was linked to the liberalisation of trade. To implement this politically unpopular policy, a strategy to break it up incrementally into the smallest possible pieces was agreed upon, in order to avoid substantive shock to the system (Ryan, 2004). This appears to have worked well. In 1988, the Kenya Association of Manufacturers (KAM), a well-organised lobby group, commissioned a study on the experiences of price controls, which revealed deleterious effects such as time-consuming procedures for presenting requests for price changes, bureaucratic hassles and administrative delays (KAM, 1988). They used the survey results to lobby the government for price decontrols. KAM managed to conquer resistance from the monopolies created under the import substitution strategy. However, according to Ryan (2004), the study results had no effect on the adoption of the policy. There is still no denying that KAM has been vocal in advocating for policies in their favour. It bears noting that in Kenya, most stakeholders are often unorganised and inarticulate (Ryan, 2004). Thus, potential winners (or losers) in a reform of a sector may be unaware and may lack an effective organisation to present their case. In several instances, farmers calling for reform of a controlling parastatal monopoly, as in the case of milk, maize, coffee, tea or sugar, would usually be bought

off by releasing money to enhance crop payments rather than by major institutional changes.

In the financial sector, very little was achieved, as actions were limited to amendments to the Banking Act and adjustment of interest rates. The shift to indirect monetary policy instruments was initiated in 1988, while the treasury bill rate was liberalised in November 1990. The government was also under pressure to implement cuts in expenditure on social sectors, particularly health and education. In the health sector, for instance, this meant a shift from a 'free' healthcare policy to user-charges in public health facilities. However, despite repeated announcements of policy intentions in several policy documents, the government was still reluctant to implement the reform, and kept deferring actual implementation. This can be explained in the context of looming uncertainty over the outcome of reform implementation – especially political uncertainty regarding the reaction of the masses after having been used to the consumption of 'free' healthcare services.

It took a lot of effort, through a series of donor-funded studies and the use of carefully chosen 'friendly' terminologies such as 'cost-sharing' and 'participant support', before the government could finally levy user-charges,⁸ albeit hesitantly, in December 1989. As a compensatory mechanism to the losers – basically, the poor and the vulnerable – preventive services and treatment for catastrophic illnesses were exempted from the fees, while the poor were exempted from paying, upon producing evidence of their inability to pay. Meanwhile, the government dispensaries continued to provide outpatient services free of charge. However, the policy was reversed in September 1990 by suspending the outpatient fee, only nine months after its inception. After implementation, there was a public outcry through the press that the poor were being denied access to services and there was no improvement in quality (Collins et al., 1996). This shows how sensitive the government was about the public response, and was not fully confident, despite having implemented the reform. The media played a key role in highlighting and exacerbating the unpopularity of the reform.

In general, the extent of the reform and the pace of its implementation were unsatisfactory, as most of the conditionalities were not met. For instance, by 1991, the last year of the ESAF, three out of the four quantitative performance criteria were not satisfied, including the ceilings on net domestic assets of the domestic banking sector, government borrowing from the banking system, and net official international reserves. Swamy (1994) observes that though an effort was made to build a broader consensus in the second phase and the pace was incremental, commitment was patchy and intermittent throughout. There was concern that macroeconomic management was deteriorating as a result of the lack of budgetary control on the expenditure front and a slow progress in other areas of economic reform. Little was achieved as the reform effort was characterised by policy reversals and delays, as well as failures in implementation of planned activities. This led to donor

dissatisfaction, occasionally resulting in a halt in adjustment lending, as the relationship with development partners began to sour.

The actual implementation of the reform strategy can be described as sporadic and limited to selected issues. In fact, reforms were undertaken just on the periphery. The most sensitive ones, especially those with a direct impact on the electorate, such as retrenchment in the civil service, removal of maize marketing controls and user-fees in the social sector, were deferred or reversed during implementation. Despite recommendations of earlier commissions, the *Sessional Paper No. 1 of 1986* remained silent on the issue of parastatal reforms. The intricacies of implementation capacity notwithstanding, major reforms were basically deferred or avoided because of the looming political uncertainty of the effects of reforms and the fear of losing patronage. Fidrmuc and Noury (2003) note that if individuals are highly risk-averse, they may resist changes because of the inherent uncertainty. The government was highly risk-averse as the controlled policy regime was lucrative for economic rents and political patronage. External pressure thus coincided with strong domestic patronage and rent-seeking interests, especially by top state elites, thereby ensuring that the government was still able to keep enough elements of control. This situation confirms Rius and van de Walle's (2003) observation that when governments oppose the reform but feel compelled to undertake partial implementation, they are likely to undertake the least onerous, the most easily reversible component of the reform, or the one that has the least impact on the status quo.

To understand the reform process, one also needs to appreciate the context in which the reforms were being undertaken. For one thing, the policy-making process was highly centralised, in that public decision-making was exclusive to a small cadre of public elites. Most policies were a secret of top government officials, even though they would be well known in the circles of development partners who, after all, were the main driving force and initiators of policy reforms. Ministries would just be shown a paragraph or sentence to implement, without a clear understanding of the broader picture. The cabinet ministers, on the other hand, were not given copies of the agreements, but a synthesised version by top civil servants. The closed decision-making process also meant that the reform process was subject to manipulation by vested interest groups, such as political elites, often to their own advantage.

Clearly, secrecy and limited consultation were common techniques employed by the government in the development and implementation of its policies. This limited the scope of consensus building about the design and implementation of reforms with relevant stakeholders. It is thus not surprising that the reform effort was prone to resistance and reversals. Societal groups for which the policy outcomes had a direct impact were rarely able to have their preferences or concerns taken into account before policies were implemented. Such groups have been noted to assert their social power and influence

during the implementation phase, well after policies have been decided upon (Rius and van de Walle, 2003). This was manifested in the case of user-fees reform in the health sector, and later on witnessed under the civil service reform.

Additionally, political interference of the civil service undermined the government's capacity to implement reform. Senior civil servants often understood that they served at the pleasure of the president and hence owned their loyalty to him. The situation was further aggravated by a constitutional amendment in 1988 that gave the president power to fire members of the Public Service Commission, the Judicial Service Commission and the judiciary. President Moi used the powers to reduce the preponderance of Kikuyu civil servants, especially in the higher ranks of the civil service. He replaced them with candidates largely from his own ethnic community under the pretext of promoting social cohesion. The parastatal jobs became an opportune avenue for this venture. This policy had the effect of undermining efficiency in the public sector, and to a certain degree, replacing one group of rent-seekers with another, many of whom lacked the experience to run the organisations they inherited (Throup and Hornsby, 1998). Public institutions, especially parastatals, were transformed into conduits of patronage. It is no wonder the government was not in a hurry to undertake parastatal reforms.

Although economic performance in the second half of the 1980s was better than in the first half, economic growth started deteriorating continuously from the early 1990s. The average real GDP increased from 3.4 per cent for 1980–4 to 5.2 per cent during 1985–9, but dropped to 2.3 per cent in 1991. There was also a notable improvement in BOP and the current account deficit (see Table 1.1). The improvement in 1986 was occasioned by a mini-coffee boom, resulting in a BOP surplus. However, in spite of export promotion measures, export orientation in the 1980s remained weak, largely due to very high effective rates of protection, exchange rate bias against exports, high cost of imported inputs, and foreign exchange controls, among other factors (Were et al., 2002).

One of the remarkable aspects of the first generation of reform in the 1980s is the dramatic build-up in nominal aid flows (both gross and net) during the 1980s. The government's pro-Western stance during the Cold War period also ensured a continuous inflow of bilateral aid from the West. Perhaps that is why the government could afford to get away with piecemeal reforms. It was not until the 1990s that a comprehensive reform programme was implemented.

4 Reform in the 1990s

The 1990s saw a greater degree of economic liberalisation and reform implementation, mainly on a sectoral basis. Reforms were initiated in virtually all

the key sectors. Even then, the development partners exerted a lot more pressure on the government to demonstrate commitment and to implement reforms. Tight conditionalities and technical assistance became the major factors defining the flow of funds to support the reform process. Hence, the government–donor relationship became more critical than ever before, but that did not entirely prevent vested political interests from influencing government policy.

Kenya's reform at this period, like many profiled in this book (e.g. the cases of Ghana, Uganda and Morocco), was shaped by the supremacy of the Washington Consensus ideology, deeply rooted in the belief in markets and limited government intervention; the rapid wave of globalisation; and the more stringent conditionalities of the so-called 'second generation reform'. The latter incorporated good governance, democratisation and the need for building institutional infrastructure alongside market liberalisation policies. Hence, unlike the prior periods, economic reforms had to be undertaken simultaneously with political reforms. Unlike the 1980s, there was increased democratic space and freedom of expression, leading to a more active role for civil society and the media. Whether such a move accounted for more comprehensive economic reforms is debatable, but it certainly played a role, particularly in exposing corruption and some of the economic scandals in Kenya.

Domestically, this economic reform period coincided with a growing discontent about the monopoly powers created by the one-party political establishment (the then ruling party KANU). The political establishment had become dictatorial. Kenya's image in international circles was tarnished by rising corruption and human rights abuses, as exemplified by the detention and oppression of political activists agitating for multipartyism. Besides the civil society, pressure for more democracy and good governance became a key agenda for donor communities – multilateral and bilateral funding institutions alike. It was the donor pressure culminating in the suspension of BOP support in 1991 and domestic agitation for multipartyism that forced the government to relent and repeal Section 2A of the constitution in December 1991, allowing for a multiparty political system. However, the repeal left intact all other amendments that had concentrated power in the executive at the expense of the other branches of government. As a result, the civil society and the opposition parties made the constitutional reform their main agenda in the post-1992 elections.⁹

The curtailment of aid flows was one of the greatest challenges the country faced. While in the 1970s and 1980s the government responded to external shocks by increased borrowing and aid inflows, expansionary fiscal policy and instituting controls, in the 1990s, it no longer had the luxury of using these options. Unlike in the earlier periods, there was slackened donor support, resulting in a sharp decline in flow of aid since the peak in 1990. With the disintegration of the Soviet Union and the end of the Cold War,

Kenya fell from favour, coming to be viewed as just another African state mired in a familiar pattern of economic decay. The collapse of international communism basically eliminated the geopolitical motivation for aid. Kenya's strategic role was no longer needed. With the declining aid flows, the external debt arrears problem emerged for the first time. Net resource flow remained negative for the better part of the 1990s. The debt burden became so acute that Kenya had to reschedule its debt in 1994 for the first time. Net foreign exchange reserves were negative in the early 1990s, and the GDP growth rate was quite low, falling from 5 per cent in 1989 to 2.1 per cent and 0.5 per cent for both 1991 and 1992 (see Table 1.1).

As economic performance deteriorated, the budgetary crisis deepened and access to financial resources was curtailed, the IFIs had a considerable leverage and thus used the opportunity to push for reform implementation. Citing Grindle and Thomas (1990), Rius and van de Walle (2003) noted that policy reform has typically occurred during periods of intense economic crisis, as states delay difficult economic policy reform decisions until the old economic policy regime has brought about a non-sustainable economic disequilibrium. Liew et al. (2003) make similar observations by arguing that economic crises can tighten economic constraints to the extent that some countries are forced to reform, notwithstanding the political interest of the ruling party. This description fits the Kenyan case, especially in the 1990s, when the financial constraints became binding due to suspension of funding. The implementation of reforms not only intensified, but the reform agenda was also broadened. Funds were only disbursed when there were signs that the government was back on track with the reforms. Donors (IFIs and bilateral funding institutions) thus became key stakeholders in spearheading the reform process. However, domestic actors, mainly the media, the opposition party and the civil society, also played a critical role in pushing for political reforms.

4.1 Economic reforms: 1991–6

Most of the economic reforms were implemented in the first half of the 1990s, which forms the third phase of reforms. The period saw bold reforms in trade, civil service, agriculture and social sectors.

4.1.1 Trade reforms

Trade liberalisation started with the conversion of quantitative restrictions on tariffs equivalent to those in the 1980s. By 1991, quantitative restrictions affected only 5 per cent of imports compared with 12 per cent in 1987 (Swamy, 1994). The average unweighted tariff rate declined from 41.3 per cent in 1989/90 to 34 per cent in 1992/3. In June 1995, the maximum tariff rate was reduced to 40 per cent (Mwega, 1999).

Speedy progress was made in liberalising the foreign exchange market. In October 1991, Foreign Exchange Bearer Certificates (Forex-Cs) were introduced,

marking the first step towards liberalisation of the foreign exchange market (Were et al., 2001). The Forex-Cs could be used for automatic import licensing. During the same year, currency declaration forms were abolished; a series of other measures followed. In August 1992, for instance, retention schemes were introduced, allowing 100 per cent retention of foreign exchange earnings from non-traditional exports. In February 1993, foreign exchange allocation by the Central Bank of Kenya (CBK) was abolished. However, in March of the same year, the retention accounts were suspended and import licensing and exchange controls reinstated. Apparently, this led to unsuccessful negotiations between the government and the IMF for the resumption of quick-disbursing loans. Consequently, in May 1993, import licensing was again abolished and retention accounts reintroduced for all exporters of goods and services at the rate of 50 per cent.

Despite the efforts made in liberalising international trade, the export incentive schemes that had been put in place to promote exports were not being utilised effectively. In particular, the ECS and pre-shipment export financing scheme¹⁰ were highly abused as other issues such as vested interests and patronage crept in. For instance, both schemes were linked to what became known as the 'Goldenberg scandal', in which the government was swindled of billions of shillings in one of the country's biggest financial scams.¹¹

In so far as the liberalisation reform effort is concerned, the manner in which the incentive schemes, such as the ECS, were executed left a lot to be desired. For one thing, what was the purpose of retaining the ECS when trade liberalisation measures were in place, if not for rent-seeking purposes? This was a policy measure instituted under the controlled trade regime, and had failed to serve the purpose for which it was instituted. Above all, the Goldenberg scandal took effect despite the stringent donor conditionalities, illustrating how powerful vested interests, clientelism and access to political power can be.¹² With a freeze on donor funding, the extra compensation and the other monies involved must have largely been sourced domestically. It is likely that this partly explains the observed surge in domestic stock of debt, particularly around 1993 (Table 1.3). From this turn of events, it is clear that rent seeking, clientelism, and patronage informed resistance to further trade liberalisation. It was not until September 1993 that a decision was made to end the much abused ECS.

It was upon realising the extent of the resultant economic crisis that the government responded by hurriedly implementing some of the donor demands, such as liberalising the foreign exchange market. But unfortunately, with a looming financial crisis and the sky-rocketing inflation, that was poor timing. The shilling depreciated to unprecedented levels against the dollar (see Figure 1.1). As one commentator puts it, 'it was like lifting the lid off a pressure cooker without first opening the steam valve'.¹³ Scarcity of foreign exchange following the aid freeze aggravated the problem. It was

Table 1.3: Kenya: analysis of domestic debt (in millions of Kenyan shillings)

<i>Fiscal years</i>	<i>Total domestic debt</i>	<i>Domestic interest</i>	<i>Growth in domestic debt (%)</i>	<i>Domestic debt/GDP</i>
1989/90	52 521	6786.60		28.6
1990/1	63 597	10 462.40	21.09	30.5
1991/2	70 809	10 920.20	11.34	29.7
1992/3	112 295	23 775.80	58.59	38.1
1993/4	162 843	44 448.80	45.01	44.4
1994/5	119 446	25 897.00	-26.65	27.6
1995/6	120 356	29 320.80	0.76	24.2
1996/7	159 077	25 544.20	32.17	27.6
1997/8	171 730	32 037.14	7.95	26.1
1998/9	174 305	27 903.20	1.50	24.4
1999/00	206 127	21 409.40	18.26	27.0
2000/01	213 772	20 576.91	3.71	24.6

Note: Generally, the domestic debt figures tend to vary depending on the source.

Sources: Treasury and CBK publications.

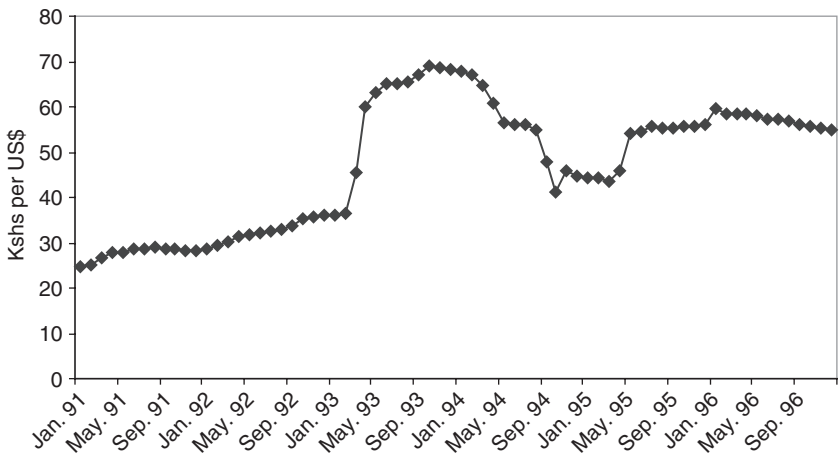


Figure 1.1 Nominal exchange rate (Ksh/US\$), Jan. 1991–Dec. 1996

largely the alarm caused by these developments that prompted the president to reinstate the foreign exchange controls and import licensing in March 1993, in a bid to minimise the resultant short-run cost of the reform. A hasty implementation without the necessary preconditions such as macro-economic stability had worsened the situation, leading to policy reversal. However, the temporary backtracking seems to have averted further adverse effects of the reform.

Further liberalisation of the foreign exchange market proceeded. In October 1993, the official exchange rate was abolished, paving the way for a freely floating exchange rate. With the trade liberalisation having moved a substantial step forwards, capital controls were relaxed for offshore borrowing in February 1994, subject to quantitative limits. Over 1993–4, 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. Overall – although some backtracking or policy reversal was witnessed – foreign trade liberalisation and liberalisation of the foreign exchange market was undertaken, thereby placing Kenya among the pioneer countries in Africa to comprehensively open up the economy.

Domestically, the petroleum market was liberalised in October 1994. However, price liberalisation of basic commodities like cereals (especially maize and maize flour) was a highly sensitive issue given that these were commodities consumed by the majority of the population. Politicians wanted to act cautiously given the high political uncertainty of such a reform. Hence, some policy reversals were again witnessed.

4.1.2 Financial sector reforms

Several achievements were made during the period, including liberalisation of interest rates, removal of credit controls, and streamlining the money market trading system. Interest rates were liberalised in July 1991, a month after the introduction of open market operations. However, the reform efforts were thwarted by political patronage and interference, whereby the politically connected were allowed to get unsecured loans from some banks, especially state-owned and politically connected banks, just before the first multiparty elections. Following the run up to the general election in December 1992, there was a heightened activity of financial transactions, as money changed hands to finance the then ruling party's election campaign. Part of the finances was used as a means of buying political loyalty or rewarding those who were able to deliver votes, especially with the emergence of a multiparty system which was posing a threat to the ruling party KANU.¹⁴ All of a sudden, a number of banks that were politically connected flourished. In short, KANU devised several schemes to finance its election bid, which also translated into printing lots of money. As would be expected, inflation rose drastically to over 50 per cent (Figure 1.2), with immediate repercussions in the exchange rate market. By April 1993, a financial crisis was imminent. This was a major drawback to the reform effort that IFIs were struggling to push through.

The donor community, particularly the IMF, expressed dissatisfaction, pointing to the need to restore financial prudence, adequate enforcement, and monitoring of the banking regulations. In particular, the situation created by the Exchange Bank and other political banks that were basically instrumental in financing the elections was of great concern.¹⁵ This, together

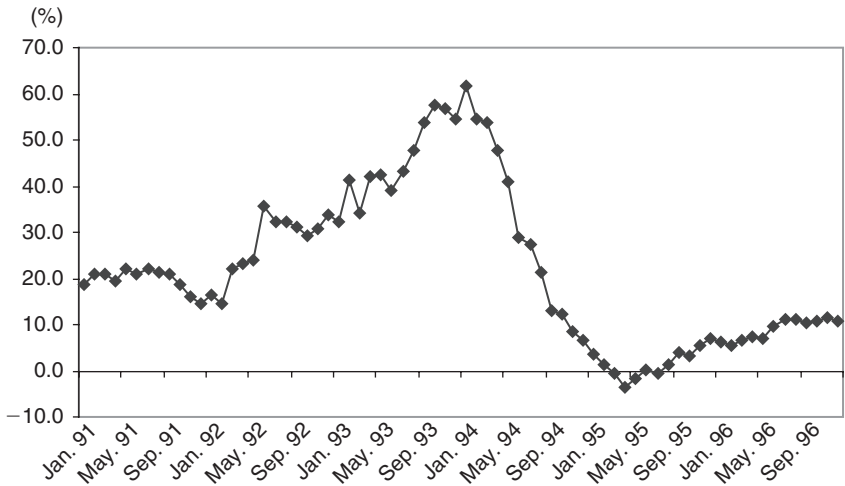


Figure 1.2 Inflation rate (monthly), Jan. 1991–Dec. 1996

with the huge unsecured loans amounting to billions of Kenyan shillings, triggered a financial crisis and eventual collapse of most of the political banks. Most of the troubled banks had to be put into liquidation, culminating in the closure of several banks and non-bank financial institutions in December 1993. It appears that the turbulence in Kenya's monetary situation in 1993 was part of its political business cycle. The literature on the political business cycle postulates that parties in power will manipulate policy in the short run in order to maximise their electoral chances (Haggard and Webb, 1993). KANU used the financial sector for such manipulation in a bid to finance its election.

To deal with the resultant monetary overhang, the government, under pressure from the IMF, decided to aggressively mop up the excess liquidity by issuing treasury bills. But this move only created another problem – a soaring treasury bill rate, which acts as an anchor for other forms of interest rates. At one point, the treasury bill rate was over 70 per cent. This was one of the bases of the high interest rate structure that became almost a permanent feature of the Kenyan economy. The lending interest rate has been overly high, reaching over 30 per cent in some years (Table 1.1). Critics of the IMF argue that they could have done a better job in advising the government to deal effectively with the crisis. In any case, it was wrong for the IMF to have insisted on financial liberalisation at a time when the banking legislation and bank supervision were inadequate (Stiglitz, 2002). Furthermore, until the amendment of the Central Bank Act in 1996, the independence of the CBK, and therefore monetary policy, had been grossly compromised. For example, before the amendment, there was no maximum limit on CBK advances to the government. This encouraged fiscal indiscipline as well as high budget deficits.

Rolling over the treasury bills and selling more of them kept interest rates high and the Kenyan shilling strong. The situation evolved into what economists refer to as a 'ponzi' game, with the government issuing attractive debt instruments to repay old ones. The beneficiaries of the game became financial institutions, especially commercial banks, which held over 50 per cent of total stocks of treasury bills. The dramatic increase in domestic debt (Table 1.2) and high domestic interest rates were also precipitated by resort to domestic financing, following the curtailment in donor funding. Overall, sequencing problems and political interference affected the successful implementation of reforms in the financial sector.

4.1.3 Public sector reforms¹⁶

Public sector reforms were perhaps the most difficult and, understandably, the government kept on employing delaying tactics in this area. Other than mere job creation, public service employment was also a means for political patronage and ethnic- or tribe-based favouritism. Due to a bloated public sector, the wage bill became unmanageable, accounting for about 10 per cent of GDP and about 70 per cent of the recurrent budget by the late 1980s. This left very little for operations and maintenance, as well as for development expenditure. Part of the reform was to reduce the number of ministries in order to contain cost.

Having postponed the civil service reform for quite some time, the government had to finally launch the reform programme in 1992 after much pressure from the development partners. The reform was to be implemented in three phases and was to cover only those civil servants paid directly by the exchequer, excluding teachers. A high-level steering committee, chaired by the head of the civil service, was set up and mandated to report to the cabinet. Its role was to set the overall direction; review and approve reform work plans; and inform the cabinet on reform progress. Like most reform initiatives, there was not much consultation on the reform with the stakeholders, though parliament as well as the general public had been informed through the various budget speeches. The civil servants were not formally consulted. Moreover, the sequencing of the civil service reform was not done properly. Ideally, the government should have first defined its core business and key job description, and in this way, identify areas to get rid of and, consequently, the officers and the percentage of staff to lay off. This was not done. The introductory phase of the retrenchment programme was on a voluntary basis. This was, however, highly contested especially by the development partners who argued that the best employees would leave the civil service. But to the government, this was the easiest way of implementing such an unpopular reform. The first phase was, therefore, less controversial.

In his budget speech of 1993/4, the Minister for Finance pledged to prune 16 000 civil servants in a three-year period. In five months, 3959 employees had been pruned through natural attrition (retirement), while 13 954 job

vacancies that had been budgeted for were cancelled. The retrenchment programme was restricted to the civil servants, who, for lack of a formal labour union, were relatively easier to deal with. Although teachers were a major contributor to the huge wage bill, they were untouched, largely because of their strong union (Kenya National Union of Teachers) and the fact that they formed a strong political base in terms of votes. It is also important to note that the retrenchment programme was not extended to parastatals. In fact, some of the retrenches in the civil service could find their way to parastatals with even higher salaries, thus defeating the purpose of the reform.

With regard to parastatal reforms, nothing much was achieved, although some institutional structure was put in place. Parastatals had become avenues for perpetuating predatory behaviour by public officials, and for a long time the government was reluctant to divest from some of the enterprises. The stakes were high, as that would also jeopardise political support and power. The reforms basically entailed restructuring and privatisation of public enterprises, with the aim of enhancing the role of the private sector, reducing the claims on the budget, rationalising the public enterprise operations, improving regulatory environment and broadening the base of ownership (Republic of Kenya, 1998). In 1990, the Department of Government Investment and Public Enterprises was created and charged with the responsibility of overseeing the parastatal reform programme. Also, a Parastatal Reform Programme Committee, a high-level policy-making body, was set up under the chairmanship of the vice-president and Minister for Finance. A further arm, the Executive Secretariat and Technical Unit, was created to manage, coordinate and implement the programme while approvals were to be made by the committee. After internal consultations at cabinet level, the government drew up a privatisation programme whose strategies and objectives were spelt out in the *Policy Paper on Public Enterprises Reform and Privatisation*. However, the privatisation framework was inadequate as it lacked legislative principles to be followed – basically in the form of privatisation law. The procedures and institutional framework in the policy paper were not grounded in law.

The government categorised public enterprises into strategic enterprises (totalling some thirty-three) and non-strategic enterprises (numbering some 207). The former were to be restructured to improve efficiency and profitability, while the latter were to be privatised. The implementation encountered resistance and, more often than not, laid-down procedures were not followed by the implementing institutions. As Stiglitz (1999) rightly points out, if privatisation is conducted in ways that are largely viewed as illegitimate and in an environment that lacks the necessary institutional infrastructure, the longer-run prospects of a market economy may be undermined. The privatisation process lacked both functional and legal autonomy from the executive, and as such, privatisation did not weaken patronage, as one would expect (Gacheru and Shaw, 1998).

4.1.4 *Social sector reforms*

The major component of Kenya's social sector reforms in health and education was the implementation of cost sharing, also known as user-charges in the case of health.¹⁷ Cost sharing in public universities was introduced in 1991. Following public discussions and workshops on the merits and demerits of user-charges, and the lessons learned from the initial attempt, the government announced a phased reintroduction of user-fees in April 1992. This time, the outpatient fee was reintroduced as a fee to be paid only after receiving treatment. To enhance institutional capacity in the health sector, the Health Financing Secretariat was expanded; new management systems were developed; a cost sharing operations manual was produced; new accounting and reporting systems put in place; and revenue collection targets were also set. The revised policy was introduced in phases and on a pilot basis (Collins et al., 1996). The reintroduction was sequenced, starting with the national referral hospital, provincial hospitals, district hospitals, and the community health centres, respectively. As before, no fee was charged for services offered at the dispensaries. In addition, the segment of the population exempted from the fees had been expanded to include civil servants, the military and the unemployed (Owino and Were, 1998). The new (revised) reform was accompanied by other changes, notably the decentralisation of management.

The successful implementation of the revised policy, compared to the initial attempt, can be attributed to consultation and consensus-building among stakeholders (e.g. senior medical and administrative staff); gradual and sequential implementation, which quickly became successful at the higher level, facilitating implementation at lower levels and enhancing acceptance; and the relatively stronger institutional framework put in place. The broad range of automatic exemptions to compensate the real and perceived 'losers' were also helpful in gaining political and public acceptance of the user-fees, although the revenue forgone was high. Hence after achieving acceptance, the exemptions for civil servants and children aged between 6 and 15 years were removed, since there was no clear public health benefit (Collins et al., 1996).

We can, thus, infer from the cost-sharing experience that successful implementation is achieved when there is consensus-building, when the process is gradual and sequential and the necessary institutional capacity is developed. However, the nature of the reform in question and how widely it affects the economy should also be taken into consideration.

4.1.5 *Government-donor community relationship, 1991-6*

The 1990s were characterised by a stop-go relationship with donors,¹⁸ leading to aid embargoes and intense pressure from donor agencies to undertake reforms. For instance, quick disbursements were suspended in 1991 due to what was described as rising levels of corruption, failure to correct macro-economic imbalances caused by fiscal indiscipline, slow reforms in the civil service, lapses in the privatisation of public enterprises, and a slow pace of

political reforms. After the IMF suspended quick-disbursing funds, other donor agencies, such as the World Bank and the IDA, followed suit.

By then the instability in the macroeconomic framework was becoming apparent. To help restore economic stability, a shadow programme was agreed upon between the government and the IMF in April 1992. However, the government quickly veered off course – the IMF/IDA mission in 1992 and 1993 found evidence of significant violation of monetary targets due to abuse of the pre-shipment export financing scheme¹⁹ and access of certain commercial banks to CBK overdraft and rediscount facilities, part of which had some links with the Goldenberg scandal. This created a strained relationship between the government and the donors.

Several expediency measures were undertaken after the aid was withheld. In an attempt to regain lost confidence, the president made changes, by replacing key government officers who were in office when the Goldenberg scandal started. In January 1993, Musalia Mudavadi replaced Professor George Saitoti as the Minister for Finance, while Micah Cheserem replaced Eric Kotut who resigned as governor of the CBK. The new officers gained goodwill from donors as reformists, and influenced a decision by the World Bank to call for a consultative group meeting to discuss Kenya's case in Paris in November 1993. They pushed through various reforms that were being sought by the IFIs, leading to the IMF's approval of some US\$63 million credit under ESAF in December 1993, half of which was to be disbursed immediately.

After the IMF opened its doors, there was some goodwill from other donors, including bilateral ones, which often use the IMF and the World Bank as a benchmark for their own funding decisions. In February 1995, an IMF team arrived in Nairobi to open talks on new three-year ESAF worth US\$200 million. But in September 1995, the IMF announced that talks with the government on the ESAF had effectively stalled because the IMF needed to convince itself that the government was vigorously prosecuting public officials and others implicated in the Goldenberg scam. It was proving difficult for the government to deal with the issue objectively, given the involvement of some members of the cabinet and the inner cabinet in the scandal.

In April 1996, the long-awaited ESAF was finally approved after the government reiterated its commitment to reform in the *Policy Framework Paper 1996–1998*. The broad objective was to bring in fiscal and public sector transparency. However, the bilateral donors were more concerned with the then forthcoming general elections, including the role of the electoral commission, the funding of parties, creating a level playing field for all parties and access to the media. Four months after the approval of ESAF, nothing seemed to move as scheduled. The IFIs expressed concern about the level of government borrowing from the CBK and noted that certain strategic targets set out in the *Policy Framework Paper* had not been achieved on schedule. Hence, the IMF decided to withhold the release of the second tranche of the approved ESAF until these conditions were satisfied.

Although the IFIs ensured a greater degree of reform implementation, they were overambitious in their reform agenda, given the prevailing conditions and institutional framework. At times they pushed the reform agenda too far and too fast, and the fact that the government yielded to their demands did not necessarily mean they were ready and willing to fulfil the conditionalities. They took for granted the institutional capacity and political will to implement reforms. Strict targets and schedules, including dictating what laws the parliament should pass and when, undermined consensus-building and local ownership of the reform process. If conditionalities are expected to overcome time inconsistency problems, in the Kenyan case, they did not. This is exemplified by the policy reversals and stop-go pattern in reform implementation.

4.2 Economic reforms: 1997–2001

Failure to make significant moves in fulfilling donor conditionality of good governance led to the suspension of ESAF in August 1997. By this time, emphasis in conditionalities was not merely on economic targets but also on implementation flaws and poor governance. There were concerns about widespread corruption and a poor human rights record as well as the politically instigated tribal and ethnic clashes witnessed in the run-up to the general elections in December 1997.

Consequently, much of the reform effort during this period was geared towards fulfilling conditionalities that led to the suspension of funding, particularly the lack of good governance (read corruption) issues. For instance, the president put together a team in July 1999, with technocrats mainly drawn from the private sector, to occupy key public office positions, including the head of civil service. Dubbed the 'dream team', the team was expected to spearhead reforms that would put the country back on the path to economic recovery and eliminate the rampant corruption in government. Although there were renewed efforts to stamp out corruption, these efforts were thwarted by senior political hardliners with entrenched power bases. Further efforts to stamp out corruption were hindered when the parliament rejected two bills in the fight against corruption – the Civil Service Code of Conduct Bill and the Anti-Corruption and Economic Crimes Bill. It was argued that the bills were purely donor-initiated and that the government was simply attempting to fulfil donor conditionalities. These developments cast doubt on the government's commitment to fighting corruption. It was apparent that either the 'kitchen cabinet' was reasserting itself or the hiring of technocrats was a mere smokescreen to hoodwink donors into releasing withheld funds. That notwithstanding, the period saw progress in the implementation of some economic reforms, particularly the public sector reforms that had lagged behind.

4.2.1 Public sector reforms

The second phase of the civil service reform was relaunched in 1998, largely driven by the government's needs for new funding from donors, and the

IFIs' pressure for a leaner and efficient government. The target was to reduce the civil service by 30 per cent and a target of 32 000 staff was agreed upon. Within a short while, committees were set up in ministries to decide who was to leave, especially at the lower levels. Although there were criteria to be followed, these were never circulated to the civil servants. This left civil servants guessing who was to leave next, thus creating anxiety and suspicion among officers. However, the right-sizing was halted by parliament before the target was achieved. As expected, it was argued that there was not enough consultation about the policy, which was seen as having been implemented as a directive from donors. The parliament argued that a Sessional Paper should have been prepared before implementing the policy and lobbied to stop the process. Again, rushed implementation without adequate consultation in the designing of the reform and consensus-building among key stakeholders affected its successful implementation. Compared with the first phase, it was far more difficult to implement reforms in the second phase, due primarily to diminishing authoritarian advantage and increasing demands for public consultation and consensus.

In September 1999, the president announced ministerial changes, which saw the number of ministries reduced from twenty-seven to fifteen. This was viewed as phase two of the much touted recovery strategy after the appointment of the technocrats into senior civil service positions. But this was just a change in portfolio as none of the ministers or assistant ministers was dismissed. Instead, they ended up sharing a ministry, thus defeating the purpose of the reform. That was not surprising given that the power base of the president was vested in offering posts to regional power brokers who could deliver him the support of their ethnic constituencies.

With the newly appointed head of the civil service, it was expected that the process of cutting back the civil service would resume. However, the reform suffered another setback when the sacking of 25 783 civil servants was halted, after they sued the government, accusing it of contravening the Employment Act by terminating employment contracts without adequate notice. The matter was complicated by the fact that many civil servants had still not received their redundancy packages which, it was felt, were not even adequate. At least 19 000 civil servants had received retirement letters after the programme was resumed in September 2000.

Fiscal reforms continued in early 2000 with the rationalisation of the budget process. A major component of the reform was the adoption of the Medium Term Expenditure Framework to budgeting, which replaced the previous forward-rolling budgeting system. The aim was to move revenue and expenditure more closely into balance and achieve fiscal discipline. The stock of pending bills, which stood at Kshs. 2227 million as of 30 June 1991, had significantly increased to Kshs. 10 976 million by the end of June 1999 – an increase of about 392 per cent (Kirira, 2002). Pending bills were one of the loopholes for fiscal indiscipline. Projects and programmes were initiated

without taking into consideration their financial implications and at times without seeking parliamentary approval, which is constitutionally illegal (Kirira, 2002). The new budgeting approach was to be directly linked to the priorities contained in the *Poverty Reduction Strategy Paper*. However, with no specific targets and sanctions and incentives where necessary, fiscal discipline remained elusive. This was exacerbated by weak institutional structures. For example, although budget execution is a prerogative of parliament, mechanisms to control discretionary spending within the executive remain weak. Only the office of the president can discipline the permanent secretaries, who also act as accounting officers in their respective ministries (Kirira, 2002). Moreover, the high turnover of permanent secretaries to the treasury intimidated holders of this office, who were also delegated with financial control and management, thus undermining their authority and firmness on financial matters and expenditure management. Additionally, the high turnover of ministers, particularly in the Ministry of Finance, at times disrupted the reform process.

More importantly, the government kept on dragging its feet in regard to parastatal reforms. By the end of 1998, the government had sold shares in only twenty-five enterprises in which it had direct ownership out of the total of 165 (Anyang' Nyong'o 2000: 131). Privatisation proceeded without a privatisation law, thus leaving gaping holes for manipulation.²⁰ Moreover, the government avoided privatising some of the parastatals that caused a major drain on the budget, thus bringing to the fore the question of whether the objectives of parastatal reforms have all been met. During the 1999/2000 fiscal year, a number of state-owned corporations that were to be restructured and privatised were not privatised as planned. Strategic reasons aside, there was the fear that privatising some of the parastatals would jeopardise the business interests of politically connected individuals and close avenues for rent-seeking and patronage.

4.2.2 *Financial sector reforms*

In the financial sector, the aftermath of unsecured loans and 'political banks' continued to be felt. Further instability was experienced when five banks were put under statutory management by the CBK in 1998, after failing to meet their financial obligations. The bank failures were attributed to high non-performing loans due to poor lending practices, conflict of interest, loans to non-viable projects, insider lending to directors, and undercapitalisation. Some banks, such as the state-owned National Bank of Kenya, had a huge amount of non-performing loans. To arrest the waning confidence in the banking sector, the CBK was given increased power to censure commercial banks that failed to comply. Penalties for non-compliance were also raised. There was an increased capital base requirement together with strict enforcement of capital/lending ratios. Financial institutions were expected to publicly display or publish their audited accounts promptly.

Some financial stability was witnessed in 1999. Three out of the five banks under statutory management were restructured and reopened. During the 2000/1 period, measures that were undertaken included amendment of the Banking Act to restrict insider lending and enforcement of banking laws, especially with regard to lending and provisioning for non-performing loans. That notwithstanding, the experience with the banking crises and high interest rates attest to the fact that something was not right in the reform process. Financial market liberalisation is based on the belief that competition among banks will lead to lower interest rates. But that has not been the case. Pill and Pradhan (1997) observe that the success of financial liberalisation depends on the appropriateness of macroeconomic policy, institutional development and structural reforms. Leite (1993) adds that strong banking regulatory and supervisory policies ensure the viability and health of the industry and enhance effectiveness of interest rate liberalisation. The hurried financial market liberalisation saw a situation where the amendments to the banking legislation and the tight regulatory and supervision policies were being put in place long after the implementation of the reform. Moreover, successful interest rate liberalisation also calls for fiscal discipline, which was not apparent in Kenya.

4.2.3 Government–donor community relationships, 1997–2001

Donor dissatisfaction with the reform particularly vis-à-vis corruption persisted. The IMF team visiting the country in March and July 1999 was still dissatisfied with governance reforms and, therefore, deferred any decision about re-establishing the ESAF. This came as a bitter blow to the government, which had already factored donor support into the budget. It was then that President Moi, in his usual tactful style, made a swift move and appointed the ‘dream team’. By this time, poverty had become widespread while the economy was in the doldrums. In fact, it was in the year 2000 when the economy recorded a record negative real GDP growth rate of -0.3 per cent in Kenya’s economic history.

The IMF set tough conditions when it finally agreed to lend to Kenya some US\$198 million credit under the Poverty Reduction and Growth Facility, which had replaced the EASF. As often happens, the agreement with the IMF opened up the door for funds from other donors such as the World Bank, the African Development Bank, the European Union, the United Kingdom and Japan. But the relationship between the government and the IFIs went sour again at the beginning of 2001. The IMF’s major areas of concern included the stalled privatisation bill and the failure of parliament to enact the pending Civil Service Code of Ethics and Economic Crimes Bill. Consequently, in March 2001, the IMF decided to withhold lending to Kenya again, citing insufficient progress in the proposed reforms; and as before, there was a heightened activity on the part of the Kenyan government in terms of reform implementation.

In general, the donor–government relationship depicts a carrot-and-stick approach to the reform process. It is this that largely ensured that major

reforms were implemented. That notwithstanding, this approach raises issues of ownership of reforms, since 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 the relevant stakeholders in the design and implementation of reforms. Although donors eventually managed to push their agenda through, there are cases when such a move led to unexpected outcomes or was met with stiff domestic resistance especially on sensitive reform issues like civil service reform or where the proposed reforms threatened rent-seeking and other political interests of the ruling elite. Ryan (2004) points out that conditionalities or reforms agreed upon with an external funding body may not necessarily be seen as policies, and sometimes continuing with the status quo is in itself a policy decision.

The fact that implementation of reforms was reactive rather than proactive not only undermined local ownership but also affected sustainability of reforms. There has been a lack of a clear long-term vision as IFIs have preoccupied themselves with setting and resetting short-term targets, which the government strives to achieve if only to access funding. The problem is that, as Stiglitz (2002) contends, many of the reform policies became ends in themselves rather than means towards a more equitable and sustainable growth.

5 Economic outcomes of Kenya's reform

Economic reforms are often undertaken with the aim of promoting high growth and improved welfare in the long run. For instance, trade liberalisation measures are undertaken on the assumption that they will eventually improve exports and economic growth (Mwega, 1999). Following liberalisation of the foreign exchange in 1993, there was an immediate positive response in terms of imports and exports. In particular, the export response seems to have been combined with a price effect due to a steep devaluation of the Kenyan shilling in 1993. In total, the effect was a rise in export earnings, from about 13 per cent of GDP in 1992 to over 20 per cent between 1993 and 1996.

However, in general, export growth has been highly erratic, based on fluctuations in earnings from a few traditional primary commodity exports and the tourism sector. While certain non-traditional exports such as horticultural products have experienced rapid growth in the last few decades, manufactured goods account for only a small proportion of total exports. Kenya's trade share (value of imports plus exports in GDP), which is commonly used as a measure of openness, shows no clear trend but has been over 50 per cent since the 1970s, reaching a peak in the first half of the 1990s, following liberalisation of the foreign exchange market. The value of exports of goods and services as a percentage of GDP has been below 30 per cent except for a few years, particularly in 1993 following the steep depreciation of the shilling.

In general, the real GDP growth rate has been highly erratic, but it depicts a declining trend over time (Figure 1.3 and Table 1.1). Growth performance

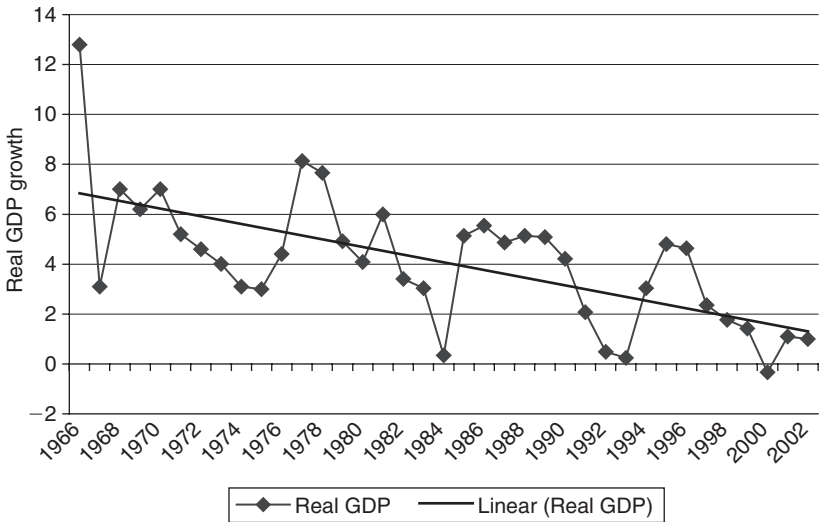


Figure 1.3 Trend in real GDP growth, 1966–2002

has remained depressive in the 1990s and into the new millennium, with a declining growth in volume of investments (both private and public) and exports. The value of total investment to GDP ratio has remained below 25 per cent while total savings as a proportion of GDP has been about 11 per cent. Given the population growth rates of about 2 per cent per annum in recent decades, it is evident that real per capita income has been on the decline since the mid-1990s. This partly accounts for the declining wage employment in the formal sector, leading to a surge in informal employment. Poverty remains widespread; by 2000, an estimated 56 per cent of the Kenyan population lived below the poverty line (Mwabu et al., 2002). Although Kenya has the potential to spearhead economic development in the region, the challenges that lie ahead cannot be overemphasised.

6 'Winners' and 'losers' of Kenya's SAPs

Although its ultimate goal is a better-off society, reform has distributive consequences, resulting in 'winners' and 'losers' in the process (Fidrmuc and Noury, 2003). However, given the multiplicity and dynamism of reform, it is not that easy to identify winners and losers precisely. Moreover, reform might benefit one sector while hurting another. One of the most affected sectors following trade liberalisation was the local textile industry, which collapsed due to cheap imports. The resultant unemployment affected a wide range of people given the backward and forward linkages in the textile

industry. But this created an opportunity for small-scale traders who proliferated in the industry with the sale of imported second-hand clothes. The net employment benefits are hard to discern, but arguably the poor and low-income earners benefited to the extent that they could easily access cheaper imported second-hand clothes and other domestic products. In general, as with the case of many of the countries profiled in this book (notably in the cases of Uganda and Ghana), the beneficiaries of economic liberalisation were largely the capitalists, traders, firms and exporters that were able to compete domestically and internationally. Others, like manufacturing firms, benefited to the extent that they could easily and cheaply access imported capital and intermediate goods, but they had to contend with competition from cheap imports. Trade liberalisation also opened avenues for non-traditional agricultural exports such as horticulture. On the losing front were small-scale farmers who lacked credit, particularly after the removal of subsidies, and those who lacked the technological skills to access world markets. To the extent that the protective trade regime provided avenues for rent-seeking, losers also included individuals who benefited from the system by rent-seeking.

In the financial sector, there has been a concentration of banks in the urban areas, which target upper and middle-income earners, thus shutting out the majority of the rural population as well as low-income earners and the working poor in urban areas. Additionally, the lending rates have been overly high, thereby denying potential borrowers access to credit facilities. Reforms in other sectors such as health, education and the civil service disproportionately affected the poor and the vulnerable groups – again, this finding seems to surface in nearly all the other case studies in this book. With the introduction of user-fees in public institutions, most poor families have also been unable to give their children better healthcare and basic education. Thanks to the programme of free primary education under President Kibaki's new government, there has been a surge in primary school enrolment. The victims of retrenchment programmes were mainly employees in the lower cadres in the civil service, who, given the small compensation package and massive unemployment exacerbated by poor economic performance, often joined the pool of the poor. Overall, it can be argued that distributional consequences of reforms deepened the asymmetries in incomes and access to resources.

7 Conclusion

Kenya's path to reforms was largely driven by both external pressure from donors, particularly the IFIs, and domestic economic factors. However, the IFIs set the pace and the agenda for most of the reform programmes that sought to rectify the situation. Initially, the government was not willing to dismantle the protective economic regime, which was also attractive for rent-seeking opportunities and political patronage. However, continued borrowing from abroad

was predicated on undertaking certain reforms in the form of conditionalities within the framework of the Washington Consensus.

That notwithstanding, it was not until the 1990s that comprehensive reforms were implemented. Even then, the nation's development partners had to exert a lot of pressure, adopting a carrot-and-stick approach to ensure reform implementation. Stringent conditions leading to suspension of funding kept the government on its toes. Reforms were sometimes undertaken simply to hoodwink donors. Donor conditionalities were broadened to include political democracy and good governance besides the traditional economic policies. Thus, the reform period also coincided with political reforms, major components of which were a change to multipartyism and agitation for constitutional reform. Besides the donors, civil society and religious groups played a critical role, particularly in pushing for political reforms.

Weak commitment to the reform process strained the relationship between the donors and the government, leading to a stop-go pattern in lending and reform implementation. Although the government often outlined policy reforms in various policy documents, the implementation process was often characterised by delays, lack of commitment and policy reversals or backtracking. Weak commitment was rooted in the political structure that was not supportive of either political or economic reforms, especially because of the vested interest groups, which feared losing their political patronage and power bases. For example, it was difficult to reduce the size of the public sector since public institutions had become conduits of patronage.

Evidently, the reform process in Kenya was reactive rather than proactive. As a result, there was weak ownership of reforms. Moreover, there was no specific attempt to coordinate and prioritise reform programmes. Thus, the reform agenda failed to spell out a clear long-term path. The IFIs themselves also lacked a clear focus, as they preoccupied themselves with short-term targets and failed to view the reform in a holistic manner. They also took institutional capacity and political constraints for granted.

Policy reversals and uncertainty about the reform can be attributed to lack of a clear analysis of the reform impact, poor preparation, and limited consultation in the design and implementation, as reforms were often hastily implemented due to donor pressure. It is thus not surprising that issues of timing and sequencing were often not taken into consideration. This was made worse by the closed decision-making system. In some cases, the reversals were made as a way of minimising the short-run cost of the reforms or inherent political uncertainty. That notwithstanding, the government managed to implement several reforms such as trade liberalisation. Some reforms, however, were more sensitive and difficult to implement, especially those with immediate welfare implications on the wider population, such as cost-sharing in the health sector, liberalisation of basic commodities like cereals, and downsizing of the civil service. These were associated with high political uncertainty given that the majority of the losers were bound to be ordinary

citizens, who also form the majority of voters. Thus, even though they were eventually implemented, there were delays and reversals. In the financial sector, sequencing problems and political interference affected the successful implementation of the reforms, with the aftermath being a high interest rate structure.

Despite undertaking the market-oriented reforms, results show marginal gains in terms of economic growth and investment. Economic growth has been dismal, especially in the 1990s. Poverty worsened, having been estimated to be 56 per cent by 2000. Overall, the reforms disproportionately affected the poor and other vulnerable groups – e.g. employees in lower cadres in the civil service and mothers and children in the case of the health sector.

Notes

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2. We focus on the market-oriented reforms. For details on definition and measurement of market-oriented reforms, see Loayza and Soto, 2003.
3. For more on the analytical narrative approach, see Bates et al., 1998, 2000.
4. For more on political institutions and reforms, see Rius and van de Walle, 2003; Liew et al., 2003; Haggard and Webb, 1993.
5. In this chapter, IFIs refer to the IMF and World Bank.
6. ESAF replaced the Structural Adjustment Facility.
7. There were over ninety monitorable conditions in the second SAL.
8. Despite the fact that the policy of user-charges had been agreed upon in the Sessional Paper No. 1 of 1986, its implementation was avoided until it was incorporated in the World Bank policy matrices so that the World Bank could be seen as the 'culprit'.
9. To date, the constitutional debate still rages on.
10. The pre-shipment export finance scheme was a soft loan that was extended by the CBK in the early 1990s to exporters through their commercial banks.
11. The famous Goldenberg scandal arose when the government acceded to a request to pay additional export compensation to a company that claimed that it would buy and export gold and ostensibly assist with the foreign exchange and BOP problems that the country was experiencing due to donor aid freeze. Interestingly, the company was granted monopoly rights on 35 per cent export compensation, which was over and above the regular 20 per cent that was in operation by then. When the National Rainbow Coalition party took over from KANU in December 2002, a Judicial Commission of Inquiry was set up by President Mwai Kibaki to investigate irregular payment of billions of Kenyan shillings to Goldenberg International Limited and associated companies in the early 1990s, and whether any gold and diamond jewellery was actually exported and export remittances made to the CBK.
12. Those who have access to the president have power and thus those who have access to those have access to the president have indirect power.
13. *Sunday Nation*, 29 March 1998.
14. Part of the money was linked to the Goldenberg scam, perhaps in exchange for favours that the company enjoyed.

15. In early April 1993, Exchange Bank, which was linked to Goldenberg International, received Kshs 23.9 billion from CBK and four other political banks in a four-day period. These included Kshs 13.5 billion (US\$210 million) from CBK.
16. For the purpose of this chapter, public sector reforms include civil service and parastatal reforms.
17. This section focuses on the health sector reform.
18. It is worth noting that the term 'donors' as a generalisation is misleading since the bulk of the money is on a loan basis, even if on concessionary terms.
19. After much abuse, commercial banks were advised not to enter into new commitments under the facility in March 1993.
20. There has been a privatisation bill which is yet to be turned into law.

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