Reforming Kenya: Explaining the Influence of Internal and External Actors in the Process of Liberalization

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Reforming Kenya: Explaining the Influence of Internal and External Actors in the Process of Liberalization

Abstract
This dissertation examines the influence of internal and external actors in pressuring Kenya to embrace liberalization in the 1980s and 1990s during the Moi presidency. It argues that internal actors had more influence than external actors such as the World Bank and the International Monetary Fund (IMF) in forcing the Moi government to concede to liberalization. To make its argument, the dissertation analyzes the influence of Kenya's colonial history, Harambee (self-help groups), the economic decline of the 1970s and 1980s, ethnic rivalry, and the role of Moi's repressive regime in bringing about liberalization. It uses Kenya's agricultural and financial sectors as case studies to explain how the influence of these actors/factors contributed to liberalization. The dissertation concludes by emphasizing why it is important to seriously consider the role of internal actors when examining liberalization (or any other reform policies). One reason is that the "on-the-ground" actors are primary in determining whether or not a policy can even be implemented, let alone succeed. In that respect, the dissertation recommends that international financial institutions consult with all domestic actors, including political and social activists, as part of their engagement with governments on any reform initiative.

Document Type
Dissertation

Degree Name
Ph.D.

Department
Josef Korbel School of International Studies

First Advisor
Rachel A. Epstein, Ph.D.

Keywords
Economic liberalization, Economic reform, International financial institutions, Kenya, Moi, Popular pressure, Political liberalization, World Bank

Publication Statement
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REFORMING KENYA: EXPLAINING THE INFLUENCE OF INTERNAL AND EXTERNAL ACTORS IN THE PROCESS OF LIBERALIZATION

A Dissertation

Presented to

the Faculty of the Josef Korbel School of International Studies

University of Denver

In Partial Fulfillment

of the Requirements for the Degree

Doctor of Philosophy

by

Figaro Joseph

June 2012

Advisor: Dr. Rachel Epstein
ABSTRACT

This dissertation examines the influence of internal and external actors in pressuring Kenya to embrace liberalization during the Moi presidency. It argues that internal actors had more influence than external actors such as the World Bank and the International Monetary Fund (IMF) in forcing the Moi government to concede to liberalization. To make its argument, the dissertation analyzes the influence of Kenya’s colonial history, Harambee (self-help groups), the economic decline of the 1970s and 1980s, ethnic rivalry, and the role of Moi’s repressive regime in bringing about liberalization. It uses Kenya’s agricultural and financial sectors as case studies to explain how the influence of these actors/factors contributed to liberalization. The dissertation concludes by emphasizing why it is important to seriously consider the role of internal actors when examining liberalization (or any other reform policies). One reason is that the “on-the-ground” actors are primary in determining whether or not a policy can even be implemented, let alone succeed. In that respect, the dissertation recommends that international financial institutions consult with all domestic actors, including political and social activists, as part of their engagement with governments on any reform initiative.
ACKNOWLEDGMENTS

Since the day I arrived in the United States from Haiti with only enough English to introduce myself, countless people have encouraged me to go to college. This dissertation is to say thank you to them. Many people over the last seven years have helped me tremendously in this project by giving me their time, advice, and even financial support. I could not have completed this project without their support. A special thank you to my wife and friend, Ashley Joseph, whose love, patience, and encouragement allowed me to complete this project.

In Kenya, thank you to Dr. Peter Wanyande at the University of Nairobi for sponsoring my access to the university’s library. His sponsorship also allowed me access to Kenya’s National Archives where I learned a great deal not only about my topic but also about Kenya and its people. Dr. Musambayi Katumanga at the University of Nairobi was very gracious with his time in granting me two interviews, each lasted more than 3 hours. Thank you to Dr. Lilian Kirimi at the Tegemeo Institute of Agricultural Policy and Development at the Egerton University for giving me over two hours of interview on Kenya’s agricultural policy and development. Thank you to Njoki Njoroge Njehu and Soren Ambrose for hosting me.

Lastly, the members of my dissertation committee deserve a special recognition. Drs. Rachel Epstein and Martin Rhodes spent countless hours through three different drafts. I cannot thank them enough for their advice and guidance.
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CHAPTER ONE
INTRODUCTION, REVIEW OF LITERATURE, METHODOLOGY, STRUCTURE OF THE DISSERTATION

Why did Kenya embrace political and economic liberalization during the period of its second postcolonial president, Daniel arap Moi (1978-2002)? What factors in the colonial and postcolonial history of Kenya played into the decision to embrace liberalization? To what extent did external actors such as the World Bank and International Monetary Fund (IMF) play a part in pressuring the Moi government to embrace the policies and practices of liberalization?

These questions are an attempt to engage in the broad discussion in the literature on policy diffusion and policy implementation. From the 1980s to the present, this discussion has centered on whether internal or external actors have more influence in forcing states to embrace the policies and practices of liberalization. In the case of Kenya during the Moi government, this dissertation argues that internal actors and factors were the primary drivers that forced President Moi to concede to liberalization while the World Bank, the International Monetary Fund (IMF), and donor countries played a secondary role. In other words, the real drivers of Kenya’s journey toward economic reform were internal actors simply fed up with the way
things were and wanting change in the form of political openness and economic opportunity.

Three factors helped galvanize the efforts of the internal actors. The first factor was the economic decline that Kenya experienced under the Daniel arap Moi government. The second factor was President Moi’s effort to restrict opposition to his government by repression and amending Kenya’s Constitution to make it a one-party system. The third factor was the intense ethnic rivalry between the Kalenjin tribe and the Kikuyu tribe, the Kalenjin represented by President Moi and the Kikuyu represented by his predecessor, President Jomo Kenyatta. This rivalry was manifested in President Moi’s use of public policy to marginalize the Kikuyu political and business elites, whose resentment helped fuel the reform movement.

The path to liberalization in Kenya, however, presents to scholars and observers of Kenyan politics a number of interesting challenges because of the country’s idiosyncrasies. To most scholars, the path to liberalization starts at economic crises that lead countries directly to the doors of western donors—be they international financial institutions such as the World Bank and the International Monetary Fund (IMF) or countries—that have money to loan if the recipient countries follow their rules. While Kenya began the path to liberalization in the usual way – economic crises and trips to the donor institutions for financial aid– it did not follow the rules of the external actors. The donor institutions assisted the process
through loans and technical assistance, but they often walked away in frustration by the government’s constant reneging on conditionality terms and unwillingness to implement their policy recommendations. There are lessons to be learned from an examination of Kenya’s unique journey toward liberalization, which was often fractious, but ultimately a largely successful journey.

1.1  Review of the Literature

This dissertation’s argument that internal actors and factors were more influential in driving Kenya toward liberalization than were external actors runs counter to the dominant views in the literature. The dominant views on the diffusion of liberalization throughout the developing world largely converge on a consensus that the primary drivers of liberalization in the 1980s and 1990s were external actors and that internal actors were secondary, or merely served as receptacles of ideas from the international actors. The advocates of the external-actors-as-the-drivers of liberalization posit that reform policies were designed in Washington, D.C. and other capitals of the developed world and imposed on Africa. African countries could not refuse the externally imposed reform policies because their acceptance was a condition for receiving financial assistance, assistance they desperately needed (Bond 2001; Danaher 2001; Rono 2002).
Maclean (1997) argues that liberalization was a Western-dominated model imposed on African states by international financial institutions. For Maclean, the liberalization agenda, which included reducing the size of government, privatization of state-owned enterprises, and good governance, sounded exactly the same as the debates of the 1960s and 1970s when the West was pushing various forms of development models. She sees the discourse around liberalization in the context of unequal north-south relations; thus, in the case of Sub-Saharan Africa, one cannot divorce how African states have been “influenced by the diffusion of ideologies from outside [and that] their marginal position in the global economy […] has reduced their ability to resist the pressures of dominant international financial actors” (Maclean 1997:138).

By the early 2000s, the voices of many of those excoriating western-based institutions for leading the march of liberalism became more amplified. Amin (2004) compares liberalism to a “virus” born in the west and spread to other countries and cultures by the West. Woods (2006) notes that the IMF and the World Bank have forced many countries to open their economies to international trade, investment, and capital flows. Such pressure to force developing countries to adopt liberalizing reforms comes in “various ways, from the subtle to the overt: through the threat or use of physical force, the manipulation of economic costs and benefits, and even through the monopolization of information and expertise” (Simmons, Dobbin, and Garrett 2006:10).
Liberalization through policy conditionality requires that a member country must agree to adopt a given set of policies in return for financial assistance from the World Bank and/or the IMF. In this sense, conditionality is to be understood as the promise of financial assistance to countries by these external actors if the countries agree to embrace liberalization. Fearon (1988) calls conditionality “coercion” because in the 1980s countries sought financial assistance from the IMF and/or the World Bank during economic crises and therefore had no bargaining leverage. Other scholars use similar lines of argument as Fearon by saying that the developing countries lacked leverage to negotiate with the donor institutions because they were forced to decide whether to accept the conditions under economic, political, and social stress caused by the crises they were facing at the time. Clearly unwilling to let their economies collapse, they accepted the demands or conditions the institutions imposed (Harrison 2005; Stallings 1992). According to Mosley, one of the earliest scholars to argue that international donors have been the drivers of liberalizing reforms:

This pressure [to adopt liberalization] originally came in the form of words, which asked above all for a lifting of controls on exchange rates and agricultural prices. More recently, however, the pressure for liberalization has come with teeth in the form of ‘policy conditionality,’ that is, of refusals by aid donors to disburse development aid unless specific changes in economic policy are made (Mosley 1986:107).
Those who argue that external forces are the drivers of liberalization often cite market liberalization to create competition, which forces countries to become more efficient and thus more competitive, an example of reform through conditionality. This logic is based on the premise that there are limited markets for goods and capital and that states that want access to such markets must adopt policies that create incentives for domestic and international investors as well as make their products competitive compared to other states. Such competitiveness is achieved by adopting market-friendly policies preferred by the international creditors. Again, this explanation of African governments’ reform centered on pressures from external forces as the countries faced the economic crises of the 1980s. As Rodrik posits:

[The 1980s was] a decade of great leverage for these institutions vis-a-vis debtor governments, especially where poorer African countries are concerned. The trade policy recommendations of the World Bank were adopted by cash-starved governments frequently with little conviction of their ultimate benefits (Rodrik 1992:89).

The African countries were overly dependent on the donor institutions for loans and credits, including debt cancellation, and thus were under pressure to follow the external actors’ policy recommendations. The countries were in need of development financing which was critical for long-term investment in projects and for overall development. They were also in need of credits and long-term lending from commercial banks and having the approval of the IFIs made it easier for them to receive credit. In short, the countries’ urgent need for financial assistance,
including relief from their debt burden, made them vulnerable to pressures from the international creditors, which then caused them to reform and liberalize their trade policies (Helleiner 1983). Kenya did face financial challenges as its economy was in a downturn due in part to the oil shocks of the 1970s and sought financial assistance from the World Bank and IMF.

Many of these explanations were made in the context of the fall of the Soviet Union. The collapse of the Soviet bloc marked the triumph of liberalism and freed the Western-based donor institutions from the constraints of East-West political rivalry. The triumph of liberalism gave rise to an international march toward economic and political reforms particularly in Central and Eastern Europe (Epstein 2008). When Africa joined this march in the early 1990s, it was an affirmation of the notion that there was no alternative to liberalism (Eyoh 1996; Joseph 1992). Some of the proponents of this view often point to legislation in the United States Congress as an indication of external actors’ pressure on developing countries to embrace liberalization. For example, in 1990, Senator Edward Kennedy’s aid legislation for Kenya was “explicitly tied to human rights improvement.” In early 1991, the United States Agency for International Development (USAID) announced that it would increase its direct assistance to countries that were adopting political and economic liberalization (Mailafia 1997:31). There was no indication that these types of legislation and announcements made any difference in Kenya.
While at some level the explanations that point to external pressure as the driver of reform are useful and offer important insights about the influence of external actors in liberalization in Africa, they are nonetheless limited. They cover the impact of factors such as “inappropriate” economic policies on the process of liberalization but are limited in terms of explaining the process of liberalization that emerged in response to internal circumstances involving tribal groups struggling to take control of the state, the primary means by which access to political power and economic resources is gained.

The explanation that emphasized conditionality and countries’ desperation for debt relief holds some merit. This argument did not hold for Kenya, however, because Kenya was not among the IMF’s Heavily Indebted Poor Country (HIPC) Initiative and, therefore, it was not eligible for debt cancellation at the time (Joseph 2002). The explanation that conditionality forced developing states to liberalize their markets and compete for gains from international trade and investment also would be difficult with respect to Kenya. Trade reform in Kenya (as in the developing world in general) has always been met with skepticism on the part of both the public and private sectors. Both sectors relied heavily on the state for different forms of assistance and would be highly skeptical of such an imposition from the outside.

Observers sometimes ask why there has not been much comparison between Sub-Saharan Africa, Central and Eastern Europe, and the former Soviet Union with
respect to the spread or the effects of liberalization. Swinnen et al. (2010) compared the performance of liberalization in these regions and found major internal differences. For example, they found that economic growth was initially stronger in Africa than in Central and Eastern Europe and the former Soviet Union because Africa did not have a capital-intensive farming system prior to reform; therefore, it did not suffer “the decline in output and productivity that accompanied land reform and privatization” that took place in these former communist states (432). Also, liberalization improved price incentives in Africa while it worsened them in the former communist states (Swinnen, Vandeplas, and Maerten 2010). The desire for greater price incentives was one of the reasons that small-scale farmers and business groups were agitating for reform in Kenya.

While it is reasonable and important to compare the performance of liberalization in the different regions as a way to improve our knowledge, the same cannot be done or applied to specific countries. The experience of Kenya differed from countries in Central and Eastern Europe during the transition from communism to democracy. Kenya never had a communist tradition and therefore their paths toward liberalization cannot be compared.

Focusing on internal actors and highlighting the limitations of the explanations that emphasize external actors as the drivers of liberalization is not to argue that external actors had no influence. Rather, it is to argue that their influence
was secondary and that the interaction was very complicated. In some cases, their interaction helped lead to liberalization and in other cases their interaction hampered progress toward liberalization. For example, the announcement of the international community to suspend quick-disbursement loans to the Kenyan government in 1991 may have been the final blow that pushed the government to consider multi-party elections even as the Moi government was nearing collapse under the weight of domestic popular pressure. When the IMF offered to help the government write legislation, the internal actors refused and the process toward liberalization suffered because the government pointed to such overt offer of assistance as external meddling and sought to discredit the internal actors who were agitating for the reforms. In both instances, however, the internal actors were primary and external actors were secondary in the final decision.

The three factors – ethnic rivalry, economic decline, and political repression and corruption – are interrelated and linked to Kenya’s colonial history and legacy. The country’s colonial history and legacy created an environment in which domestic actors had particular influences on policy changes, in this case political and economic policy changes toward liberalization. The colonial legacy left an ethnic divide that subsequent leaders easily exploited. Because of this historical context, any movement toward political and economic reform could only take place in the context of domestic politics.
1.2 Definition of Terms

The concept of liberalization is the operational term in the study. While there is no consensus on a specific definition of liberalization, there are some features that are generally understood to define what it means to have a liberal political and economic system. The main political features include the existence of more than one political party with free and fair competition among them in periodic elections, respect for the freedoms of expression and peaceful assembly, and respect for human rights (Makinda 1996). Economic liberalization, on the other hand, involves deregulation of financial and labor markets, privatization of state-owned enterprises, elimination of marketing boards, and free trade policies and practices, which involve reduction or elimination of agricultural subsidies to producers and consumers, and removal of tariffs and other market-distorting barriers (Berman 1998).

These characterizations of political and economic liberalization align with the Washington Consensus, often referred to as neo-liberalism, as clarified by John Williamson in 1989. The terms “reforms” or “liberalizing reforms” used herein to refer to any policy change that reduces government controls in the economy or political system in favor of increasing the role of free market forces or giving the individual more economic, political, and social rights and freedoms. When Kenya
lifted controls on foreign exchange transactions and moved from a one-party system to a multiparty system, for example, both were liberalizing reforms.

1.3 Case Selection

Among the former British colonies in East Africa, Kenya had the best chance to succeed economically after independence and hence to spare its people much of the poverty they endure today. Kenya had the best chance of success in part because of the way in which its economy was structured compared to Uganda and Tanzania, for example. Kenya had a settler economy based on both large- and small-scale agriculture with a strong emphasis on private markets with a comparatively sophisticated financial system. The country had an orderly handover from the colonial authorities to the newly selected then elected Kenyan leaders.

In Uganda, the British helped develop a peasant economy led by a class of feudal landlords and the country fell into political paralysis leading to a prolonged civil war by 1971. Tanzania’s system, first put in place by German settlers (1885-1916), emphasized small farmer coffee production (Samoff and Samoff 1976) and persisted after the end of German rule but the British “never managed to impose successfully the constraints on smallholder production and marketing that were imposed on Kenyan African coffee farmers” (Samoff and Samoff 1976:409).
Following independence, Tanzania adopted *ujamaa* (socialism) and Uganda essentially collapsed.

Kenya, on the other hand, “pursued a strategy that emphasized economic growth over equity that built upon the institutions and policies inherited from the colonial era.” It emphasized the importance of the private sector to the economy. It “expanded production of [its] two principal export crops – coffee and tea – for which Kenya enjoyed a comparative advantage in world markets and which could be grown by small farmers; and receptivity to foreign private investment” (Barkan 1994:5). Clearly the notion of liberalization was not foreign to Kenya in the 1980s and 1990s and it remains puzzling to see many studies crediting external forces as the primary drivers of liberalization in Kenya in these two decades.

The agricultural and financial sectors were selected as case studies for this research because they have been closely linked in Kenya’s history. The colonial government heavily recruited foreign banks to help finance settler agriculture and the Kenya-Uganda railway to ease transportation to increase trade in the late 1890s. When the banks did not finance agriculture to the level that the colonial government expected, the colonial government established the Land and Agriculture Bank to finance settler agriculture. After independence, the Land and Agriculture Bank and other financial institutions were transferred to the newly independent government, putting state-owned banks in competition with private banks.
The two sectors have remained very important to Kenya’s economy. Twenty percent of Kenya’s gross domestic product comes from the agricultural sector, and more than 80 percent of the population live in rural areas and derive their livelihoods, directly or indirectly, from agriculture. The financial sector is a key part of the country’s service sector, which contributes over 60 percent of Kenya’s gross domestic product.¹ Lastly, it was small-scale farmers and business elites who called for liberalization of markets and joined together to demand privatization and other reforms in agricultural marketing boards and state-owned financial institutions and other parastatals.

Ultimately, the dissertation seeks to illuminate policymakers and policy-making institutions to better understand the particular circumstances of Kenya and how internal and external actors interacted either to produce or undermine expected outcomes. The way the different actors and factors contributed to liberalization in Kenya should be understood as modeled in Figure 1 below.

Figure 1: Conceptual Overview of the Liberalizing Process in Kenya

**Pre-liberalizing Stage**

**Political & Economic Conditions**
- State-controlled economy
- Colonial/undemocratic governance
- Unjust policies/inequality
- Lack of political representation
- Political Repression

**Reform Stimuli**
- Economic decline
- Ethnic rivalry
- Corruption

**Sources of Pressure to Reform:**

**Internal**
- Tribal factions/political party rivalry
- Popular uprisings (e.g., Mau Mau Rebellion)
- Protests against Moi government

**External**
- IMF
- World Bank
- Donor nations

**Reform Outcomes**
- Market-driven economy
- Individual property rights
- Multiparty political system
- Free/competitive elections
- Rule of law

**Historical Context**
- Colonialism
- Tribal culture
- Political Marginalization
Historical Context serves to contextualize the factors that contribute to a country’s prospect of embracing political and economic liberalization, most notably its history and culture and, in the case of Kenya, its postcolonial political and economic development strategy. The culture of the tribal society, which emphasized collective ownership of land, contextualizes the tension that later developed around the establishment of private property laws and the rivalries among Kenya’s tribal communities and how these rivalries contributed to the extent to which Kenya achieved liberalization.

The Pre-liberalizing Stage refers to economic and political conditions that existed in both the colonial and post-colonial administrations through the first multiparty elections in 1992. To varying degrees, the colonial administration being the most severe, governance was undemocratic during this period. Policies were unjust and inequitable with respect to different ethnic groups and social classes. Favoritism in political positions and levels of representation in the legislative council and national parliament was manifest: in the colonial time by the settlers and under Presidents Kenyatta and Moi by their respective ethnic groups. All three administrations practiced political repression and policies that were anathema to liberalization, including economic intervention.
The effect of these policies and practices was to create economic, political, and social conditions that became untenable to the population and served as *stimuli for reform*. These conditions, which became the underlying factors that helped precipitate a reform movement, included tensions between settlers and indigenous Kenyans and among different ethnic groups in Kenya. Even in the colonial period, popular complaints against the colonial government led to the deadly *Mau Mau* rebellion. Economically, Kenya suffered deep declines beginning in the mid-1970s and lasting through the 1980s. The economic deterioration exacerbated the political rivalry that existed primarily between the Kikuyu and Kalenjin tribal groups. President Moi became increasingly authoritarian, causing intense political tension between the government and government critics and potential political opposition. Subsequent popular discontent led to public demonstrations against the Moi government, placing him in the first wave of independence leaders in Africa ever to face their populations in the streets.

The *internal pressure* against President Moi came primarily from the Kikuyu and Luo ethnic communities, especially small-scale farmers, the business and professional classes which he sought to marginalize through consolidation of political power and advancing the interests of his Kalenjin tribal group and allies at the expense of the other communities. A combination of economic hardship, political repression, and tribal resentment led people to the streets to demand political and economic reform.
The external pressure on the Moi government came from the IMF/World Bank and donor countries as the economy deteriorated and internal actors agitated for reform. The donors provided financial assistance and made policy recommendations. For sure the IMF/World Bank had some influence by virtue of their capability to provide financial assistance, but they were often frustrated by Kenya’s lack of progress in following their advice. The dissertation focuses on the IMF/World Bank without singling out particular major donor countries because of the closeness of the two donor institutions and the necessary approval that the member countries must first give to loans and credits to countries.

The Liberalizing Stage refers to the point at which both the political and economic systems began to open to competition. The Constitutional ban on opposition parties was repealed, multiparty elections were held, and judicial tenure restored. The government also reduced controls on foreign investors and international trade and privatized state-owned banks and many other parastatals, all indicators of liberalizing reform.
1.4 Methodology

This is an historical narrative and interpretation of selected periods, actors, policies, and events in Kenya’s political and economic history with the goal of explicating how these various actors and events led to Kenya becoming a more liberalized economy during its first three decades of independence. Data collection was done through desk and field research. Desk research involved examining journal articles, books, reports, and newspapers obtained from libraries at the University of Denver, Colorado State University, Howard University, and American University as well as the IMF/World Bank Joint library in Washington, D.C. and from online sources (web-based publications).

Field research was conducted in July and August 2010 in Kenya, including visits to the national archives and the library at the University of Nairobi. Data were gathered through interviews with three professors at the University of Nairobi; the Director of the Tegemeo Institute at Egerton University; two representatives of the Kenya Investment Authority; a business advisor for Fusion Capital, a fund that finances small and medium-size private enterprises in East Africa; and a practicing lawyer. In addition, interviews were conducted with a Program Officer at the Institute of Economic Affairs and two representatives from two different non-profit organizations, one with an international focus and the other with a Kenya focus.
The interviews were semi-structured with open-ended questions around the nature of the debates within the government pertaining to adopting certain liberal policies and the role of internal and external actors. Key informants were largely selected through the process of snowball sampling, whereby “the researcher accesses informants through contact information that is provided by other informants” (Noy 2008:330). All of the interviews lasted from one to more than three hours.

In addition, informal interviews were conducted with a number of ordinary professional people throughout Nairobi. These interviews were obtained by approaching people leaving work at the end of the workday and asking them for a few minutes. After explaining the project, several agreed “to have coffee and talk.” Since the time of field research, follow-up conversations with one of the informants have occurred over email.

Explaining the dominant role of domestic actors in forcing an authoritarian state to concede to reform is not always easy for researchers. It was difficult in Kenya particularly because the Moi government restricted popular opposition politics. Because of legal restrictions on opposition politics, anti-government efforts could not take organizational form. Opposition efforts had to be vague in their programmatic content to avoid government censorship (Holmquist, Weaver, Ford 1994). In order to fully assess the influence of various factors in forcing reform in
Kenya, one has to look at events and examine their contribution in the context of Kenyan political and economic history and development.

Examining particular events for their contribution in terms of putting pressure on the state requires a micro-level analysis. The resignation of an obscure minister, for example, or the murder of an activist, or protests by mothers of political prisoners at a specific street corner may not be considered important in a macro analysis of factors that bring pressure on the state to reform. Seemingly minor events are not likely to be captured by macro-level approaches and therefore tend to go unnoticed in the international relations literature with regard to why countries have embraced liberalization. In this context, while an observer from afar who uses a macro-analysis “may easily conclude that international pressures are the key to reforms, quite an opposite conclusion may be reached through a micro-analysis, or case study approach” (Press 2005:14).

1.5 Structure of the Dissertation

The remainder of the dissertation is presented in five additional chapters. Chapter Two provides a contextual overview of Kenya’s political, economic, and social history. The chapter examines the relations among the various ethnic and tribal communities and the dominant role of these factors and actors in influencing
liberalization in Kenya from the pre- and colonial period (1822-1963) through the Jomo Kenyatta presidency (1963-1978).

The chapter highlights the role and influence of customary traditions in promoting or discouraging the notion of private property rights, a key feature of liberalization and how pre-independence, tribal-affiliated associations served as the catalyst for national political parties in postcolonial Kenya’s liberalization movement. Evolving from local politics to national politics, the parties nonetheless remained tribal and parochial, a factor that remains at the center of current Kenyan political and economic affairs and continues to foment intense rivalry among the most politically active ethnic groups.

Chapter Three explores the period of Kenya’s second president, Daniel arap Moi, and explicates how economic decline, corruption, repression in Harambee, and ethnic rivalry created the conditions that led domestic actors to mobilize popular pressure against his government for political and economic reform. This chapter illustrates the relatively limited role of external actors but how, through their financial power, they served as a complement to the domestic reform pressures that were being exerted on the government. It was this type of interaction (alliance) that eventually forced President Moi to concede to reform.
Chapters Four and Five narrow the focus of liberalizing reform in Kenya and examine in detail the reform process in the agricultural and financial sectors, respectively. In presenting the sector analyses, each chapter examines the relative contributions of internal and external factors in bringing about sector reform.

Chapter Six concludes the dissertation with a summary discussion of the relative contributions of domestic politics and external pressure as drivers of liberalizing reform in Kenya and notes the value for funders and policy-makers in considering on-the-ground political and cultural realities when crafting future reform strategies.
CHAPTER TWO
HISTORY AND PRESSURES FOR LIBERALIZATION

Glaring disparities in Kenya’s land wealth began with British colonialists, who forcibly removed thousands of families from lush highlands so white farmers could grow coffee and tea. Rather than unwind the disputes after winning independence, Kenya’s founding fathers compounded the injustices, helping themselves to the departing colonialists’ spoils and even continuing forced resettlement schemes. Every Kenyan president has been accused of accumulating massive land holdings, diverting public properties to his tribe members and doling out real estate titles like candy to win votes. The family of Jomo Kenyatta, Kenya’s George Washington, sits on half a million acres, while his successor, Daniel [a]rap Moi, holds more than 100,000 acres, a government commission found. Current President Mwai Kibaki owns about 30,000 acres, according to local reports (Sanders 2008).²

This chapter presents a historical overview and a review of the political and economic actors and factors that shaped Kenya’s liberalization process. One of the most important domestic factors that this chapter highlights is the impact of traditional customs on the development of policies regarding land tenure or private property rights, a key feature of liberalization. Three distinct but interrelated periods in Kenya’s history have shaped the context of its liberalization trajectory: the pre-colonial period until independence in 1963 and the period of its first post-independence president, Jomo Kenyatta (1963-1978), and the period of the

² Italics, mine.
The presidency of the Daniel arap Moi (1978-2002). The period of President Moi’s administration is covered in Chapter Three. This chapter discusses how strong reactions among various internal actors against undemocratic policies and practices during the first of those two periods led to popular pressure on the state, which then had to reform. This historical overview and discussions of Kenya’s different tribal groups provide context for understanding why given ethnic groups may favor state intervention in the economy at a particular time.

Kenya borders the East African nations of Ethiopia, Somalia, Tanzania, Uganda and Sudan. With a total area of 580,367 square kilometers (197,000 square miles), Kenya is roughly twice the size of the U.S. State of Nevada. Its population is made up of many tribes whose members are farmers, agro-pastoralists, and pastoralists. The farmers are concentrated in the fertile Rift Valley, west of Kenya’s capital city, Nairobi; the Central Province districts; and the coastal plains. The major tribes engaging in farming are the Kikuyu, Luo, and Luhya. Agro-pastoralist tribes are those that also raise livestock in addition to farming, including the Kalenjin who live in the Rift Valley. The Maasai tribe is nomadic pastoralist and lives along the arid and semi-arid regions of the north and northwest, parts of the lower Rift Valley, and Central Province. The tribal makeup of Kenyan society has played an important role in whether and how liberalization policies were implemented, a role that dates to the colonial period (Knox 1998).
Table 1 below, based on Kenya’s most recent census, provides a sense of the political districts and general concentration of the country’s 11 largest tribes. Having a sense of where the ethnic groups are concentrated is important for later discussions of how Presidents Kenyatta and Moi prioritized different areas of the country with regard to public policy. There are more than forty tribes in Kenya, only the 11 listed below have populations greater than 250,000 members (Barkan 2011; Oparanya 2010).

Table 1: Kenya 2009 Census (Population: 38,610,097)

<table>
<thead>
<tr>
<th>Tribe</th>
<th>Population</th>
<th>Percent</th>
<th>Political District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kikuyu</td>
<td>6,622,576</td>
<td>17.2</td>
<td>Central Province &amp; Nairobi</td>
</tr>
<tr>
<td>Luhya</td>
<td>5,338,666</td>
<td>13.8</td>
<td>Western Province</td>
</tr>
<tr>
<td>Kalenjin</td>
<td>4,967,328</td>
<td>12.9</td>
<td>West Rift Valley Province</td>
</tr>
<tr>
<td>Luo</td>
<td>4,044,440</td>
<td>10.5</td>
<td>Nyanza Province</td>
</tr>
<tr>
<td>Kamba</td>
<td>3,893,157</td>
<td>10.1</td>
<td>Eastern Province</td>
</tr>
<tr>
<td>Kenyan Somali</td>
<td>2,385,572</td>
<td>6.2</td>
<td>North Eastern Province</td>
</tr>
<tr>
<td>Kisii</td>
<td>2,205,669</td>
<td>5.7</td>
<td>Nyanza Province</td>
</tr>
<tr>
<td>Mijikenda</td>
<td>1,960,574</td>
<td>5.1</td>
<td>Coast Province</td>
</tr>
<tr>
<td>Meru</td>
<td>1,658,108</td>
<td>4.3</td>
<td>Eastern Province</td>
</tr>
<tr>
<td>Turkana</td>
<td>988,592</td>
<td>2.6</td>
<td>Northern Rift Valley</td>
</tr>
<tr>
<td>Maasai</td>
<td>841,622</td>
<td>2.2</td>
<td>Rift Valley/Central Province</td>
</tr>
</tbody>
</table>

Sources: (Barkan 2011:4-3)
2.1 Pre-colonial Kenya

Before Britain’s arrival in the region in 1822, Kenyan society was decentralized and organized around clans and sub-clans. Political authority rested primarily within councils of elders, and they exercised their authority in a participatory and collegial way. Family units were also important in resolving a number of societal matters. Family members would often be called upon to participate in the governments in various capacities. Government decisions were predictable, as they were made based on traditions and customs. “The traditions and customs collectively underscored the principle of impartiality” (Ludeki 2007:237).

This brief account of pre-colonial social relations and political structure is not, of course, intended to suggest that pre-colonial Kenya was politically and socially equitable even though some scholars argue that the decentralized nature of some of Kenyan societies in the pre-colonial period made them egalitarian. They pointed to communal ownership of land as an example of egalitarianism (Fortes and Pritchard 1940; summarized in Ludeki [2007]). As Ludeki (2007) notes, land was the property of the clan or family. Every male member of the clan was to be given a piece of land once he reached adulthood. However, “an individual land ‘owner’ could not extend land rights to a stranger without the approval of the clan” (238). In pastoral tribal communities, while individual family owned livestock, grazing fields were collective properties and used by all (Ludeki 2007).
A key feature of tribal life in pre-colonial Kenya was the community tradition of *Harambee*. The term is defined as the “collective and cooperative participation of a community in an attempt to fill perceived needs through utilization of its own resources” (Ngau 1987:524). Traditionally, *Harambee* organizations were small self-formed groups that met to plan and work on projects to benefit either a household or a community. Members worked in rotating fashion. They made decisions collaboratively and through consensus. It was a basic, grassroots effort at community development. Ngau (1987) noted that prior to the current individual- and market-influenced pattern of resource allocation and ownership, *Harambee* was a means for communities to exchange labor and assistance and the efforts were oriented toward addressing basic needs.

### 2.2 Colonial Kenya

The British first arrived in Kenya in 1822 when Seyyid Said, the Omani Emperor, attacked Mombasa, Pate, and Pemba, which were ruled at that time by the Mazui clan. To protect the clan, the Mazui appealed to the British for help, resulting in British protectorate over Mombasa, Kenya’s major port city. By the late 19th Century, Britain had solidified its presence in the region and in 1895, Kenya became a British Protectorate, allowing Britain to extend its territorial position from Asia to
Africa. East Africa proved convenient for Britain because it linked with India (Britain’s largest colony) through the Indian Ocean (Wolff 1970). As the 19th Century drew to a close, Britain’s industrial power status faced increasing competitive pressures from countries such as Germany, France, Belgium, and the United States, so its territorial possessions became even more important sources of food and raw materials. Britain moved swiftly to secure its territorial possessions through the construction of a major railway to facilitate imports and exports.

In 1896, construction on the Kenya-Uganda railway, linking the interiors of the two countries to the Indian Ocean at the port city Mombasa, was begun. By 1901, the railway reached Kisumu, Kenya’s third major city, on Lake Victoria and linked Kenya and Uganda through the port city of Mombasa and the Indian Ocean. This linking of these territorial possessions to increase trade was part of what Wolff describes as “fitting the new Protectorate into the imperial economy” (1970:275). Britain experienced noticeable increases in its imports as a result of these territorial linkages. Between 1870 and 1913, Britain imported all raw cotton and a growing share of the raw wool that it needed. Wheat and cheese imports had increased 81 percent; fruit had increased 64 percent; and meat had gone up 42 percent. Among food imports, the share from imperial sources increased from 19.8 percent in 1870 to 30.3 percent in 1913; and raw materials from territorial possessions consistently provided at least one-third of Britain’s need during this period (Ndege 1992; Wolff 1970).
Notwithstanding all the imports and exports made possible by the railway, it was an expensive project to build and maintain. Colonial authorities sought to make the railroad a self-financed operation by making the countries agriculturally productive enough to support both domestic and international markets. Thus constructing and maintaining the railway were inextricably linked to Kenya’s agricultural sector, its primary source of revenue. In order to meet the financial objectives, the agricultural sector had to be developed and modernized.

To raise revenue to help build the railway, Britain turned to encouraging and recruiting settlers into Kenya. As increasing number of settlers arrived in Kenya in the early 20th Century, the country’s best lands were given to them in individual freehold under Crown Lands Ordinance of 1915. The Ordinance turned over all the territory of the Protectorate to the Commissioner of Kenya (the East African Protectorate) and later to the Governor. Soon thereafter, the colonial authorities introduced various English property laws to supersede customary laws and make legal individual property rights. Africans living in the productive lands in the Rift Valley and other provinces were relocated by the colonial authorities to poor-quality land areas created and labeled “Native Reserves” by the colonial administrators and administered by a Native Land Trust Board (Odhiambo and Nyangito 2002; Knox 1998).
This process of moving native Africans into these newly created native reserves resulted in massive landlessness, land fragmentation, overstocking and degradation, as well as “the disintegration of social and cultural institutions in the reserves” (Odhiambo and Nyangito 2002:8). The process created landlessness because the areas could not accommodate all of the people; it created land fragmentation as people sought to carve out small pieces of land to live on. The process caused overstocking and degradation as grazing areas became limited, causing the land to be overused since the practice of rotation could not be applied. In addition, the concept of individual freehold (or individualized land rights) created a dual land tenure system. The Native Reserves were under a customary land tenure system and subject to a variety of “statutory restrictions, including prohibition from cultivating cash crops,” while the confiscated lands given to the settlers operated under a statutory individual freehold system, where individual owners made their own decisions (Knox 1998:175).

The individual freehold system was said to be superior to the customary system for many reasons among them that the freehold system would create a land market that settlers could use to help finance their agricultural production. It was argued that less efficient farmers would eventually sell their land to more efficient farmers who in turn would increase the productivity of the land. For the colonial government, the individualized land tenure system would increase Kenya’s agriculture production, especially cash crops for export, which would result in
increased revenue for the state revenue needed to help finance the railroad. The colonial authorities also assumed that those without land would become agricultural laborers or urban workers. Statutory restrictions on the native reserves and on Africans living outside the native reserves, combined with deprived economic conditions resulting from being stripped of their land, political, economic, and social rights, created among the indigenous Africans an atmosphere of resentment against the settlers (Knox 1998; Odhiambo and Nyangito 2002; Spencer 1981).

The small number of the settlers in Kenya necessitated extensive reliance on Africans for labor. The settlers put in place a complex system of institutions and laws that forced African males between the ages of 15 and 40 to seek work on European-owned plantations. The laws included a tax code, a ban on African agricultural production, and a registration and identification requirement. The tax system placed a heavy burden on African males, especially the legal mandate requiring them to pay annual taxes. In an impoverished country such as Kenya, one of the easiest ways, or in some cases the only way, to earn the money to pay taxes to the government was to work as a laborer on the European-owned plantations. A number of restrictions were placed on Kenyan farmers, too. Kenyans were prohibited from growing the most lucrative crops, including Arabica coffee. They were also disadvantaged by significant differential freight rates of agricultural products vis-à-vis those in the settler community. The registration system helped the colonial administrators to manage, evaluate and control the labor force (Wolff 1970).
As the colonial administrators barred political participation by indigenous groups and imposed various economic and political restrictions, many political and social organizations emerged to contest the restrictions and support their tribal communities. Among these early indigenous groups were the Kenya African Union (KAU) and the East African Association (EAA), which was forced by the colonial government to shut down. As the Colonial Government continued its efforts to clamp down on political activities by socio-political groups, the colonial authorities declared a state of emergency, at which time KAU was banned and many of its leaders arrested. The declaration of the state of emergency was in response to a rebellion against the colonial government by nationalist Kenyans in 1953, the uprising known as the *Mau Mau* rebellion (Kanyinga 1998).

2.3 *Mau Mau Rebellion*

Reforms began to happen when popular opposition rose against state policies codifying land confiscation and discrimination against Africans, including farmers. *Mau Mau* was a liberalizing movement because at its core were key liberal demands: return of or fair compensation for land that was unjustly confiscated, land tenure (property) rights equal to the settlers, equal rights to cultivate cash crops and equal access to markets, and equal political representation in the colonial government.
In response to the rebellion, the colonial government lifted statutory restrictions in the native reserves and initiated statutory land tenure reforms, allowing individual land titles and rights, as was the case for the settlers. The reforms were codified in the 1954 Swynnerton Plan to Intensify African Agriculture. The Plan had three phases: adjudication, consolidation, and registration. The adjudication phase involved elevating individual ownership rights. The consolidation phase was designed to merge small and unviable land units into more economically viable ones to facilitate Africans to participate in the market economy. The registration phase was to ensure a registry where land titles would be registered under individuals’ names. All of these phases, it was believed, would ultimately reduce disputes over land and create land markets. The Swynnerton Plan intended to allow small farmers to grow cash crops, and the most fertile lands in the Highlands to be opened to more indigenous farmers (Odhiambo and Nyangito 2002; Peterson 1986).

The colonial government had other interests for agreeing to such reforms. The colonial government agreed to the reforms because it wanted to increase agricultural production for export, as Britain was in great need of raw materials, including agricultural products, after the Second World War. It also wanted to forestall further political unrest that could damage the economy. According to Knox (1998) and Ake (1996), the interests of the colonial government in agreeing to liberalizing reform were not only to increase Kenya’s agriculture production but also
to secure colonial political interests through the creation of an elite class of African farmers, which would adhere to political moderation because of its interests in the economy and as such it would be induced to more or less maintaining a market economy.

The nationalist leaders complained that the Swynnerton Plan was not sufficient and demanded more reform. In 1961, the colonial government introduced a Million Acre Settlement Scheme (MASS) to extend the land tenure reform program proposed under Swynnerton. MASS was developed to transfer 470,000 hectares of land to 35,000 landless families, with an average size farm of about 12 hectares, at a cost of about £30 million. The government also developed systems to provide supporting services such as research and extension to farmers. While the nationalist Mau Mau rejected the reforms as stipulated in the Swynnerton Plan, they embraced and adopted the plan after independence (Ake 1988:123; Knox 1998).

The plan, however, would have presented many problems for the colonial government, problems that the independence leaders had to address. Some of the problems had to do with the stickiness of customary land tenure in Kenya’s tribal society. For example, what role would the traditional council of elders play in land issues in a statutory individualized tenure system? How would the issue of nomadic and pastoralist tribes be addressed with respect to land ownership when grazing fields are traditionally communal properties? While the Swynnerton Plan set the
framework for private property rights, contract farming, state and market support for the intensification of African agriculture, it did not consider these types of questions (Ochieng, 2006). Nonetheless, the Swynnerton Plan became the cornerstone of land tenure reform in Kenya after independence, making Kenya a leading state in adjudicating land titles and registration of land under individual names.

2.4 Emergence of Tribal Politics

A number of other community-based groups emerged during the Mau Mau rebellion to help support the movement toward independence. Some of the groups were religious orders, which, in addition to opposing the colonial government, provided services to their ethnic communities. These emergent tribal groups had different factions within them, the more radical of which wanted a complete overthrow of the colonial political, social, and economic order, while others sought different and more gradual approaches. As the members of these movements devised strategies against the colonial state, the groups became the embryos for nationalist political factions, which later became political parties. There were members in Mau Mau who were less radical and saw the potential to be leaders in post-colonial Kenya. Jomo Kenyatta, a member of the Kikuyu tribe, was the leader of this faction, and an emerging Kikuyu capitalist class supported him. Some argue that this capitalist class was seeking greater access to and support from the state to aggrandize
and protect its interests, a position that it believed would allow it to compete with the white settler community in post-independence Kenya. This capitalist class became very powerful under Kenya’s first post-independence President, Kenyatta, and the dominant national political party, the Kenya African National Union³ (Kanyinga 1998).

These tribal-based associations became centers where political leaders and activists in these tribes gathered to discuss strategies to effect political, economic, and social change. They also served as the roots for eventual national political parties and, as is the main function of political parties, they worked to express the collective grievances and demands of the different groups against the colonial order, which included the return of expropriated land, an end to political and economic discrimination and access to education and other social necessities. The Mau Mau rebellion, “the best-organized expression of the demands of the colonized” (Kanyinga 1998:45), caused the colonial state to seek greater control over socio-political activities of these groups. One of the ways the colonial government sought to impose greater control was to ban national political activities by the groups; the only exception was groups sanctioned by the state.

Realizing that political, social, and economic change could not be stopped, the colonial authorities began to signal their willingness to negotiate reform. One of

³Before independence, KANU was Kenya Independence Movement (KIM).
the initial steps was the replacement of the 1922 Constitution with the Lyttelton Constitution of 1954, which created a framework for better and increased inclusion of Africans in the government and the general political life of Kenya. Even though the activities of the African groups expanded considerably, numerous restrictions remained, including the continuation of the ban on nationwide political activity by socio-political groups. The new constitution led to the first-ever elections in 1957 that included Africans as candidates and voters for delegates to the Legislative Council or LegCo (Kanyinga 1998).

Despite their success in promoting a new constitution and in bringing about the inclusion of more Kenyans in the political process, the new African members of LegCo remained politically weak. They were weakened by the fact that the colonial administrators had banned national political activities and therefore African members of the LegCo had no national political or economic platforms. The new leaders and socio-political groups attempted to form a national alliance, but the state refused to recognize the alliance and their effort failed. In addition to the difficulties encountered from the state, divisions emerged among the leaders and their corresponding groups on numerous fronts, including ethnicity, leadership rivalries, personality, and “infiltration by partisan white settler interests” (Kanyinga 1998:45).

The divisions among the members of the LegCo led to their separating into two factions in late 1959, one supporting urban interests, the other rural interests.
They would subsequently evolve into the two major political parties: the Kenya Independence Movement (KIM) representing Kikuyu/Luo urban interests, and the Kenya National Party (KNP) representing smaller and less influential ethnic rural interests. The Kikuyu and Luo were closer to Nairobi, other urban areas as well as more developed areas around the settler communities. The smaller ethnic groups were marginalized in more remote and agricultural areas (Kanyinga 1998). This division between the urban and rural constituencies had a number of implications. The urban constituencies, by virtue of their proximity to the settler communities, benefited from social programs, including education and health services. Barkan (2011) notes that this inequality in access to services, over time, gave the Kikuyu ethnic group an economic advantage over the other groups.

As preparations were underway for the first Lancaster House Conference in 1960, KIM and KNP agreed to put their differences aside to present a united front and show Britain they were capable of governing their country. One of the first positive outcomes of Lancaster was the lifting of the nationwide ban on political activities by socio-political groups, resulting in the parties readying themselves to engage in national campaigns in the new environment. After the Lancaster Conference, the parties’ long-established differences resurfaced. KIM organized its

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4 The Lancaster House Conference was a set of three conferences that finally resulted in Kenya’s independence in 1963. The first conference took place in 1960, which ended in a temporary constitution. In the 1962 conference, the participants decided on a framework for an African-led government. Finally, in the 1963 London conference, formal independence was granted after arrangements around the issue of settler citizenship, rights, and other necessities were agreed upon.
supporters for a national conference in both March and May of 1960, which led to a new name, the Kenya African National Union (KANU). Trying to placate other smaller ethnic groups, the KANU leadership elected *in absentia* Daniel arap Moi from the Kalenjin group and Ronald Ngala from the Coast for top positions in the party (Gertzel, Goldschmidt, and Rothchild 1969).

Both Moi and Ngala rejected the offer from the KANU leadership. Moi created his own political party, the Kalenjin Political Alliance, to reflect his ethnic group interest, and Ngala formed the Coast African People’s Union (CAPU) to represent his. The Bukusu-Luhya ethnic group was represented by the Kenya African People’s Party (KAPP), which was formed by Muliro. Finally, Justus Ole Tipis formed the Maasai United Front (MUF) to represent the Maasai tribe that lived mostly in Southern Kenya along the Rift Valley (Gertzel *et al.* 1969). Unlike KANU, which promoted a powerful central government, these smaller parties advocated for a weak central government with stronger local and regional governments. The leaders of the smaller parties believed that strong local governments would help them counter a central government, which they knew would be headed by larger ethnic groups.
2.5 Postcolonial Kenya

The nearly seven decades of colonial rule that ended in 1963 shaped a society and institutions that wholly favored the rights of the small settler segment of the population and vastly undermined indigenous Africans’ rights, including access to resources and economic activity. Patron-client relations between the colonial state and settlers in Kenya created agricultural and banking sectors that neglected peasant and smallholder farmers in favor of settler land acquisition, farming, and banking services. Through policies and practices of the colonial state, large numbers of Africans had lost their land, became no- to low-wage laborers on settler farms, or were marginalized in urban cities.

Patron-client relations continued into independent Kenya with African leaders through their tribal affiliations. The new African leaders replicated much of the behavior that the colonial authorities passed on to them at independence in 1963, resulting in a legacy of intense tribal rivalry for power and control of state resources in the postcolonial period, what Berman (1998) called “the politics of uncivil nationalism” (405). The colonial legacy and the rivalry among the tribal groups made liberalization in Kenya, to the extent it occurred during the Moi presidency, more a function of these intrinsic domestic factors than external actors.
The political structure, social relations, and general conduct of the polity handed over to the political elite gave rise to deep ethnic divisions, which were manifested in intense ethnic politics and became one of the focal points of Kenya’s postcolonial politics. Ethnic divisions led to the creation of parties along ethnic lines, which later contributed to the marginalization of certain parties, which translated into the marginalization of certain ethnic groups. Alemazung (2010) notes that:

Ethnic groups who feel marginalized often develop feelings of revenge and hatred against those who enjoy socio-economic well-being from the resources of their [state] because of their affiliation to the ruler (the ‘owner’ or ‘controller’ of the national cake) based on clientelist politicking (65-66).

Kenya experienced this type of ethnic fragmentation as the different ethnic groups exerted pressure on the state to reform.

By the time Kenya gained independence from Britain in 1963 ethnic tension was primed to be a major factor in national politics and political leaders sought to consolidate their respective tribes and parties. The Kikuyu and Luo elites, who saw Nairobi and urban areas as central to strengthening their political dominance, catered to the prevailing interests there—the financial industry and large landowners who engaged in agricultural trade. The efforts of the other parties centered on smallholder interests in rural areas, as the smaller ethnic groups were limited to these areas. It became an intense struggle among leaders of these ethnic-based parties for the control of the state and its resources and Kenya’s first two post-colonial presidents exemplified the practice of ethnic rivalry (Ndegwa 1997).
2.6 Ethnic Affinities and State Resources

Jomo Kenyatta, a member of Kenya’s largest tribe, the Kikuyu, served as prime minister during the transition to independence and became the first postcolonial President. A resident in Britain for 15 years, Kenyatta was well versed in British politics and used his familiarity with Britain to influence public opinion about Kenya and against colonialism in Kenya. He was one of the leaders of the Mau Mau rebellion (1953-56) and one of the negotiators with Britain for Kenya’s independence. He was elected President 1964 and served as president until his death in August 1978 (Branch and Cheeseman 2006).

Kenyatta ran KANU and the state as client-patron operations. Amutabi (2009) notes:

Kenyatta perfected the reward system and ‘divide and rule’ policies which had been used by the colonial system. He rewarded those who supported him and was often accused of engaging in some form of ‘Kikuyunisation’ or negative ethnicity in the process (58).

Kenyatta’s efforts to “Africanize” the civil service agencies favored his ethnic group in filling the posts. Ministerial and cabinet posts went to Kikuyu members, including Commerce, Planning and Development, and Education Ministries. Kenyatta’s critics and potential challengers were marginalized, or worse. In addition to being removed from their positions, some were detained and served long prison sentences; others were killed or died under suspicious circumstances (Amutabi 2009).
His policies disproportionately benefited members of his ethnic group, who were favored with opportunities in the private sector such as joint ventures and appointments to directorship and management of businesses. During President Kenyatta’s presidency (1963-1978), Kikuyu representation in permanent secretary positions was 31 percent and averaged 29 percent of cabinet posts while they represented 21 percent of the population. The Kalenjin held 6 percent of permanent secretaries; the Kamba, Luo, and Luhya, had 13 percent, 12 percent, and 9 percent respectively (Kanyinga 2004).

Parastatals such as the Industrial and Commercial Development Corporation and the Kenya National Trading Corporation, two key agencies designed to provide credit and other technical support to Kenyan entrepreneurs, were under the control of Kikuyu political appointees and many of their services were extended disproportionately to Kikuyu entrepreneurs versus entrepreneurs from other ethnic groups. In addition, land issues were settled in favor of Kikuyu members. Kenyatta settled large numbers of Kikuyu people on ex-settlers’ farms in the Rift Valley, historical areas of non-Kikuyu tribes (Bigsten and Moene 1993; Ogachi 1999).
2.7 Private Property Rights to Land

The arguments for land tenure reform were similar to those made in favor of liberalizing any sector of the economy. The proponents argued that in order for any agricultural development program to be successful, it had to be based on policies that addressed land tenure more than on actual agrarian reform. They argued that individualized ownership was the key to investment, especially in rural or small-scale farming. It was argued that individualized land tenure would make it easier for farmers to have access to credit and other farm-related services such as research and extension. Privatization and individualization of land was also considered important because it would restrict state intervention, which was said to distort market forces. Individual landowners would be left unencumbered to make rational choices about the use of their land (Dorner 1972). In order for a liberalized land tenure to become a reality, the proponents of liberalization had to dismiss customary and communal ownership as lacking the incentives of a privatized system to foster investment and innovation in agriculture. In the proponents’ view, the customary system was lacking because individuals had no incentive to invest and improve the land since the returns on their investment would also be enjoyed by others in the community. Because of these shortcomings in Kenya’s customary ownership system, an individualized and private system was said to be best suited for agricultural development (Harrison 1987).
From 1963 to the mid-1970s, the postcolonial government continued on the path to land tenure reform and support to farmers in three ways. The African leaders were convinced that these were the best ways for agricultural development. They sought to support smallholder farmers and believed that in order for such support to be sustainable farmers should have individual rights to land ownership. The first step in the process was to introduce legislation moving land use from a customary or indigenous system to one of individualized, private property system. Second, some of the ex-settlers’ agricultural lands were distributed to small farmers. The change to private property rights allowed smallholder farmers to register their land, receive title, and use the title as collateral for access to credit to whatever extent possible. Third, the leaders encouraged *Harambee* (self-help) projects (Burgess 1997).

Table 2 below outlines the legal framework that moved Kenya away from a customary system of land rights to one of an individualized property rights system (Bank 1969; Bank 1998).
Table 2: Laws Affirming Individual Land Rights

<table>
<thead>
<tr>
<th>Customary Land Tenure Practice (Policy Before Change)</th>
<th>Change Year</th>
<th>Statutory Land Rights (After Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land belonged to whole tribe and grazing areas used by the community. This type of tenure could not induce individual interests to generate market activities.</td>
<td>1963</td>
<td>The Registered Land Act Made it legal for land to be owned privately and registered in an individual’s name. This type of tenure could induce individual interests to generate market activities.</td>
</tr>
<tr>
<td>No system linking large farms/estates once owned by white settlers in the Highlands, Rift Valley, and other parts of the country.</td>
<td>1964</td>
<td>Land Trust Act Ex-settlers lands were turned over to the state to be held in trust for the Kenyan people.</td>
</tr>
<tr>
<td>Customary system made it difficult for individual to divide land. Division may be useful to sell in parcels, which would facilitate land markets.</td>
<td>1967</td>
<td>Land Division Act Gave individuals the right to sub-divide their land.</td>
</tr>
<tr>
<td>Lack of legal institutions to adjudicate land settlement and disputes.</td>
<td>1968</td>
<td>Land Adjudication Act Created judicial systems to resolve land disputes and other related matters.</td>
</tr>
</tbody>
</table>

The settlement lands were returned to the government through negotiation, with Britain acting as the representative of the settlers. Some parts of the land were earmarked to be transferred to individual households and other parts were to be held in trust. President Kenyatta, understanding that he had to shore up his internal supporters, primarily drawn from his Kikuyu ethnic group, designed a system favorable to the Kikuyu to have access to settlement land, especially in the Rift Valley and Central Province. From the early 1960s to the mid-1970s, the government
instituted a series of land transfer programs. Table 3 lists the land transfer schemes most discussed in Kenya’s history.

Table 3: Land Transfers

(a) Small Holder Settlement

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Area (hectares)</th>
<th>Num. of Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Million Acre</td>
<td>490,707</td>
<td>35,401</td>
</tr>
<tr>
<td>Harambee</td>
<td>6,259</td>
<td>431</td>
</tr>
<tr>
<td>Haraka</td>
<td>57,080</td>
<td>15,480</td>
</tr>
</tbody>
</table>

Source: (Maxon 1992:275)

(b) Large Farms

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Area (hectares)</th>
<th>Num. of Holdings</th>
<th>Num. of Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ol Kalou</td>
<td>56,000</td>
<td>86</td>
<td>2,000</td>
</tr>
<tr>
<td>Shirika</td>
<td>108,627</td>
<td>105</td>
<td>12,000</td>
</tr>
<tr>
<td>Private Sale</td>
<td>600,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: (Maxon 1992:275)

These tables show the amount of land transferred from settlers to the government, which then distributed it to families. For example, the Million Acre Scheme consisted of 490,707 hectares of land. The government divided the land into 35,401 holdings and then distributed them to families. Transfers in Table 3(a) became central to Kenya’s smallholder agricultural production which accounts for the vast majority of Kenya’s total agricultural output (60 percent of Kenya’s tea, Arabica coffee, and milk) (Ochieng 2006; Ponte 2002; Kenya 1988).
Government officials were responsible for assigning the plots to individuals or families on a case-by-case basis. Those who received a parcel were granted 30-year mortgages at 5 percent interest, payable to the central government. A Central Land Board was established to secure the titles of the land until the new owners met their financial obligations. As early as 1966, approximately 20 percent of the land in the Highlands had been transferred to smallholder farmers through the various state-financed and/or supported programs. In addition to these state-run programs, the Kenyatta government also encouraged the creation of land buying companies (Boone 2009).

The land buying companies (LBCs) were either strictly private or public-private partnerships. They bought or leased large farms or estates from the government and parceled them out to individual families. According to Maxon (1992), more than 70 percent of large farms were in the Rift Valley. Most of the LBCs were owned by influential members of Kenyatta’s ethnic group and government supporters who bought much of the land through state-provided financing. Large numbers of Kikuyus bought lands from these LBCs and settled in the Rift Valley. Leaders of other non-Kikuyu ethnic groups, including Vice President Jaramogi Oginga Odinga (Luo) and Minister Ronald Ngala (Mijikenda), complained about lack of transparency and public corruption in these processes and those who traditionally occupied the Rift Valley protested Kikuyu encroachment. Unhappy with their criticisms, President Kenyatta marginalized these leaders. Odinga was forced
out of the vice presidency and Ngala died suspiciously in a roadside accident (Amutabi 2009; Boone 2009).

This history of land tenure reform under President Kenyatta—transfer from settlers to the Kenyan government and from the government to individuals to hold privately—set in motion two issues that would come to define Kenyan politics for decades (and still does today). The first was distrust of the Kikuyu community by non-Kikuyu groups in the Rift Valley who considered the land tenure system established by the Kenyatta government to unjustly favor the Kikuyu. The second, related to trust, was the way in which President Kenyatta forced Vice President Odinga out of his government in 1966 over issues of corruption and macroeconomic development policies. Kenyatta’s intolerance of dissent set a precedent, later followed by Moi as president (Amutabi 2009).

 Liberalization of land ownership tenure encountered a series of domestic challenges. One of the main challenges had to do with tradition. Despite the new laws allowing individualized land ownership, the farmers’ perception and understanding of the content of individualized land rights and the power they had did not change. This perception was strongest among smallholders. Part of the argument for moving away from customary land ownership to an individualized one was that the latter would eventually give rise to a land market as individuals were able to sell and/or buy parcels of land. The Registered Land Act of 1963 specifically made the
point that the right of the individual superseded all other rights not officially mentioned in the register. As part of the reforms, the Act converted all “customary rights of occupation” into tenant rights of one year. This change gave the registered owner the power, after a year’s notice, the right to terminate the occupancy of any tenant (Okoth-Ogendo [No Year]).

The reform also countered two other problems. First, Okoth-Ogendo’s research showed that smallholder farmers did not know how to value their lands. When asked hypothetically, how much they would ask for a plot if they had to sell it, most of them named such a high price that it would automatically price them out of the market. To these farmers “the land was still regarded basically as a ‘family investment’ and one that could not be parted with [except] in exceptional circumstances” (7), which may explain why they would ask such a high price for it. It may also be symbolic of the notion that the land was considered priceless.

Second, the reform law faced the challenge of lineage ties. Okoth-Ogendo surveyed farmers in Kisii and South Nyanza who were living on lands for which they did not have registered titles. The research found that 95 percent of the farmers said they were on a particular land because it belonged to their familial lineage. They also noted that “since the registered proprietors themselves had received the land more often by inheritance or family partition than by purchase or gift, they had no moral right to exclude other members of the family from it” (7). Despite reform, many
farmers expected the customary principles around land use and other practices to remain. For some tribes the possibility that they could be removed by registered landowners from the land on which they had lived for generations was startling.

Table 4 lists responses of respondents to a hypothetical question asking what they would do if a registered owner of the land they were living on were to ask them to leave. The respondents were unregistered tenants in Kisii and South Nyanza, both in southwestern Kenya.

Table 4: Unregistered Tenants’ Reactions to Hypothetical Survey Questions

<table>
<thead>
<tr>
<th>Reaction of unregistered tenants to hypothetical question: what would you do if a registered owner of the land were to ask you to leave?</th>
<th>Kisii N=64</th>
<th>South Nyanza N=23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can’t conceive of being asked to leave the land</td>
<td>28%</td>
<td>87%</td>
</tr>
<tr>
<td>Would demand his/her share from the registered owner</td>
<td>55%</td>
<td>5%</td>
</tr>
<tr>
<td>Would move willingly</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Would go to court</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Would buy land elsewhere</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

In the view of these tribal members, registered landowners “had no exclusive rights to the land” (Okoth-Ogendo [No Year]:8), they simply couldn’t fathom being asked to leave, and the majority would not do so willingly. These data indicate that the farmers in these parts of the country did not accept the notion of private, individualized property rights. The low numbers of those who said they would go to

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5 Author turned statement into question form.
court also indicated lack of enthusiasm for and/or trust in or understanding of the legal system to address land issues.

In addition to affecting farmers’ attitudes regarding land rights, customary traditions also influenced how the Land Control Boards adjudicated land disputes. Many Land Control Boards refused to approve complete transfers of land or subdivisions (despite the existence of laws making these transactions legal) unless family members approved. There were many instances where the Land Control Boards required applicants to bring family members as witnesses to prove consent to land transactions (MacKenzie 1986). In some cases, even if family members granted approval, the family had to show ownership of land elsewhere to ensure “alternative means of subsistence” (Okoth-Ogendo [No Year]:8). The requirements of having the approval of family members and/or proving credible proof of other means of subsistence negated, or at least severely minimized, the power of the legal registry. The legal registry was developed to help reduce the burden on landowners. Once they could show that the land was indeed theirs, traditional customs were not supposed to hinder what landowners could do with their property.

These reforms were happening in an environment where many ethnic groups believed that they had suffered major injustices. They believed they first lost their land to the white settlers and then to Kikuyus in the immediate years after independence with this individualized land tenure system and through the land
buying companies. A summary of this sentiment of deep resentment of Kikuyus was reported in *The New York Times* after the post-2007 election violence. This statement is relevant to Kenya any time since independence:

In the Rift Valley, the anti-Kikuyu grudge goes back to independence, when the British government bought out Britons who owned huge, picturesque farms. But instead of redistributing that land to the impoverished people who had lived here for centuries, like the Kalenjin and Maasai, the newly formed Kenyan government, led by Jomo Kenyatta, a Kikuyu, gave much of it to Kikuyus from other areas (Gettleman 2008).

2.8 Conclusion

This chapter presented a historical overview showing how colonial policies and practices led to the marginalization of Kenyans. Internal pressures from tribal groups caused the colonial authorities to reform granting more freedoms and rights to Kenyans. The legacies of the colonial period carried over to the first postcolonial government. One of the primary commonalities between the colonial and the Kenyatta governments was that their policies favored certain groups at the expense of others. Another legacy of the colonial system that filtered to the postcolonial government was the system of private property rights to land. In both periods some groups were advantaged at the expense of others, contributing to deep ethnic divisions and internal tensions.

The internal tensions and rivalry, as shown in the chapter, filtered into other areas of society, primarily in public employment and other uses of state-owned
resources, which deepened state intervention in the economy, setting the context for the trajectory of Kenya’s liberalization under the Moi government after the death of President Jomo Kenyatta in 1978. By explicating the nature of the internal actors, policies and practices during the colonial and Kenyatta governments, this chapter shed light on and set the context for the actors that were to become key players in the efforts for liberalization in Kenya. In essence, one cannot fully understand the internal factors that forced Kenya to liberalize without a good grasp of the linkages between the colonial government, the Kenyatta government, and the Moi government. The next chapter furthers the examination of the influence of the policies and practices of the Kenyatta government on the Moi government and how these issues contributed to Kenya’s movement toward liberalization.
CHAPTER THREE
MOI, POLITICAL AND ECONOMIC PRESSURES: KENYA MOVING TOWARD REFORM

Kenya has numerous tribal groups varying greatly in their size and development, and among all the consciousness of separation remains prominent. Not only has the tribe continued to command the loyalty and identity of most individuals, but social and political changes have encouraged this (Gertzel, Goldschmidt, and Rothchild 1972:103).\(^6\)

Daniel arap Moi, Kenya’s second postcolonial president, was a pivotal figure on the country’s path to political and economic liberalization. He inherited a government dominated by members of a rival tribe who did not trust him and did not want to give up any of the control and power they had. This chapter explores the Moi presidency, how he marginalized Kenya’s politically active ethnic groups, primarily the Kikuyu and Luo, after he came to power in 1978, and how internal and external pressures forced him to concede to liberalization. The chapter concentrates on the Moi presidency (1978-2002) because that is the focus of this dissertation and it was also the period in which the World Bank and the IMF began a concerted effort to liberalize Kenya’s economy.

Daniel arap Moi was a member of the third largest tribal group in Kenya, the Kalenjin.\(^7\) He had been in politics since before independence, first elected to the Legislative Council in 1955 to represent the Rift Valley and in 1960 he was one of

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\(^6\) Italics, mine.

\(^7\) He is still alive.
the two principal founders of the Kenya African Democratic Union (KADU) Party. After independence, President Kenyatta appointed him Minister for Home Affairs and in 1967 he was named Kenyatta’s Vice President.

Despite serving as Vice President for over a decade, Moi was considered an outsider to Kenyatta’s allies. As Kenyatta neared death, his allies sought to change the Constitution to bar automatic succession of the vice president to the presidency. To counter their campaign, Moi launched a campaign of his own, traveling the country promising the politics of Nyayo—to follow in the footsteps—implying that he would follow in the footsteps of Kenyatta. Moi’s campaign was successful, the “Change the Constitution” movement failed, and he became president after the death of Kenyatta in 1978 (Throup 1993).

Once in power, however, President Moi sought to break the Kikuyu and Luo political dominance by uniting the other Kalenjin-affiliated ethnic groups—the Nandis, Marakwets, Keiyos, and Pokots—as a way to counter the Kikuyu and Luo. Part of his effort involved breaking the Kikuyu Central Association (S. Ambrose, personal correspondence, January 15, 2012). Throup (1987) described the Kikuyu Central Association as involving a group of “proto-capitalists” which, during the Kenyatta reign, “legitimized the accumulation of land and capital […] within the framework of a revitalized traditional mythology” (6). President Moi’s strategy of marginalizing the Kikuyu elite also involved breaking up the Gikuyu, Embu, and
Meru Association (GEMA), a group that was considered to be the strongest supporters of former President Kenyatta and protectors of Kikuyu dominance (Kanyinaga 1994).

3.1 **Ethnic Rivalry**

Moi came to power in a climate of deep-seated ethnic rivalry, a rivalry that began in the 1950s as preparations were being made for Kenya to be transferred from the colonial government to the Kenyan nationalists. Ethnic-affiliated community associations that were created prior to independence were transformed into political parties but retained their ethnic affinities. Rivalry over land, public employment, and overall control of the state festered among the three political and/or economically relevant groups: Kikuyu, Kalenjin, and Luo. Many of Kenya’s tribes viewed the Kikuyu as being the most advantaged and resented it. Barkan (2011) explains this resentment of the Kikuyu as a direct legacy of the colonial government which established “a system of racial segregation” and built an economy around the white settler communities. “The British then concentrated infrastructural and economic development in the settler areas and in Nairobi to support the settler economy,” including social services and education (4).

Kikuyu benefited the most from these services by virtue of residing in the closest proximity to settler areas. “Over time the Kikuyu became the most educated
group, a position they have never relinquished and that has been protected and encouraged by Kikuyu leaders throughout the post-independence period” (Barkan 2011:5). They enjoyed a disproportionate share of the country’s middle class wealth and privileges and other ethnic groups tried to limit their political and economic power and influence.

The Kenyatta administration had major implications for the political and economic structures that came about under the subsequent Moi administration, including the emergence and nature of political dissent. Holmquist, Weaver, and Ford (1994) have called it the “politics of dissent under the label of democracy” (71). Similar to Kenyatta before him, Moi pursued “clientelist politics informed by a strong ideology of ethnic competition” (Holmquist, Weaver, and Ford 1994:80), which led to a de jure one-party system in 1982. Corruption, economic decline, political repression, and a general sense of malaise and fatigue with the authoritarian President Moi empowered domestic actors from various sectors of society to organize, develop and extend protest- and self-help organizations to demand political and economic reform during the period from 1982 to 2002.

Ethnic rivalry filtered through the political discourse in Kenya especially when people thought they were in “safe” company, or in “polite political discourse.” Individuals from one ethnic groups would precede an insult of a rival from another ethnic group, for example, with “people of the milk” to refer to the Kalenjin and
Maasai, both pastoralist livestock-rearing tribes; a “certain community” or anything associated with Mount Kenya to refer to the Kikuyu, who concentrate in that area; and “the people of the lake” or “those from the west” to refer to the Luo who live along the basin of Lake Victoria (Email correspondence, Ambrose 2012; Wong 2009).

Favoring of Kikuyu changed when Moi became president. During the Moi presidency (1978-2002), the percentage of permanent secretaries filled by Kalenjin increased from six percent to between 22 and 30 percent. The share of positions held by the Kikuyu dropped to 20 percent from around 30 percent and declined further to 10 percent between 1994 and 2001. These distribution patterns were also reflected in the civil service sector (Kanyinga 2004). These changes reflected how the state and state resources were used to support the ethnic groups of the presidents.

Interviews for this research in Kenya in July 2010 revealed continued resentment among former civil servants (Kikuyu) for losing their positions under the Moi government. They recounted how positions in the civil service sector were based on tribal affiliation. One Kikuyu woman recounted how she was laid off or “forced to retire” in the 1980s “by Moi” and was “replaced by one of Moi’s people,” illustrating what scholars have broadly explained in the literature about Kenya and ethnic politics (Holmquist, Weaver, and Ford 1994; Jonyo 2002; Klopp 2001). This deeply rooted ethnic rivalry played a major role in the debates about liberalization
and the extent to which it took place in Kenya. The rivalry and competition to catch up with the Kikuyu politically and economically in a country with limited opportunities was central to other groups’ efforts to gain control of the state—since such control was the best way to achieve wealth and prestige.

3.2 Harambee

The deeply rooted tribal tradition of *Harambee* gained official recognition and institutional prominence in 1963 when President Kenyatta used it to praise the importance of collective voluntary initiatives in development projects. Communities organized themselves and their resources in *Harambee* to build local schools and health clinics, to dig wells and cattle dips. In 1976, a government study found that *Harambee* contributions accounted for 40 percent of capital development in rural areas, and in 1986, it was estimated that *Harambee* provided between four and ten percent of the government’s annual development expenditure (Kenya 1988:29). Over time, *Harambee* initiatives became heavily political; as they grew, their projects became more important to development. Even though *Harambee* projects traditionally received government support, member contributions in the form of cash and labor, especially in the first decade after independence, were their principal source of support.
Harambee became closely associated with President Kenyatta, especially the community-based, collective or development- from- below approach. He perceived this type of community organizing to help each other as indicative of Kenyan culture. As the leadership of KANU began to shift from Kikuyu to Kalenjin when Moi came to power in 1978, tension in Harambee began to emerge. Ngau (1987) argued that the tensions were the result of changes in how the political elites and professional class would have to relate to Harambee to build political constituencies as they sought public office and access to the state. These intense tensions emanated “from the realities of Kenya’s class structure, especially the role of the elite in self-help leadership, and from bureaucratic and professional behavior patterns of the Kenyan government” (Ngau 1987:528).

The political significance of Harambee was that after independence it became one of the primary means by which politicians could establish constituencies by supporting and even initiating community projects, and through their influence in the government and/or private sector raise funds for them. As a result, communities that needed projects had them undertaken; local civil servants advanced their careers as development agents, and some local elites used Harambee funds for their personal use. The Moi government increased its scrutiny and regulations of Harambee in 1979 through the Ministry of Social Services, local and regional community development committees (CDCs), and by demanding a number of requirements before communities could work on Harambee.
Related to that major shift between the Kenyatta and Moi periods with respect to the operation of Harambee was the shift in type of contribution, as President Moi sought to undermine the Harambee movement to restructure it to fit his politics of Nyayo. As Moi consolidated his power, the concept of Nyayo came to be understood by the political elite as politics from the top down or the politics of following orders from the top as opposed to Harambee, with its bottom-up approach. As a result, the form or type of member support (labor and cash) changed.

During the Kenyatta presidency, people supported Harambee primarily by contributing their labor to community-based projects. Contributing one’s labor to Harambee was an indication that people approved of the projects, wanted to be associated with them, and wanted to see them completed. During the Moi presidency, on the other hand, contributions were predominantly cash, which could be more easily reallocated and used for different projects and purposes. The increased proportion of cash in the movement, from 42 percent in 1965 to 68 percent in 1984, created an environment more conducive to corruption. This change in Harambee and other changes requiring government approval of certain projects were viewed as a shift in how the Moi government planned to relate to wananchi (the citizenry)—micro managing and more heavy-handed than Kenyatta. People began to disassociate themselves from the movement as it was becoming closely linked with the Moi government. Corruption by the political and economic elite was on the rise and people felt increasingly marginalized by the regime (Ngau 1987).
Government intrusions into and restrictions on the Harambee movement, embezzlement, and corruption led to frustration and resentment. Communities became disillusioned and demanded reform of Harambee as a conduit to demanding reform of the Moi government, especially corruption. To assuage these demands, President Moi issued a code of ethics for leaders engaging in Harambee projects. As Harambee was associated with President Kenyatta, a Kikuyu, the Kikuyu community viewed President Moi’s restrictions and intrusions as a threat to them and their Harambee. This call for Harambee reform became part of the call for broad reform of government institutions and policies. Their demands were framed as being necessary to combat corruption in all sectors and to generate economic growth (Ngau 1987).

3.3 Economic Decline

As Gourevitch (1986) notes, the “fat years and the lean ones are, of course, interconnected.” They both force change, but “it is the crisis years that put systems under stress” (9). This basic observation of the ability of crisis to test systems, in Kenya’s case, economic crisis, is very appropriate to the Moi government in the 1980s as it struggled to navigate the pressures to liberalize, including pressures from a rapidly deteriorating economy caused by falling world commodity prices and steep increases in world oil prices. To ensure that his presidency was not undermined by
his Kikuyu rivals, President Moi anticipated eventual economic reform, but whatever the nature of the reforms, he did not want to be left weakened and unable to control public resources for political advantage.

However, the pressure caused by economic decline, ethnic rivalry, public corruption and repression limited Moi’s ability to resist and delay liberalizing reform in the 1990s. As scholars such as Holmquist et al. (1994) have noted:

The economy slowed down in the 1970s, hampering the regime’s ability to use patronage to stem opposition. This became a greater problem as the 1980s wore on. […] By 1982, the economy was in further decline and the number of strikes increased (91).

As a result, the government was not able “to maintain a large state sector and juggle political tensions generated by the economic sectors and ethnic calculations in a strategy of rule” (ibid.).

The first ten years of Kenya’s independence are sometimes referred to as the “Golden Years” because of the country’s impressive record of economic growth and social progress. During that decade, the country saw respectable economic growth, as GDP averaged 6.6 percent per year and per capita income grew at an average rate of 2.6 percent annually. The decade of 1980-1990, on the other hand, is sometimes referred to as the “Lost Decade,” as it was characterized by economic decline and
increased social and political unrest leading to political and civic groups agitating for reform. The period of economic decline started in the mid-1970s following the first oil shock of 1973 and grew progressively worse in the 1980s. Between 1980 and 1989, the average rate of per capita income growth was only 0.4 percent, and between 1990 and 1995, the rate fell to -0.3 percent (Kenya 1997).

The Kenyan government reported that from 1980 to 1996 there had been virtually no improvement in the living standards of the population and the welfare of the majority of people, in fact, had declined as measured by the increase in the number of Kenyans living below the absolute poverty line. Moreover, the number of the unemployed and underemployed rose during the same period, 1980 to 1996. Employment opportunities were not being created fast enough to keep up with an expanding labor force. More than 300,000 youth were joining the labor market every year but only 7 percent of them would find employment. Throughout the 1980s Kenya’s capital stock fell to 2.7 percent annually, compared to a yearly average of 7.1 percent in the 1970s (Kenya 1997). Youth employment later became one of the major reasons behind students’ protests and demands on the Moi government for reform.

In addition to the oil shocks of the 1970s, the decline of Kenya’s terms of trade, domestic inflation in the early 1980s, and general policy mismanagement also contributed to the country’s economic downturn. Among the areas that many
complained were grossly mismanaged was the civil service sector. The government increased the public sector by creating extra positions in major ministries. While the government of Kenya always used the public sector as a way to issue largesse to political supporters, the scale of expansion rose significantly in the 1980s. Between 1974 and 1984, excluding teachers, total wage employment in the national government increased by 7.4 percent annually compared to 2.8 percent in the private sector. As a result, public employees’ salaries as a share of recurrent government expenditure increased from 47 percent in 1979/1980 to 60 percent in 1984/1985. Salaries in the Ministry of Agriculture and Livestock Development rose the most, from 60 to 90 percent. Rising oil prices also took an enormous toll: by the end of 1980, Kenya was spending 50 percent of its foreign exchange earnings on oil while at the same time prices of commodities such as coffee and tea were in decline (Kenya 1988:32).

Another economic driver of reform had to do with the state’s budgetary difficulties, one of the most significant of which was high levels of loss generated by state-owned enterprises. Kenya invested an estimated USD $1.4 billion in its parastatals between 1963 and 1984. This assessment was confirmed in 1986 in a study of 16 major Kenyan agricultural and agro-industrial parastatals. The study showed aggregate losses for the years 1977 to 1984 totaling USD $183 million at 1986 exchange rates. An analysis of that investment showed that even with all of the “concessions and special privileges public enterprises in developing countries enjoy,
the rate of return on the estimated investment was 0.4 percent, which implies that a fair number of the enterprises have consistently been loss makers” (Nellis and Kikeri 1989:661). Many of these enterprises were grain marketing boards, a large portion of whose losses could be attributed to government pricing and purchasing policies. As these losses mounted, liberalization was viewed as necessary “to broaden the role of market signals and align relative prices more closely with those in world markets.” Among the key sectors that the government listed to liberalize were agriculture, industry and trade, and the financial sector. The Kenyan government called the need to reform, “a departure from previous practice” (Kenya 1997:4; Kenya 2002; Nellis and Kikeri 1989).

These economic challenges created enormous political and social pressures on the government and, in order for the government to be viewed as credible, new policies were necessary. The internal pressures for reform convinced the Moi government to seek outside assistance, as the country was in need of resources to implement any reform. It was then (1980) that Kenya accepted its first concessional loan from the World Bank.
As previously noted, when President Moi came to office, he quickly sought to consolidate his power. During the first three years of his government, many prominent Kikuyu were forced out of KANU. In 1982, following a failed coup d’etat against him, Moi made his most overt policy statement by amending Kenya’s Constitution to outlaw opposition political parties. The constitutional change made KANU the only legal political party in Kenya. Moi argued that the multi-party system encouraged ethnic discord, which was the same argument that President Kenyatta made in 1966 when he recruited leaders of other parties to join KANU. Leaders of the other political parties protested Moi’s constitutional change and were joined by civic and religious organizations condemning the one-party system. They accused President Moi of legalizing and legitimizing repression through one-party rule. Political opposition and civic leaders saw banning other political parties as closing the national political space. The government’s action helped strengthen and expand the base of opposition to President Moi’s policies and practices (Murungi 2000; S. Ambrose, personal communication, February 5, 2012)

The year 1982 marked the beginning of the period in which people opposed to the one-party system of government became increasingly public and vocal in their opposition. As political and civic leaders continued to condemn President Moi’s actions, he sought to further consolidate his power and influence by barring them
from politics or making it difficult for groups with which they were affiliated to operate, even disbanding some of them. President Moi used his executive power to disband the Kenya Union of Civil Servants, the Kikuyu-based Gikuyu Embu Meru Association and the University Academic Staff Union (UASU). When the government was criticized by the academic establishment, President Moi ordered a crackdown on university professors. Many UASU officials were detained without charges or indicted on charges under sections of the Preservation of Public Security Act (Murungi 2000).

Political leaders who voiced opposition to President Moi’s constitutional change were also detained. Among them, Raila Odinga, Kenya’s current Prime Minister and son of Jaramogi Odinga who was Kenyatta’s first Vice-president, was charged with treason. Other prominent anti-single party rule activists were detained without charges though many of them were later released. Others were tried and received long prison sentences. In addition to political leaders and activists, the religious community emerged in opposition to one-party rule as well. A key figure in this effort was Reverend Timothy Njoya from St. Andrews Church in Nairobi. In one of his sermons, Reverend Njoya called on President Moi “to abolish detention without trial during peace time and to invite dissidents, detainees, and exiles…for dialogue” (Murungi 2000:17).

Rev. Njoya was, in effect, one of the first in Kenya to oppose one-party rule, and was arrested numerous times for his activities challenging the government.
Another in the religious community recruited to support reform was Bedan Mbugua, the former editor of the National Council of Churches of Kenya's (NCCK) magazine Beyond, who would later become very important in the official political opposition party, Forum for the Restoration of Democracy (FORD) (Kanyinga, Kiondo, Tidemand, and Gibbon 1994).

By 1990, student and opposition protests that first started in Nairobi and surrounding areas, which were predominantly Kikuyu and Luo, spread to other locations throughout the country. In addition to economic hardships, protestors’ concerns ranged from conditions at public universities to political assassinations. When demonstrations were characterized as political, the government resorted to coercive force to suppress them. Popular protests against the Moi government intensified when mourners at Foreign Mister Robert Ouko’s funeral were fired on by paramilitary forces, allegedly at President Moi’s order. Minister Ouko was allegedly killed by government security forces close to President Moi because he was close to completing an inquiry into public corruption in which close associates of the president were said to be involved in graft and theft of public resources (Bratton and Walle 1992).

These protests culminated in what was known as saba saba (seven seven), referring to July 7, 1990, the day a protest in favor of multi-parties in Kenya was scheduled in the Kamukunji neighborhood in Nairobi. On the eve of the gathering,
the leaders of the movement, including Kenneth Matiba, Charles Rubia, and Paul Muite were arrested and detained and thirty people were killed. The opposition became extremely intense as more people began to express more public opposition to the Moi government (Gekara 2010; Ochieng 2010).

3.5 *External Pressure as a Complement to Internal Pressure*

International financial institutions (IFIs) have played a role in Kenya’s economy since the early 1960s. The World Bank gave Kenya its first financial support in 1960 during the transition from colonialism to independence. Its first agricultural sector loan of $8.4 million was issued in 1961 and between 1961 and 1997, the Bank provided 41 loans or credit to the Kenyan government to develop and liberalize the agricultural sector. The IMF provided its first postcolonial financial assistance to Kenya in 1973. From 1975 to 2000 the IMF’s Board of Directors approved 12 additional loans for Kenya. *Appendix C* presents a list of World Bank loans to Kenya for the agricultural sector since 1960 and *Appendix D* lists IMF’s loans (Bank 1998; Musa and Savastano 1999; O’Brien and Ryan 2001).

The purpose of World Bank and IMF assistance was liberalization to generate economic growth and to facilitate political stability. They were only marginally successful, however, in achieving these goals in Kenya. The World Bank conducted
an evaluation of its various assistance programs in Kenya from 1961 to 1997 and assessed many of its programs there as unsatisfactory. While its 1986 agricultural capacity-building program was assessed marginally satisfactory, 30 of 41 programs were evaluated in 1998 and 50 percent of them were assessed unsatisfactory. The World Bank argued that the poor performance of its projects in the 1970s and 80s was due primarily to the poor macroeconomic and domestic agricultural policy environment that existed under the Kenyatta and Moi governments. Both the IMF and World Bank used their funding as leverage to press for economic reform. When Kenya signed on to the IMF/World Bank’s structural adjustment programs (SAPs) in 1980, one of the conditions was to reform Kenya’s National Cereals and Produce Board (NCPB). Despite receiving a number of loans, however, the NCPB went without significant reform until 1992 when private investors were first allowed to enter the grain market (Bank 1998).

Earlier loans had been extended to Kenya as a response to the first oil price shock of October 1973. The government received a concession loan in 1979/80 to help stabilize its economy and to allow it space to begin its reform process. This loan was followed by two agricultural sector loans in 1982 and 1986 both of which were conditioned on Kenya reforming the sector. After the second world oil price shock in 1979, the IFIs shifted their focus from agricultural project lending to policy reform in Kenya. The IFIs expressly “aimed to liberalize agricultural pricing and to improve economic efficiency in agricultural marketing.” The loans were also given “to boost
project planning and management capacity, including some land policy reform” (Bank 1998:21).

Donor funds to Kenya averaged 9 percent of GDP between 1970 and 1999, which accounted for about 20 percent of the annual government budget and financed over 80 percent of the country’s development expenditures. Aid flow increased significantly over time, from an annual average of US$205 million in the 1970s to slightly over US$1 billion in the 1990s. The aid inflows exceeded the total receipts from all other foreign exchange earners and at the same time Kenya was ranked the eighth-largest aid recipient in the world (Mussa and Savastano 1999; Njehu 2003).

As financial aid to Kenya increased, the conditionality terms of these loans became increasingly stringent. The tightening of the terms, however, only came about after President Moi came under intense domestic pressure to reform. From early 1989 through the summer of 1990, internal pressure and demands on Moi to allow multiparty politics and elections had increased. The government responded to the internal pressures by cracking down on pro-multiparty activists on July 7, 1990, resulting in more than twenty deaths (Murungi 2000). The first IFI attempt, in line with domestic actors’ demands, to intensify pressure on the government came in November 1991 in Paris at the multi-donor Kenyan Consultative Group meeting. At that meeting, the donors agreed to suspend quick-disbursement aid to Kenya for at
least six months until the government made “improvements in terms of economic and political reforms” (Mailafia 1997:31).

The Consultative Group meeting also declined to commit any new financial support until “substantial” progress on the political and economic reform agenda had taken place. The lack of financial support affected the Kenyan government’s budgetary position immensely and led to an increased budget deficit. The government resorted to domestic borrowing from the banking sector. Government borrowing from domestic banks increased by 59 percent during the 1990-91 fiscal year (GOK 1992, Budget Speech).

In the midst of all the political and economic pressure on Kenya for reform, the IFIs added another conditionality: combating corruption. Addressing corruption became a major focus of the IMF and the World Bank’s engagement with Kenya beginning in the 1990s, as corruption became a prominent concern, especially with the revelation of the Goldenberg scandal.

The Goldenberg scandal, which is estimated to have cost Kenya $850 million, a fifth of the country’s GDP, involved government officials, members of President Moi’s family, and billionaire Kamlesh Pattni. In 1990, in an effort to revive the failing economy after the first Gulf War by encouraging exporters to repatriate their hard currency earnings, the government promised a 20 percent
interest rate on foreign currency deposited in Kenya’s Central Bank. Presenting his company, Goldenberg International, as a diamonds and gold export-processing agency, and with the complicity of some officials at CBK, several commercial banks, and the Ministry of Finance, Pattni manipulated the system and received a 35 percent fee on payment made by the treasury for the export of minerals from 1990 to 1993. It was discovered that the shipments never happened (Karanja 2003).

Once the scandal was made public, the IMF and other donors demanded an investigation and implementation of anti-corruption programs in order for Kenya to receive any financial assistance. The IMF notes that the “case was noteworthy for its size, the range of the channels used, its coincidence with the 1992 elections, and the lack of conclusive legal follow-up” (IMF 2011). In 2000, the IMF and other multilateral donors suspended the disbursement of $200 million in loans to Kenya after the government backtracked on its commitment to fight corruption. One interpretation of the government’s failure to follow up with any serious investigation was that it was not too concerned about the suspension of financial aid. That is, the lack of investigation was an indication that financial aid was not a primary factor in the government’s approach to dealing with public corruption (Karanja 2003).

The IFIs’ threat to withhold financial assistance to Kenya was nonetheless an important signal to Kenya regarding its failure to combat corruption, and such a signal helped to empower domestic actors who were agitating against public
corruption and other government abuses dating back to 1982 after the constitutional change to one-party rule. In defiance of the law against opposition political parties, the reformists created the National Democratic Party (NDP), “declaring that multiparty democracy offered the only hope for an end to corruption, economic mismanagement, and unaccountable government” (Barkan 1993:91). Civic organizations including churches and professional associations also were demanding reforms that included political transparency, political pluralism, and an end to public corruption.

The first major political success of the internal actors’ efforts toward liberalization of the political system was the repeal in 1991 of the section of the Constitution that had made KANU the only legal political party and provided for the formation of other political parties. This change was one of the most important features of political reform in Kenya since independence and paved the way for the first multi-party parliamentary and presidential elections under the new system in December 1992 (Kanyinga 2007). The second political victory was acknowledgment that public-sector corruption needed to be arrested. Opposition politicians and civic organizations, supported by the then highly constrained media, spent years criticizing the record of the Moi government on economic regulation, calling for purposeful reforms. By the late 1990s, Kenya’s Parliament had passed a number of laws to address public corruption. But by the time the IMF threatened, once again, to cancel
a $22 million loan package in 1996 if Kenya did not address corruption, domestic
groups had already forced the issue onto the national agenda (Jarso 2010; Ponce
1998).

The efforts of the domestic actors, with the support of pressure from external
actors, were very successful. Their major success was political pluralism. In Kenya’s
first contested, multi-party election in 1992, President Moi was reelected but only
with a plurality of the vote. He won the presidential election because the opposition
was split along tribal lines and unable to unite behind one candidate. Amutabi (2009)
noted that “many observers of Kenya’s political scene believe that it was the Kikuyu
factor that destroyed the opposition unity in 1992 allowing KANU to win the
election” (64-5).

Two years after the first multiparty election, a new alliance, the United
National Democratic Alliance, was formed. As the next multiparty elections
approached in 1997, the new alliance once again splintered along ethnic lines. This
split—which first happened with the political parties in the mid-1950s and
reoccurred in 1992 1997—highlighted the central role of ethnicity in Kenyan
politics. Moi won reelection again in 1997 because of the ethnic division and his
ability to successfully co-opt the opposition’s message. When the opposition parties
threatened to boycott the elections unless their demands for reforms were met,
President Moi pressed the Parliament to pass several of the reforms and promised to
work on additional reform initiatives. Furthermore, he managed to defuse some of their complaints in the summer of 1997 by agreeing to work on their demands. Moi managed to stay in power for ten years after the first multiparty elections in 1992 (Amutabi 2009; Wanyande 2007).

3.6 Conclusion

Moi implemented policies that favored his Kalenjin ethnic community at the expense of other ethnic communities. He behaved in ways similar to President Kenyatta, including repression of political opponents. The policies and behavior created resentment among the Kikuyu and Luo communities, but members of the Kalenjin community and Moi justified the policies as redressing historical wrongs done to them and other smaller ethnic groups during the Kenyatta presidency. For the Kikuyu and Luo communities, replacing Moi became an imperative. When the coup attempt against Moi in 1982 failed, they saw reform as their best strategy to politically weaken him and eventually defeat him and his political party.

The ethnic rivalry, corruption in *Harambee*, and economic decline aligned perfectly to create an environment where popular pressure served as the most effective tool to force the government to concede to liberalization. Internal agitation for reform reached a peak in the summer of 1990 as the government quelled popular
protests, causing international actors to come to the aid of the reformers and support their demands on the state. Pressure from the World Bank and IMF complemented the internal pressures and strengthened the internal actors, which further constrained Moi’s space to maneuver. This dynamics between internal and external actors in pushing the state toward liberalization played out in individual sectors of Kenya’s economy. The next two chapters present the agricultural and financial sectors, respectively, and illustrate how the different actors – internal and external – interacted to pressure the Moi government to concede to liberalization.
CHAPTER FOUR
PRIVATIZATION AND LIBERALIZATION:
AGRICULTURAL SECTOR REFORM IN KENYA

Scholars who have written about the spread of liberalization to the developing world over the last 40 years have credited the World Bank and IMF as the primary external actors driving this phenomenon. The consensus has been that these external actors have been able to force developing countries to embrace liberalization through conditionality. However, when examining the policy recommendations and evaluation reports of the World Bank and IMF’s programs, it is obvious that oftentimes there were no metrics to measure progress; the institutions had no way of identifying duplicate projects in countries’ requests for assistance; countries did not often adhere to the conditionality terms or implement the policy recommendations; and countries also continued to receive financial aid when the World Bank and IMF publicly said they would not provide assistance.

In the case of Kenya, the World Bank reported that it provided financial assistance to Kenya to carry out some of the same agricultural reforms five times. Easterly best made this argument and it is worth quoting at length:

There was no progress on economic reform indicators from one adjustment loan to the next in the same country (Easterly, 2002; Van de Walle, 2001). A common reason for aid to be given even after
conditions are violated is that with high political instability, a new government took power and was given a clean slate by the aid agencies. But there are a number of cases where aid was given repeatedly even to the same government in the same country. For example, World Bank reports on Kenya repeated a recommendation for increased funding for road maintenance in 1979, 1983, 1989, 1994, 1996, and 2000. A World Bank (1998) report noted that in Kenya “the World Bank provided aid to support identical agricultural policy reforms five separate times.” Yet the IMF and World Bank gave Kenya 21 adjustment loans during 1980-2000, all under the same regime of President Daniel [a]rap Moi. President Moi of Kenya got one conditional aid loan each from the World Bank and IMF in the year 2000, despite his poor track record and the new emphasis on selectivity (Easterly [No Year]:24).\(^8\)

The lack of rigorous assessment of proposals, lack of metrics to evaluate progress, and the lack of uniformity around reporting should temper the arguments that conditionality terms from these institutions were the main force pushing the Moi government toward liberalization. This chapter offers a different explanation, focusing on internal actors instead of these external institutions for Kenya’s liberalizing reforms in the agricultural sector, a sector that generates nearly 20 percent of Kenya’s gross domestic product, and on which more than 80 percent of the population relies for its livelihood.

This chapter begins by explicating the various ways in which the state could undertake privatization, a major pillar of liberalization. Liberalization in this sector involved privatization of state-owned agricultural parastatals, marketing boards and cooperatives and/or removing their monopoly powers so that private investors could

\(^8\)There is no date on the paper. It can be downloaded from: http://www.sscnet.ucla.edu/polisci/wgape/papers/3_Easterly.doc.
enter the market. This section is followed by a discussion of the importance of the agricultural sector in Kenya and how internal and external actors pressured the state to concede to reform. The chapter then focuses on the liberalization of Kenya Co-operative Creameries and the dairy market and highlights similar reforms in other agricultural market boards. The last section describes how pressure from a coalition of small-scale farmers and business groups and deteriorating economic conditions contributed to reforming public subsidy programs to farmers.

4.1 *Forms of Privatization*

Strictly defined, “privatization is the transfer of public sector assets and activities to the private sector” (Nyong'o 2000:2). Here, privatization refers to “policies aimed at transferring full or partial ownership and control of public enterprises to the private sector to encourage competition and emphasize the role of market forces in place of statutory restrictions and monopoly power” (Ngugi 2000:83). There are three broad forms of privatization: full or partial ownership, management, and decontrol or de-monopolization. The sale or transfer of state-owned companies could be affected through competitive bidding, divestiture, liquidation, or management buyout.
Full or partial ownership means that the government may sell a state-owned company to private investors outright or sell shares of the company through a process of competitive bidding. The bid is open to a number of potential investors who then compete to buy the shares. This method provides the state with the best opportunity to get the best deal. Competitive bidding can be the best way to assuage concerns over corruption and nepotism (Ngugi 2000).

The Moi government did not use this method because, it was assumed, few if any in the Kalenjin community had the financial resources or technical know-how necessary to make such investments. The best a Kalenjin could do in terms of large-scale investment was to partner with the existing international corporations in Kenya or domestic firms at the time. Such partnerships in Kenya were never secure, however, because such partnerships changed when the political environment in the country changed, along ethnic lines (Himbara 1994).

The government may also privatize a public company through divestiture by floating shares of the company through a formal capital market where individual investors can buy them. Among the advantages of this method is that it allows broad ownership, meaning more people in the public have the potential to purchase shares in the company provided the share price is affordable. The country, however, has to have a capital market, which Kenya had, and the company has to be considered viable to investors. Divestiture, according to Ngugi (2000), signals the “strongest
form of private sector commitment” (95). This method has many challenges, particularly its susceptibility to political pressure from lawmakers, current employees, and interest groups. It also requires high level of expertise in valuation, pricing, and all the “formalities in preparation of prospectus” and other application forms (ibid.).

The Moi government first used it in 1988 and 1990 for partial divestiture from the Commercial Bank of Kenya. The timing of these two rounds of privatization corresponded with the intense domestic pressure on the government to reform, a move that happened three years before the Kenyan government sought assistance from the IFIs for its parastatal Reform Program. The government reduced its ownership of Kenya Commercial Bank by 40 percent at the time of these transactions (Bank 2001).

The government was responding to public pressure regarding corruption. By spending resources and time to ensure that the valuation and pricing of parastatal privatization was done correctly, President Moi sought to calm popular calls for transparency, and hoped to reduce the political pressure on his government. Makonnen (2001) explains this same point:

In fact, considerable time and resources were devoted to valuations; and price was the single most important determinant in selecting investors in most cases. Selecting a bidder who offers the highest price renders it easier to convince observers that the process is transparent and thus provides political protection (5).
The *management buyout* method involves selling the company to existing employees who are able to secure financing through banks. Employees and managers become owners. A disadvantage of this method is that it is often used when the company is not able to go public through capital markets for a number of reasons, including uncertainty regarding its value. While the public may be uncertain about the value of the company, management may have an idea of how new infusion of capital can give it leverage. A disadvantage of this method is that it increases the likelihood that the company will be undervalued. The government may also decide to maintain the company but privatize management through a *management contract*. The issue of valuation remains but this method indicates that the government’s commitment to private sector participation is weak (Ngugi 2000).

*Decontrol* permits private businesses to enter the market to compete with or complement state-owned businesses. Ngugi (2000) argues that in this case, “if a competitive strategy is adopted, then market pressure may help improve the performance and commercial outlook of the public enterprise […]” (94). The Kenyan government used the decontrol method to a considerable extent especially in the agricultural sector as it did away with monopoly powers from several of the marketing boards and authorities.
4.2 Importance of the Agricultural Sector and Pressure to Reform

Eighty percent of Kenya’s land is arid or semi-arid where many of Kenya’s pastoral and nomadic tribes live and/or rotate throughout different seasons. They account for 20 percent of the population and own half of Kenya’s livestock. The importance of agriculture makes arable land a high-value asset, and a sensitive issue among the various tribal groups (Alila and Atieno 2006). Arable land is defined based on the amount of rainfall received per year. The land is ranked as high, medium, or low potential. An area is classified as high potential agricultural land if it gets at least 857 mm of rain per year. The land is classified as medium potential if it gets between 735 and 857.5 mm of year per year; and low potential receives 612.5 mm or less of rainfall per year (Obara 2000).

Of Kenya’s 44.6 million hectare area, only 8.6 million hectares are ranked as medium- to high-potential agricultural land. Of those 8.6 million hectares, 60% percent (5.2 million hectares) is allocated to crop and milk production. Milk production alone accounts for 47 percent of the 5.2 million hectares used for farming and maize, wheat, tea and coffee production for over 25 percent of this farmland (Kenya 1988). Given the importance of the dairy and cereal industries, these sub-sectors are the focus of this chapter.
Table 5: Agricultural Land in Kenya (‘000 ha; Population in ‘000)

<table>
<thead>
<tr>
<th>Region</th>
<th>High Potential</th>
<th>Med. Potential</th>
<th>Low Potential</th>
<th>Other Land</th>
<th>Total Area</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>909</td>
<td>15</td>
<td>41</td>
<td>353</td>
<td>1,318</td>
<td>3,882</td>
</tr>
<tr>
<td>Coast</td>
<td>373</td>
<td>796</td>
<td>5,663</td>
<td>1,472</td>
<td>8,304</td>
<td>2,623</td>
</tr>
<tr>
<td>Eastern</td>
<td>503</td>
<td>2,189</td>
<td>11,453</td>
<td>1,431</td>
<td>15,576</td>
<td>4,841</td>
</tr>
<tr>
<td>Nairobi</td>
<td>16</td>
<td>-</td>
<td>38</td>
<td>14</td>
<td>68</td>
<td>2,290</td>
</tr>
<tr>
<td>N. Eastern</td>
<td>-</td>
<td>-</td>
<td>12,690</td>
<td>-</td>
<td>12,690</td>
<td>1,055</td>
</tr>
<tr>
<td>Nyanza</td>
<td>1,218</td>
<td>34</td>
<td>-</td>
<td>-</td>
<td>1,252</td>
<td>4,598</td>
</tr>
<tr>
<td>Rift Valley</td>
<td>3,025</td>
<td>123</td>
<td>12,230</td>
<td>1,515</td>
<td>16,883</td>
<td>7,386</td>
</tr>
<tr>
<td>Western</td>
<td>741</td>
<td>-</td>
<td>-</td>
<td>82</td>
<td>823</td>
<td>3,532</td>
</tr>
<tr>
<td></td>
<td><strong>6,785</strong></td>
<td><strong>3,157</strong></td>
<td><strong>42,115</strong></td>
<td><strong>4,867</strong></td>
<td><strong>56,914</strong></td>
<td><strong>30,207</strong></td>
</tr>
</tbody>
</table>

Source: (Nyangito, Nzuma, Ommeh, and Mbithi 2004:14)

The regions with the largest portion of land in the high potential area are the Rift Valley (3,025 ha), Nyanza (1,218 ha) and the Central (909 ha) and Western (741 ha) Provinces. About 3.2 million hectares of the land were subdivided into smaller holdings averaging 1.2 hectares per individual. Larger holdings of about 780 million hectares were subdivided into individual ownership of 3,600 owners. Kenya’s postcolonial agricultural policy was based on these factors of land divisions, availability of graded agricultural land, and the land tenure systems – customary and (statutory) privatized – with all of their historical legacies described in chapter two.
The pastoralist and nomadic tribes who lived in the arid and semi arid regions were marginalized by the Kenyatta government because they were associated KADU, the opposition party after independence. When Moi came to power he initiated a program to benefit them. President Moi had to develop programs quickly because his KADU constituencies saw his rise to the presidency as their turn to benefit from state largesse, as it was the case for Kikuyu under President Kenyatta. The program focused on ways to improve breeding of sheep and goats, and on developing and improving stock routes and water supplies. The World Bank supported the initial program with a $4 million loan. These ethnic groups, who had been marginalized, began to see tangible benefits from the state (Bank 1981).

The World Bank noted the shift in policy and program focus in 1981, referring to what the Moi government proposed to do in its first development plan (1979-1983), “in addition to projects to increase larger scale commercial and smallholder production, a series of integrated rural development projects in semi-arid areas is proposed to redress the neglect of these areas” (Bank 1979; Bank 1981:5). Just as in any political system, constituents approve of their politicians who bring development projects to their communities. The new program helped broaden President Moi’s coalition, secure his power, and set the tone (of adherence to ethnic politics) for his entire presidency.
4.3 *IFI Support and Reform*

Both the World Bank and IMF provided financial assistance to Kenya under President Moi to reform the agricultural sector, including the agricultural marketing boards and parastatals. From 1980 to 1989, the World Bank disbursed 13 financial assistance packages to Kenya for agricultural sector development and liberalization. One of the state-controlled boards that the World Bank and IMF wanted liberalized was the National Cereals and Produce Board (NCPB). This request was first made in 1982 as part of a US$13.2 million agricultural institutional development credit package to Kenya. The government did not reform the NCPB during the period of the credit, however. Reforming the NCPB remained a condition of the IFIs all throughout the 1980s and 1990s (ADBG 2001). The World Bank and IMF complained about the failure of the government to reform the NCPB, but they continued to provide financial aid and technical assistance to the sector. This was an example where the government failed to adhere to a specific conditionality without suffering any significant adverse consequences.

While President Moi was exerting more control in the sector in order to consolidate his power and distribute largesse to his supporters, his government continued to receive substantial agricultural sector development loans and credits from the IFIs, as Table 6 below shows. [See Appendix C for an extended list of the
World Bank’s operations in Kenya’s agricultural sector. Despite these loans and demands for reform from the IFIs, the sector remained highly controlled by the state, with marketing boards implementing regulations, setting prices, and providing subsidies.

Table 6: The World Bank’s Agricultural Loans and Credit to Kenya 1981-1988

<table>
<thead>
<tr>
<th>Appraisal Year</th>
<th>Loan (L) or Credit (C)</th>
<th>Disbursement ($ million)</th>
<th>Disbursement Approval (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>L1995/C1443</td>
<td>35.0</td>
<td>100</td>
</tr>
<tr>
<td>1982</td>
<td>C1237</td>
<td>21.6</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>C1277</td>
<td>6.0</td>
<td>100</td>
</tr>
<tr>
<td>1983</td>
<td>C1387</td>
<td>14.5</td>
<td>97</td>
</tr>
<tr>
<td>1986</td>
<td>C1717/AFO21</td>
<td>60.0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>C1718</td>
<td>13.2</td>
<td>115</td>
</tr>
<tr>
<td>1988</td>
<td>C1974</td>
<td>21.9</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td><strong>Total: 172.2</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: (Bank 1998:7)*

The IFIs were informed about the lack of progress toward reform. In fact, in 1981, the World Bank noted a series of problems contributing to the ineffectiveness of its previous loans to Kenya and yet proceeded with a new $35 million loan/credit package to the government, the fourth loan/credit to the Agricultural Finance Corporation (AFC), one of two primary agricultural lending institutions in Kenya (the other was the Cooperative Bank of Kenya). The Project Performance Audit

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*9 These loans were selected based on the percentage of disbursement (at least 97 percent), indicating that the World Bank had accepted Kenya’s progress reports to release virtually all of the funds.*
Report and Project Impact Evaluation Report of the first loan/credit concluded that the projects supported by the financial package “probably had only a marginal economic impact at the farm level and possibly even a slightly negative financial impact on AFC” (Bank 1981:14). While the AFC made some improvement on the second and third financial packages, lack of staff capacity and program coordination remained major problems.

The first round (1980-1990) of IFI pressure on Kenya to reform the sector failed to produce the intended outcomes of privatizing or dismantling the marketing boards and opening up the market for private investors to compete. By 1990, the domestic political environment had begun to deteriorate, with increasing resistance against the Moi government, and Kikuyu and Luo farmers leaving formal government structures in protest. In order to relieve some of the pressures from the farmers and their allies, Kenya adopted a new agricultural reform program known as the Second Agricultural Adjustment Operation (ASAO II). ASAO II was to start in 1992 and be completed in 1998. As will be explained below, this period was the most successful for reform in the sector. That timeframe corresponded with the periods from 1990-1995 and 1997-1999 during which the IFIs had suspended financial assistance to Kenya (Njehu 2003). The fact that reforms happened at a time when the World Bank and IMF had suspended their aid weakens the argument that these actors were the main forces behind reform in the sector.
4.4 Role and Functions of Marketing Boards and Cooperatives

The colonial government allocated land and set up government-dominated marketing boards and cooperatives to control agriculture. The marketing boards were agencies empowered with legal authority over producers and purchasers of primary and processed agricultural products. They were also the primary agencies that set and controlled commodity prices. Marketing boards differed from co-operatives by their legal status and power to compel compliance to their rules and regulations (Abbott 1967). Co-operatives could be established by either the government or independently by producers. Either way, co-operatives served as the link between the producers and boards. The boards were often the only purchaser of specified commodities in domestic markets. The stated goals of marketing boards and cooperatives were to promote economic development by providing necessary services to agricultural producers, services such as fertilizer, better seeds, information, and greater access to markets, and protection from unfair international competition (Abbott 1967; Nyangito 2001; Wanyama 2009).

Due to lack of data, it is not clear how many boards Kenya had at independence, but by 1982, there were 108 boards regulating and setting prices in all sectors of the economy (Cohen 1993). In addition to their regulatory duties, they had the capacity to pay less to producers and sell for much higher prices to foreign and
domestic markets. The management of these structures resulted in price controls, inefficient subsidy programs, and overall mismanagement. After independence, these structures and the way in which they were managed were passed on to the Kenyan leaders. President Kenyatta took advantage of them to favor his ethnic Kikuyu community, and President Moi did the same in favor of his Kalenjin community (Kanyinga 1994; Holmquist et al. 1994).

The political influence of the government and mismanagement of these structures led to protests against government intrusion in the agricultural sector, which resulted in reform of many of the boards. The reforms included stripping the boards of their monopoly powers, which meant allowing private actors to enter commodities markets to compete. Removing their monopoly powers also meant curbing the boards’ authority to place controls on producers and buyers.

Each of the major primary agricultural commodities had a marketing board. The Dairy Board of Kenya (DBK) and the Kenya Cooperative Creameries regulated the dairy market; the Kenya Tea Board (KTB) and the Kenya Tea Development Authority (KTDA) were responsible for the tea market; and the National Cereals and Produce Board (NCPB) regulated the wheat and other cereals markets. The government was heavily involved in running these boards, ranging from appointing managing directors to setting up prices that cooperatives had to pay to producers (Burgess 1997).
One of President Moi’s interventions to control prices was to reduce prices paid to Kikuyu farmers for coffee and tea sold to the Kenya Tea Development Authority. It had been accepted practice that the better quality tea and coffee produced primarily in the Kikuyu-dominated Central Province would receive a higher price than the lower quality production from the Kalenjin-dominated Rift Valley. The Moi government also increased its control over the KTDA and replaced many management officials with Kalenjins. In addition, President Moi created Nyayo Tea Zones, which expanded areas of production for mostly Kalenjin farmers. All of these efforts were part of his strategy to replace Kikuyu dominance in the sector with that of Kalenjin and other ethnic groups (Grosh 1994). According to Burgess:

[President Moi] began to dismantle the ruling coalition that centered on the Kikuyu farming community. This coalition had been strongly committed to agricultural growth first and redistribution second. In its place, Moi favored a coalition based on his Kalenjin ethnic group and previously marginal groups. The new coalition favored redistribution from Kikuyu farmers and supported lower food prices after the urban revolt and coup attempt of 1982 (1997:141).

Critics of government intervention in markets through the mechanisms of marketing boards, cooperatives, and price controls argued that such intervention distorted markets, deprived producers of the actual price for their products, and increased prices for consumers. They also argued that farmer representatives who were appointed and sat on those boards were easily co-opted by management. Critics
pointed to President Moi’s appointment of one of his nephews as Managing Director of the KTDA. He was not appointed because of his expertise in farming or commodities markets, but rather because of his relationship to Moi. Critics also noted his previous employment as the head of Kenya’s Central Bank, a position for which he was not qualified either. The appointment of President Moi’s nephew to head public institutions was the ultimate sign of nepotism in government and reinforced the complaints that people were making about public corruption (Gitau et al. 2008; Grosh 1994).

4.5 *Kenya Cooperative Creameries and Dairy Market*

The liberalization of Kenya’s dairy market beginning in 1992 was a good example of how internal dynamics influenced reform. The dairy industry, dominated by small-scale farmers’ herds produced 70 percent of total annual milk in Kenya. The dairy industry accounted for 14 percent of the agricultural GDP and 3.5 percent of the total GDP (Atieno and Kanyinga 2008). Prior to 1992, Kenya’s dairy farmers had three major problems with the overregulated dairy market and the way in which the Moi government controlled the Kenya Creameries Cooperative (KCC).

The farmers’ first problem concerned government controls and regulations. They did not have choices in terms of market outlets to sell their products, which
meant they could not tell if they were getting accurate prices for what they sold. The key actors in the market were smallholder farmers who typically owned one to two milking cows; the government, through the Ministry of Cooperative Development (MoDC) and the Kenya Creameries Cooperative (KCC); and the dairy farmer cooperative societies (DFCSs). The DFCSs were made up of smallholder producers and prior to liberalization were required to register with the (MoDC). Once registered, the MoDC was responsible for the supervision of cooperatives’ elections and financial accounts. MoDC also became responsible for approving capital expenditures and policies (Atieno and Kanyinga 2008).

With such control over the registered DFCSs, MoDC’s decisions were more often politically motivated than supervisory in the interests of smallholder producers. In addition to supervisory rules and regulations from MoDC, the DFCSs also had to directly engage the KCC, an agency that was supposedly made up of farmer representatives and government officials to regulate market-related issues such as prices and services to farmers. The KCC was the primary market outlet for dairy cooperatives and the main processor and purchaser of milk. It was also the only retailer of milk products in Kenya’s urban areas (Burgess 1997; Owango et al. 1998).

The second problem revolved around government appointment of board members to the KCC. The government appointed members not because of their qualifications in livestock, dairy, or farming issues but rather for political reasons:
While cooperative societies had a role in the appointment of directors, influential politicians neglected this and instead appointed those they thought were politically loyal to the government. At one time, those in the board of directors included the then President’s family members and political allies. Appointment to the board was not based on someone’s knowledge of dairy or cooperative issues. It was based on how close one was to the ruling elite. Those appointed, therefore, used their positions not to better the KCC but to acquire individual wealth. Their aim was to use their positions to make personal financial gains through supplying goods and services (Otieno and Kanyinga 2008:13).

The third problem that dairy farmers had with the KCC concerned delayed payments. After selling their milk to the KCC, the DFCSs often went for months without payment, which in turn meant they could not pay the farmers on time. To avoid these problems, farmers left the formal cooperatives to create less formalized self-help groups (SHGs) to collect and market milk. One of the main advantages of these groups was that they could register with the Ministry of Culture and Social Services instead of the MoDC. As a result of registering with the Ministry of Culture and Social Services, the SHGs had few regulatory restrictions on their activities (Otieno and Kanyinga 2008).

As the government exerted more control over the KCC and the Kenya Dairy Board (KDB), more farmers left the formalized agencies to establish independent farmer-led cooperatives and unions. In 1990, smallholder farmers in the Central Province left the state-controlled cooperatives to form independent cooperatives and
unions. Farmers in the Kiambu and Murang’a Districts established four independent
cooperatives and unions. Smallholder farmers in Nyanza Province also began to
bypass the formal state-controlled structures to seek agricultural assistance and
services and free themselves from the state’s constraints. Among the Nyanza
Province farmers were the Uriri Farmers’ Cooperative Society and Mugama
Farmers’ Cooperative. The flight of farmers from the KCC resulted in a budget crisis
for the agency, as the amount of fees collected from farmers declined (Owango,

4.6 Reformed KCC and Dairy Market and other Agricultural Boards

The farmers’ message around government inefficiency and corruption with
respect to managing these agencies fed into larger campaigns at the national level in
1990 against the Moi government. Farmers and business groups sought to encourage
the development of private dairy processors to create a more competitive dairy
market that could raise producer prices. Before liberalization, when the KCC had
legal monopoly over the purchase and sales of milk, the KCC was handling 90
percent of all marketed processed milk in urban centers, and was also the major
buyer at the farm level. In contrast, non-KCC dairies were processing only five
percent of all reported marketed milk in urban centers (Staal and Shapiro 1994).
In 1992, after pressure from farmers, including pressure brought about by their leaving of the formal board structures, the government lifted the monopoly powers of the KCC and restrictions on the dairy market. The government removed its subsidies to the KCC and encouraged market-based services to farmers. As a result of these reforms, more private milk processors and retailers entered the dairy market. The number of smallholders in farmer-led cooperative societies increased significantly in many districts in just a few years after the reforms (Owango et al. 1998). Table 7 below shows the increases in the numbers of active cooperative society members from 1990 to 1995 and the increase in the percentage of private milk purchaser outlets that entered the market after liberalization of the sector.

Table 7: Registered Active Membership of Dairy Farmers in Cooperative Societies and Milk Sales by Dairy Farmer Cooperative to Different Market Outlets in 1990 and 1995, as mean percent by District

<table>
<thead>
<tr>
<th>District</th>
<th>Kiambu</th>
<th>Murang’a</th>
<th>Thika</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>33,410</td>
<td>14,400</td>
<td>7,618</td>
</tr>
<tr>
<td>1995</td>
<td>40,491</td>
<td>33,479</td>
<td>9,781</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Outlets (% of DFCS milk purchased)</th>
<th>1990 (%)</th>
<th>1995 (%)</th>
<th>1990 (%)</th>
<th>1995 (%)</th>
<th>1990 (%)</th>
<th>1995 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KCC</td>
<td>49</td>
<td>71</td>
<td>92</td>
<td>72</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>29</td>
<td>29</td>
<td>8</td>
<td>27</td>
<td>48</td>
<td></td>
</tr>
</tbody>
</table>

*Source: (Owango et al. 1998:176 and 179)*

While there may be a number of factors that contributed to the increase in membership in the farmers’ cooperatives, the reforms were definitely one of them. As noted on Table 7 above, these three districts saw significant increases in
registered membership in cooperatives. Murang’a saw the largest increase, more than doubling its membership in five years, going from 14,400 registered members in 1990 to 33,479. More milk retailers entered the market, which gave dairy farmers more choices in terms of market outlets to sell their milk. The KCC had to increase its price paid to DFCSs in an effort to maintain or increase its supply and be competitive (Staal and Shapiro 1994; Owango et al. 1998).

In Thika, before liberalization, 92 percent of DFCS’s milk was sold to the KCC and eight percent to other retail outlets. After liberalization made it legal for other retailers to enter the milk-buying and processing market, only 48 percent of Thika’s DFCS’s milk was sold to the KCC while other retail outlets saw their share increase from eight percent to 48 percent during the same period of 1990-1995. A major shift also took place in Kiambu during this period. DFCSs in Murang’a did not shift their preference from the KCC to other retailers and it was not clear why. Overall, the availability of more choices of market outlets translated into significant reduction in the percentage of milk that DFCS farmers sold to the KCC and increase to the retailers since the reforms in 1992, as indicated in the table.

Prices that DFCSs paid to their farmers also increased because milk prices increased in different markets after the reform. From 1990 to 1995, the average per liter prices paid by the DFCS to their members rose from approximately Kenyan Shillings (Ksh) 3 to 13, 11.50 and 11 in Kiambu, Murang’a and Thika, respectively.
The loss of government subsidies and farmers’ fees put considerable pressure on the KCC. As a result, the agency became severely indebted. It collapsed in 1998 and its assets were sold to private investors, many of whom were politicians or had political influence. After 1992, when the political system was liberalized, farmers pressed legislators for reform of other inefficient and corrupt marketing boards.

Just as more investors joined the dairy market when the government was forced to lift KCC’s monopoly powers so too was the case with the grains market when the government lifted the monopoly power of the Kenya Planters’ Cooperative Union (KPCU) in 1993. Similar to other boards, the KPCU reforms included deregulating markets and prices, removing various restrictions on foreign exchange, and liberalizing interest rates (Nyangito 2001).

Before 1993, the KPCU was responsible for all coffee milling. The agency was highly bureaucratic and inefficient as a result of rent-seeking activities. A coalition of farmers and business groups led a series of public education campaigns to press lawmakers to push for reform. Their efforts aimed at lifting the monopoly status of the KPCU, reducing the myriad bureaucratic procedures, eliminating rent-seeking opportunities, and giving farmers more freedom in the market place. The

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10 The (post-Moi) Kibaki government repurchased the KCC in 2003, reorganized it, and it is once again a government agency. Some of the same complaints around ethnic favoritism are again being raised.
public education efforts were successful in forcing the government to reform the
KPCU. As a result of deregulating the coffee market and lifting the monopoly power
of the KPCU, two new millers – Thika Coffee Miller and Scofina Miller – were
licensed by the government to enter the market (Gitau, Kimenju, Kibaara, Nyoro,
Bruntrup, and Zimmermann 2009).

Significant reforms were also made in the National Cereals and Produce
Board (NCPB). The government reduced its involvement in management and gave
farmers greater control. Reforming the NCPB was a demand of small farmers who
had argued that it was monopolistic and inefficient during the Moi presidency. They
often would not receive payment for their crop until months or even a year after the
sale (L. Kirimi, personal communication, August 10, 2010).

By the end of 1992 the government also reformed the tea factories by
eliminating the monopoly powers of the Kenya Tea Development Authority
(KTDA). By 1998, the KTDA had become a management company, and each tea
factory had become an independent company. As to the remaining assets of the
Authority, 50 percent was retained by the new KTDA, 25 percent was divided evenly
among the then 45 tea factory companies and the remaining 25 percent was
distributed among the companies in accordance with the proportion of management
fees that they had paid to the old KTDA between 1983 and 1998 (Van Buren 2008).
The Agency managed 65 tea factories, and the large tea plantations organized into Kenya Tea Growers’ Association, which covers about 31,017 hectares. However, smallholders produced over 60 percent of tea production and the sub-sector accounts for 20 percent of Kenya’s foreign exchange earnings (Ochieng 2006). In addition to reforming these institutions, Kenya carried out reforms in many other sub-sectors. Table 8 below lists some of the reforms.

Many scholars and observers of Kenyan politics have offered alternate explanation, which credited aid suspension for the reforms in Kenya. The suspension of financial aid to Kenya may have played a role in pressuring the government to consider the reforms. However, if the suspension of aid did play a role, it was minor, considering the IFIs’ past history of aid suspension to Kenya. For example, in 1982, the IMF/World Bank cancelled two loans totaling more than SDR 286 million because the Moi government was not adhering to the terms of the loans. These cancellations did not result in agricultural reform. The following year, 1983, the IFIs provided Kenya with a stand-by loan SDR 175.9 million, and they went on to disburse four additional loans to Kenya between 1985 and 1989, totaling SDR 367.1 (O'Brien and Ryan 2001). Both, aid suspension and enticement did not lead to reform in the 1980s. The key difference between the 1980s and 1990s was the level of internal agitation against the Moi government for reform.
Table 8: Selected Reforms in Agricultural Sector, 1992-1994

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Policy Before Change</th>
<th>Change Year</th>
<th>After Change</th>
</tr>
</thead>
</table>
| Coffee/Tea    | • Auction marketing by boards  
• Exporters cannot have foreign currency | 1992        | • Foreign currency allowed                                                   |
| Maize         | • NCPB as the only importer with controls on producer prices  
• NCPB maintained strategic grains reserves |             | • Private importers allowed but variable duty imposed  
• Minimum price floor is set based on NCPB prices |
| Milk/Dairy products | • Price controls  
• KCC had monopoly in processing marketing  
• Kenya Dairy Board had monopoly over imports |             | • Decontrolled prices  
• Liberalized entry for private sector investors in processing and marketing |
| Cotton        | • Price controls  
• Restrictions on domestic marketing and trade |             | • Complete deregulation of domestic marketing/pricing                       |
| Sugar         | • Controls on producer prices and imports                                            | 1994        | • Minimum prices and new tariffs set to protect domestic producers           |
| Wheat         | • NCPB as only importer  
• Producer price controls                                                              |             | • Minimum (floor) prices set based on long-term import parity prices and imports controls |

Source: (Nyangito, Nzuma, Ommeh, and Mbithi 2004:38).
The liberalization of Kenya’s agricultural sector supported some of the arguments that proponents of liberalization have made with respect to increased competition, efficiency, and pricing. Producers who, prior to liberalization, had to sell their products to cooperatives, which then sold them to government agencies that in turn sold them at an auction for export and domestic retail found the process much simpler. Under the pre-liberalization system, many of the producers received their payments in installments, and the final price they received was based on the average price for the season. After 1992, when most of the agricultural sub-sectors (milk, coffee, and tea) were liberalized and the pricing system was changed, more private investors entered the different markets resulting in increased competition and producers receiving one payment that reflected the actual price of their products (Nyangito et al. 2004).

4.7 Ending Subsidies to Farmers

Farmers and business groups sought the elimination of subsidies as part of the broader movement to address public corruption. They argued that the subsidies were inefficient and consistently failed to reach their goals. The failure of subsidy programs was illustrated in the milk (dairy) sub-sector. Smallholder herds produced 60 percent of milk in Kenya. Throughout the 1960s and 1970s, the government put in place a broad program of artificial insemination (AI) carried out by the Kenya
National Artificial Insemination Service (KNAIS). The program achieved 548,000 inseminations in 1979 at an average cost to the government of KSh 130 per pregnancy, though the cost ranged from KSh 30 to KSh 1,300. The farmer, on the other hand, was paying as little as KSh 1 to 2.20 per insemination. Despite the high level of government subsidy, inseminations dropped by 20 percent every year from 1980 to 1985, proving government critics correct that subsidies were not effective. The cost to the government was projected to substantially increase by 2000, from Kenyan pound (K£) 1.7 million to K£4.5 million (Kenya 1988:73).

The economic crisis that Kenya was experiencing and public pressure forced the government, in 1985, to make dairy farmers pay more for artificial insemination services. The government reduced its subsidies and argued for cost sharing with farmers. The idea of greater cost sharing has evolved in the post-1992 period but the same principle of reducing government subsidies has remained (Kenya 1988). A study conducted in the first few years after liberalization of the sub-sector and reduction of government subsidies showed that farmers’ access to artificial insemination increased significantly in the districts studied. In Kiambu, the number of active dairy cooperative farmers with access to artificial insemination service went from 3,500 in 1990 to 14,863 in 1995. In the Murang’a District, the number went
from zero to 10,276; and in the Thika District, it went from zero to 1,690. These increases in the number of farmers with access to greater services were the result of more private service providers entering the market after liberalization (Owango et al. 1998:177).

In 1996, the government argued that it needed to reduce subsidies provided to farmers as a way to reduce public expenditure and better manage public resources. The government even sought to recover some subsidies by imposing user-fees or what it called “cost-recovery” fees in some cases. Critics of the IFIs argued that the “user-fee” came from the World Bank and the IMF. The critics may be partly correct, but government documents written in the late 1970s and early 1980s (1979-1983 Development Plan) showed that Kenya was using terms that were analogous to “user-fee.” Also, Kenya’s Sessional Paper No.1 of 1986 used “participant support” to help finance the recurrent costs of government services. Sessional Paper No.1 also noted: “Government has long charged fees for certain services” (Kenya 1988:29). In 1997, the term “cost-recovery” was used. As Kenya’s 1997-2001 Development Plan put it:

[T]he Government is rationalizing public expenditure through the evolution of better public financial resources management. Where feasible, gradual cost-recovery on all market-oriented public services has been imposed. Furthermore, only core public project are being fully funded (1997:47).
The various reforms that took place were beneficial to farmers but it does not mean that all farmers enjoyed the benefits or that there were not unintended consequences. In the coffee subsector, for example, after the liberalization of the foreign exchange market, cooperative societies were paid in foreign currency by the Coffee Board of Kenya and were allowed to maintain foreign exchange accounts. However, as Hezron (2001) points out, most small-scale farmers were paid through their cooperatives in local currency, which meant they did not “directly benefit from payments in foreign exchange for coffee exports” (15). While liberalization helped to remove implicit government controls induced taxes on coffee earnings, “farmers still complain[ed] about the prices they receive[ed] possibly because of high deductions made by societies and ineffective management of the societies and factories” (Hezron 2001:15).

Another group of farmers who did not benefit or were possibly adversely affected by liberalization were those in remote areas. Before liberalization, the government subsidized the transportation costs of their product, but with the end of subsidies, these farmers were less likely to be able to reach markets in urban centers or those who managed to make it received a lower price for their milk due to the increase in their transportation costs (Owango et al. 1998).
4.8 Conclusion

Kenya undertook the reforms that this chapter highlighted because of pressures from the domestic actors who were fed up with inefficient and repressive government policies. External actors helped the process either by providing support or by withholding support to the government. The chapter explained the importance of the agricultural sector to Kenya’s economy and society, an importance that all of the actors recognized, making reforming even more urgent. Small-scale farmers took an active role in the reform movement and their reform campaigns intersected with national campaigns against the Moi government creating a broad coalition for change in Kenya.

Among the most important of the reforms in the agricultural sector was the striping of the government-controlled cooperatives and marketing boards of their monopoly powers, which paved the way for new and private investors to enter the market. Reforming the Kenya Creameries Cooperative and opening the diary market to competition resulted in increased membership in farmers’ cooperatives and increased prices for dairy farmers. In the reform efforts, the IMF and World Bank provided significant financial support to the sector but, as the chapter noted, it was not their financial support that drove the reform process and its success. The chapter provided evidence – dates of the loans, amount of the loans, and program
performance reports - showing the government lack of compliance with the World Bank/IMF’s conditionality terms, which frustrated the donor institutions.

Growing frustration among small-scale farmers and business groups about government inefficiency and corruption led them to agitate against the government and demand reform. Their demands coincided with the then-developing narrative of government corruption, which increased pressure on the government for reform. As more farmers refrained from participating in the government controlled marketing boards and cooperatives, these agencies faced deep financial crises and the government conceded to reforming them. The government faced a similar situation with respect to the financial sector, an evaluation of which is presented in the next chapter.
Based on the explanations of the different forms of privatization discussed in the previous chapter, this chapter on financial sector reforms similarly explores the role of internal actors and factors and external actors in reducing state involvement in the economy through lifting controls on foreign exchange and investors, and through privatization of (divestiture from) state-owned banks and non-banks financial institutions (NBFIs).

Despite receiving substantial amount of financial assistance from the IMF and World Bank for more than two decades to undertake reforms, Kenya neglected the institutions’ major policy recommendations with no apparent trepidation about the threats of aid suspension. The IMF has acknowledged that under the Moi presidency Kenya did not implement its policy advice. In an evaluation report written in 2004, the IMF said, “pervasive governance problems and weak political commitment to economic reforms did not provide a favorable environment for the implementation of Fund policy advice” (IMF 2009:5).  

\[11\] Despite the Moi presidency ended at the end of 2002. The report was referring to the IMF’s challenging history with the Moi government and assessing the prospects for better engagement with the Kibaki government, which came to office in January 2003.
the lack of implementation of IMF policy recommendations and the perceived “weak political commitment to economic reforms,” Kenya did carry out a number of economic and political reforms persistently demanded by internal agitators.

This chapter explores the weakness of the threats of aid suspension, and even actual aid suspension, and suggests that conditionality around financial aid assistance cannot be said to have been the main factor pushing the Moi government toward liberalization of the financial sector.

The chapter starts by explaining how the state became involved in the financial sector and how the state’s role shifted from what some have called “a benevolent guiding hand” to less involvement (Mwale 2000:59). This shift was indicated by the privatization of state-owned parastatals and lifting of restrictions on private entrepreneurs’ entrance to the market. After this explanation of the shifting role of the state in the sector, the discussions focus on three areas that illustrate the primacy of internal pressure in forcing President Moi to reform the financial sector by reducing the role of the state: (1) the state preference for domestic businesses by imposing controls on foreign investors and the subsequent lifting of restrictions as a result of popular pressure, (2) privatization of state-owned financial institutions and parastatals, and (3) development of policies to address public corruption.
5.1 *Shifting Role of the State in the Financial Sector*

The government took a trusteeship, or a guiding role in the financial sector, soon after independence, a role that the government explained in its *Sessional Paper No.10 of 1965*. Three important points related to the financial sector can be extrapolated from the Sessional Paper: (1) Kenya welcomed foreign investors as long as they were willing to allow Kenyans to own shares in their businesses and be hired in management positions, (2) Kenya intended to pursue a very selective nationalization, including buying minority shares or taking full control of businesses that were important to economic development, and (3) Kenya promised that state-owned businesses “would be operated efficiently, covering their costs, and contributing a profit” to the Treasury (Mwale 2000:62). These stipulations in the Sessional Paper were followed by a number of government policies that targeted specific businesses in which to buy majority or minority shares.

Initially there was widespread support for the state to be involved in the economy through ownership of companies. State ownership was seen by the public and the government as a way to support nascent national and local businesses. Some influential political leaders at the time saw state ownership of companies as a way for the state to have control over Kenya’s resources for redistributive purposes. By the end of the 1970s, the government owned equity shares in 250 businesses and was a majority owner in more than 50 percent of them (Ikiara 2000:40).
However, the trusteeship, or guiding role that the Kenyatta government took in the financial sector, increasingly became viewed as favoring the Kikuyu business community over other ethnic groups. “Africanization in manufacturing and commerce was seen as covertly favoring the Kikuyu in the late 1960s, and overtly so in the first half of the 1970s” (Mwale 2000:81 [endnote 9]). By the mid-1970s, the state became very controlling in the economy, leading to widespread complaints of public corruption, ethnic nepotism, and institutional inefficiency. Institutional inefficiency contradicted the third point of the Sessional Paper No.10 of 1965 requiring that state-owned businesses would be run so efficiently as to make a profit greater than the foregone taxes the Treasury would have collected had they been private companies.

Managing the companies—companies that eventually were not profitable, as broadly predicted by proponents of liberalization—required significant public resources. The increase in public sector expenditure to maintain the state-owned businesses, as well as expansion of central and local government services, resulted in a major increase in the public sector. The share of public sector employment, for example, rose from 29 percent in 1963 to 39 percent in 1973, and was almost 50 percent in the early 1980s (Ikiara 2000:42). Critics of the Kenyatta government pointed to ethnic imbalances in public-sector employment and support of local businesses. President Moi continued the practice of state intervention in the economy
through ownership of companies and he also practiced ethnic favoritism (Jonyo 2002; Himbara 1994).

5.2 Controls on Foreign Exchange and Investors and Favoring Domestic Investors

One of the primary mechanisms of controls was the Exchange Control Act, under which the Central Bank of Kenya was the sole agency with authority to transact in foreign currency. The Central Bank licensed commercial banks to handle foreign currencies on behalf of their clients. The commercial banks were required to sell all foreign currencies to the Central Bank within a specified period. It was illegal for individuals and/or firms to possess or trade in foreign currency without permission from the Central Bank. All exports out of Kenya had to be declared and foreign exchange earnings from such exports had to go through licensed commercial banks to be converted to Kenyan shillings before they were transferred to the exporters. Importers who needed foreign currencies to pay for imports or other international obligations had to apply for import licenses from the Ministry of Commerce and Industry. The application then had to be approved by the Central Bank. The process could take months and even then, obtaining foreign currencies for imports was not always assured because of the abuse and corruption in the import licensing and foreign exchange allocation system (Warutere 2005; Central Bank of Kenya: www.centralbank.go.ke).
In addition to foreign exchange controls, the government imposed a series of restrictions on foreign companies to discourage them from repatriating their profits. The government reasoned that if the foreign companies were barred from repatriating their profits they would instead invest more in Kenya. Foreign companies that did not reinvest a high percentage of their profit in Kenya saw their borrowing rights restricted by the government. As a penalty, the offending foreign companies’ borrowing from commercial banks in Kenya was capped at 20 percent of their total investment, while African firms were allowed to borrow up to 40 percent of their total investment. It was argued that the restrictions on foreign companies and preferential treatment toward Kenyan businesses were necessary to give the domestic businesses access to capital to level the playing field with foreign-owned businesses so that they could compete (Swainson 1977). Post-independence debates around building domestic capital dominated Kenya’s political scene. Observers of Kenyan politics paid attention to the fact that Kikuyu businesses, which were becoming the heart of the new Kenyan bourgeois, were the primary benefactors of these policies and that members of the Kikuyu community were the “leading industrial capitalists” in the 1970s (Himbara 1994:476).

The government also used the Trade Licensing Act and the Import-Export and Essential Supplies Act to further restrict foreign investors while promoting domestic businesses. The Trade Licensing Act proscribed non-Africans from trading in non-central areas of business and from conducting business in rural areas. That is,
non-citizens could conduct business only in Nairobi, Mombasa, and other major cities and towns. The Act proved to be successful in shifting businesses from non-Kenyans to Kenyans. For example, Kitale, a town in Western Kenya saw an 80 percent turnover of businesses from non-Kenyans to Kenyans from 1967 to 1969 (Muller 1981). The Import-Export and Essential Supplies Act gave the Kenya National Trade Corporation (KNTC) monopoly power over wholesale and retail commodities trading, which became the main agency responsible for assisting Kenyans in all aspects of trading (Brownbridge and Harvey 1998; Himbara 1994).

The new policies of the Kenyatta government helped to create a new business class made up of predominantly Kikuyu. The top managers in the parastatals were Kikuyu and prominent public positions were also filled with Kikuyu. “The most successful Kikuyu capitalists were notables in President Kenyatta’s own family or in key state institutions” (Himbara 1994:477). This class was instrumental in utilizing the state to accumulate capital and develop itself as an indigenous Kenyan bourgeoisie. Government positions were filled with members of Kenyatta ethnic group included the Chairman of Kenya Commercial Bank, Chairman of the ICDC, the Minister of Finance (current President of Kenya), and the Governor of the Central Bank of Kenya (Himbara 1994).

When Moi came to power at the end of 1978, he maintained the policies of controls on foreign companies and preferences for domestic firms. However, the
government shifted domestic preferences from the Kikuyu to Kalenjin, Moi’s ethnic group. This shift in ethnic preference under President Moi undermined the Kikuyu-dominated entrepreneurial and political classes. As was the case in the agricultural sector, in his bid to consolidate power, President Moi “removed most of the members of the Kikuyu elite from state positions in a wholesale fashion” (Himbara 1994:477). Those in the Kenyatta government who had access to state financing and other state-supported credit lost their privileges and President Moi replaced them with Kalenjins and party loyalists. “The transfer of power from Kenyatta to Moi presidency adversely affected many would-be African industrialists and commercial entrepreneurs who appeared promising in the 1970s” (Himbara 1994:470), referring to the then-emerging Kikuyu entrepreneurial class.

5.3 Lifting Controls on Foreign Exchange and Investors

At the start of the efforts to liberalize the sector in 1980, Kenya had a relatively well-developed financial sector consisting of the Central Bank, 16 commercial banks, five development banks, 15 non-Bank financial institutions, several other financial intermediaries, and a securities exchange. The Kenyan government owned 100 percent of the largest commercial bank, three of the
development banks, and the specialized institutions lending to agriculture, tourism and housing. It also owned shares in several commercial banks and two development banks (Bank 1981:10).

By the early 1980s, high inflation and public debt, mismanagement of financial institutions, and government restrictions created an unstable macroeconomic environment in need of reform. Much of Kenya’s deteriorating and unstable macroeconomic condition was also due to adverse effects of the world economic recession in the late 1970s—effects that began to be felt in the early 1980s with low foreign investment in Kenya. Economic growth also suffered. The average annual growth rates of real gross domestic product declined from 5.2 percent between 1974 and 1979 to 4.1 between 1980 and 1989 and further declined to 2.5 percent between 1990 and 1995 (Kenya 1997).

Government critics, especially in the Kikuyu entrepreneur community, argued that government controls and corruption hampered investments. Policies of controls and shifts in government preferences led to many Kikuyu losing their privileged economic and political positions in the 1980s as President Moi consolidated his power. In retaliation and to discredit Moi’s policies in favor of the tenets of liberalization, this entrepreneur community embraced what came to be called the “get the government off our backs” position that liberalization promotes (Holmquist et al. 1994:98).
Holmquist et al. (1994) noted a certain irony in the strong appeal of “get the government off our backs” to the non-Kalenjin who “were, in the recent past, major beneficiaries of state largesse—some literally almost creatures of the state—but who now feel isolated from it with the new ethnic make-up of the state sector under Moi” (98). The Moi government came under pressure and was blamed for the economic decline. Calls to lift controls on investors became part of the national movement for reform. When the IFIs began to engage with the Moi government on reform, they found in Kenya a large and influential segment of the business and international finance community that was ready and could align with them to press the government. “The result was a formidable de facto alliance between this element [Kikuyu business class] and the external donors […] mandating a shrinking of the state and the presumed liberation of market forces in its wake” (Holmquist et al. 1994:98).

As early as the late 1970s, before the IMF and the World Bank began to promote liberalization in Kenya, the government was drafting plans to reform. The authors of Kenya’s 1979-1983 Development Plan argued for greater reliance on markets and for improving the efficiency of the public sector as way to respond to the economic crisis that began after the 1973 oil shock. The government started to liberalize Kenya’s financial sector during that time to make it a friendlier environment for business (O’Brien and Ryan 2001). Table 9 illustrates some of the
key changes indicating government liberalization efforts. In 1983, Kenya lifted some restrictions on repatriation of foreign investors’ dividends and profits. In 1984, the Central Bank reduced taxes on royalties and dividend income to help create a friendly business environment. In 1986, Kenya revised its Foreign Investment Act to attract foreign investment. In 1993, the government removed more barriers on foreign exchange to attract foreign direct investment and to enhance Kenya’s export markets. Virtually all of these reform happened without significant pressures from the external actors (Kenya 1997; Lehman 1992).

In 1995, Kenya lifted all controls on foreign exchange transactions and foreign investors by repealing the Exchange Control Act, which enabled more private investors to enter the foreign exchange market by securing licenses from the Central Bank to establish foreign exchange bureaux. By 1996, Kenya had 13 private Foreign Exchange Bureaux, which grew to more than 30 by 1999, making international transactions easier for investors (Kenya 1997; Barkan 1995; Central Bank of Kenya: www.centralbank.go.ke).

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Table 9: Liberalizing Changes: Creating a Business-Friendly Environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Description of Policy Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>The Central Bank introduced policy to allow repatriation of foreign investors’ dividends and profit payments for 1982.</td>
</tr>
<tr>
<td>1984</td>
<td>The Central Bank lowered taxes on royalties and dividend income.</td>
</tr>
<tr>
<td>1986</td>
<td>The government revised the Foreign Investment Act to encourage foreign capital/investment in the technology sector.</td>
</tr>
<tr>
<td>1987</td>
<td>The Minister of Finance, in the 1987 Budget Speech, called on foreign investors to invest in Kenya and promised them a friendly business environment.</td>
</tr>
<tr>
<td>1988</td>
<td>The government provided increased tax incentives, private capital investment, and revised the Foreign Investment Protection Act to allow foreign exchange losses on hard currency investments to be tax-deductible. Kenya also signed the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, promising not to impose noncommercial risks to foreign enterprises/investors.</td>
</tr>
<tr>
<td>1989</td>
<td>Government passed the Restrictive Practices and Monopolies Commission Act to ensure fair trade, economic competition and market conduct.</td>
</tr>
<tr>
<td>1993</td>
<td>NCPB reduced some restriction on maize and wheat exports and allowed more private investors in the auction market.</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>1994</td>
<td>Six banks and 11 NBFIs were ordered liquidated or restructured by the CBK because of serious violations of Kenya’s banking regulations. Kenya signed IMF’s Article VIII and its currency became convertible.</td>
</tr>
<tr>
<td>1995</td>
<td>Kenya lifted controls on international transactions on its current account.</td>
</tr>
<tr>
<td>1996</td>
<td>The government amended the Central Bank Act to give it more authority/independence.</td>
</tr>
<tr>
<td>1998</td>
<td>Five major financial institutions experienced crises requiring the Central Bank to take supervisory actions by putting them under statutory management.</td>
</tr>
<tr>
<td>2000</td>
<td>The IMF required conditionality for several financial sector reforms, including amendments to the Banking Act to control fraud, issuing of prudential regulations, reviewing deposit insurance, strengthening CBK supervisory authority, and privatizing the then state-owned Kenya Commercial Bank (KCB). Structural fiscal conditionality targeted the improvement of expenditure commitment and control, reducing arrears, improving pay for external audit staff, and timely submission of audited accounts to parliament.</td>
</tr>
</tbody>
</table>

*Sources:* (Lehman 1992; World Bank MIGA Membership Directory)
5.4  Parastatals and Privatization of Financial Institutions

As the state-owned financial institutions (banks and non-banks) sought to assist local businesses, they became saddled with non-performing loans. These institutions included two commercial banks, nine development finance institutions, and over 20 NBFIs (Brownbridge 1998; Himbara 1994). Among the major loan-issuing financial institutions were the Kenya National Bank, the Commercial Bank of Kenya, the Industrial Development Bank (IDB), the Joint Loan Boards (JLBs), and the Development Finance Corporation of Kenya (DFCK), and the Industrial and Commercial Development Corporation (ICDC). The ICDC was to provide various types of loans to Kenyans—commercial loans to enable them to expand their businesses, property loans to allow them to acquire or build commercial premises, and “share-holding loans to enable Africans to purchase shares in larger existing companies” (Himbara 1994:472). In 1971, the Kenyan government took a 40 percent share in the foreign bank National and Grindlays to form the Kenyan National Commercial Bank (Swainson 1980).

The newly independent government recognized the importance of foreign businesses as “wealth creators” and as a modernizing force for Kenya’s economy but it did not want Kenya’s development to rely solely on them. “Such a reliance on external actors was regarded as potentially unreliable, economically risky, and, most
importantly, politically unacceptable” (Himbara 1994:470). Therefore, soon after independence, the government announced policies to replace ex-colonial administrators with Kenyans, policies that have been characterized as “Kenyanization” or “Africanization” of the economy. The policies involved the use of the state-owned financial institutions to provide access to credit and finance services to Kenyan businesses, services that they were not able to access during the colonial period (Grosh 1991; Muller 1981).

The transfer of foreigners’ businesses to Kenyans under the Trade Licensing Act and the state’s efforts to have Kenyans lead public companies, did not help Kenya build a strong indigenous capital base, as the proponents of “Kenyanizing” of the economy thought. Despite government support of domestic businesses through state policies and financial assistance through loan-issuing parastatals, the local businesses were not sustainable. In 1973, a government official publicly expressed “worry over the deterioration of financial control and general efficiency of public enterprises” (Mwale 2000:65), putting at risk not only the public enterprises themselves but also the local businesses that they were supposed to support.

The failure of the local businesses was due to lack of managerial experience, mismanagement, and general economic decline in the late 1970s and early 1980s. Managers of the businesses did not have the necessary experience and yet were appointed to lead the enterprises. Grosh (1991) observes that “[s]ome managers and
directors [were] appointed to parastatals for political reasons that have nothing to do with their ability to head the firm in question” (155). Himbara (1994) also notes that “[m]ost of the firms associated with [the parastatals] were inefficient, poorly managed, unprofitable, and a burden on the taxpayer on account of heavy budgetary subsidies made to them year after year” (474-5). Most of the portfolios of the two major loan-issuing parastatals were either in arrears or nonperforming. Some loans had to be cancelled because the clients were in default (Himbara 1994).

Political and economic pressures (discussed in chapter three) reflected in the financial sector and forced President Moi to concede to reform. As public corruption and ethnic nepotism was rampant, the public demanded financial reforms. After having taken steps to deregulate financial markets and lift controls on investors, domestic investors, too, increased their involvement in the sector. With their increased involvement came power to challenge the Moi government for favorable policies and reform. Their influence increased as they ventured into commercial banking. Kenya’s domestic investors went from owning zero commercial banks in 1980 to owning four in 1985, which increased to seven in 1991 and 17 by 1994. At the time, these 17 commercial banks represented a 25 percent share of the deposit market. Kenya’s domestic investors grew even stronger in the nonbank financial institutions industry. These investors went from owning eight NBFIIs in 1980 to 24 in 1985 and 35 in 1994 and holding a 50 percent share of the deposit market (Daumont, Le Gall, and Leroux 2004:31).
This internal entrepreneurial class was more influential than external actors in pushing the government to reform the sector, as reform in the sector would naturally increase the client base of the domestic entrepreneurs’ businesses. The government began such institutional reform—that is, privatizing and/or divesting from state-owned institutions to reduce its involvement in the economy—in the late 1980s. Privatization of Kenya’s Commercial Bank, for example, a bank that had the most branches in rural communities, meant that these entrepreneurs would become owners of many of these branches and be able to expand their businesses.

In 1988, the government divested a 40 percent share from the Kenya Commercial Bank (KCB). From 1988 to 1997, the government divested from three additional banks, two development finance corporations, and eight subsidiaries of the KCB (see Table 8 below) primarily through the method of public flotation. The reason for the government’s choice of divestiture through flotation was unclear, but since divestiture is the strongest way to show commitment to transparency and private sector involvement (Ngugi 2000), it is reasonable to argue that the Moi government sought to reduce the pressure that it was under between 1988 and 1990, trying to show to the public that it was committed to reform and transparency. Divestiture through flotation is also highly susceptible to political pressure by politicians, interest groups, and employees of the company being privatized. Moi
was under considerable pressure from many sources: Transportation Minister Matiba resigned from his government, labor strikes were on the increase, and the non-Kalenjin businesses were agitated for reform.
Table 10: Privatization of Banks and NBFIs 1988 – 1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>GoK Share Before (%)</th>
<th>GoK Share After (%)</th>
<th>Buyer</th>
<th>Privatization Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988 and 1990</td>
<td>Kenya Commercial Bank</td>
<td>100</td>
<td>60</td>
<td>Individual/institutional investors</td>
<td>Public Floatation</td>
</tr>
<tr>
<td>1992</td>
<td>Housing Finance Company of Kenya</td>
<td>50</td>
<td>30</td>
<td>Individual/institutional investors</td>
<td>Public Floatation</td>
</tr>
<tr>
<td>1994</td>
<td>National Bank of Kenya</td>
<td>100</td>
<td>42.5</td>
<td>Individual/institutional investors</td>
<td>Public Floatation</td>
</tr>
<tr>
<td>1996</td>
<td>Kenya National Corporation</td>
<td>42.5</td>
<td>22.5</td>
<td>Individual/institutional investors</td>
<td>Public Floatation</td>
</tr>
<tr>
<td>1997</td>
<td>Stanbic Kenya Limited</td>
<td>40</td>
<td>23</td>
<td>Sinclair (SBIC)</td>
<td>Pre-emptive Rights</td>
</tr>
</tbody>
</table>
| Kencom House Ltd*¹²  
| Kenya Commercial Finance Corp*  
| United Finance Company of Kenya*  
| Notcutt Longatoni*  
| Savings and Loan Kenya Ltd*  
| Industrial Promotion Services*  
| Clarkson Notcutt*  
| Loncom Limited* | N/A | N/A | Individual/institutional investors | Public Floatation |

Source: (World Bank 2001)

¹²(*) These were subsidiaries and associated companies of Kenya Commercial Bank. The Moi government partially divested from KCB in 1988 and 1990 before the IFIs-funded Parastatals Reform Technical Assistance Program of 1992. These subsidiaries and associated companies were privatized in 1997 to complete Kenya's full divestiture from the bank.
5.5 *Addressing Public-Sector Corruption*

The history of IFI conditionality-related aid and the frequency with which scholars have pointed out its limitations in forcing countries to adopt reform further strengthens the case for greater consideration of domestic actors’ role in bringing about reform. When the Kenyan government received its first concessional loan from the World Bank in 1980, it agreed to address corruption and reform its civil service sector by reducing the number of state employees. But the state did not reform the sector as pledged. Instead, the civil service sector expanded, as illustrated in Table 10 below. Kenya went from having 200,000 public employees in 1963 to over 500,000 by 1982 and to more than 715,000 in 1991.

Table 1: Employment in Public Sector: 1962, 1982, and 1991

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1982</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector (‘000s)</td>
<td>200.4</td>
<td>505.6</td>
<td>715.1</td>
</tr>
<tr>
<td>Private sector (‘000s)</td>
<td>385.0</td>
<td>540.4</td>
<td>726.6</td>
</tr>
<tr>
<td>% Public of total employment</td>
<td>34.2</td>
<td>48.2</td>
<td>49.6</td>
</tr>
</tbody>
</table>

*Source:* (Cohen 1993:452)

Increases in public sector employment resulted in a large percentage of the national budget being allocated for salaries and benefits. During the 1991-1992 fiscal year, the period of the first multi-party elections, nearly 79 per cent of government
fiscal resources were allocated to the recurrent budget. In 1993, after excluding debt servicing, principal and interests, 59 percent of recurrent budget was spent on wages, salaries, and other benefits for public sector employees (Cohen 1993:453).

Government ministries went from 23 in 1982 to 31 by 1991 even when the number of departments decreased from ten to six during the same period. Government wholly owned parastatals went from 69 to 71 and government majority shares in others increased from 111 to 120 during the 1982-1991 period (Cohen 1993:451). According to Bigsten and Moene, unnecessary positions were added at the Permanent Secretary and ministerial levels. Politically powerful ministries were spending beyond budgetary limits. Part of the money was used to finance parastatals that created employment slots to be allocated to allies of the government’s “supporting coalition” even if they did “not meet the required qualifications” (1993:181).

Some argued that the expansion of the public bureaucracy was a strategy of the ruling elites to maintain their ruling coalition (Bigsten and Moene 1993), which if it were done properly would be considered normal as in any typical parliamentary system in need of a coalition to form a government; but others posited that the increases in public employment and expenditures were indicative of public corruption and ethnic favoritism because most of those employed were Kalenjin and KANU loyalists (Kanyinga 2004). Critics of the government pointed to the fact that
members of the Kalenjin ethnic group disproportionately occupied cabinet posts and permanent secretaries during the Moi presidency as evidence for their claims of corruption and ethnic favoritism. It was within this context of increased public sector employment during the Moi presidency that internal actors demanded reforms to combat corruption in government.

Despite the failure to address public sector corruption, Kenya continued to receive financial assistance from the World Bank and the IMF. The IMF exhibited similar weaknesses to the World Bank in its programs with respect to the power of conditionality to force Kenya to embrace liberalization during the Moi presidency. The IMF financial aid to Kenya was for broad structural reform, including for reforming the public sector and combatting corruption (IMF 2008).

From 1980 to 2000, Kenya received 12 loans from the IMF (some joint with the World Bank) totaling special drawing rights (SDRs) 922 million (see Appendix D).\(^\text{13}\) Kenya was number seven among the top ten countries classified as having “prolonged use of IMF resources,” from the time it entered its first program in 1975 to 2000. Prolonged use was defined as having spent at least seven years out of any ten years under IMF arrangements. Kenya spent 19.2 years and all of its arrangements (loans) were over 100 percent of its quota (IMF 2002:24+29).

\(^{13}\)Special Drawing Right (SDR) is an international reserve asset created by the IMF and credited to member countries to supplement their existing reserve assets.
Similar to the World Bank, “[w]hen a country borrows from the IMF, it agrees to adjust its economic policies to overcome the problems that led it to seek funding in the first place” (www.imf.org). Given these facts and in light of the influence that many scholars have ascribed to the IMF, it would be reasonable to conclude that the IMF should have had considerable control over Kenya’s policy decisions during the Moi presidency. Yet the IMF complained in 2004 that its policy recommendations regarding corruption and good governance practices were not implemented during the Moi period (IMF 2009).

The World Bank, too, acknowledged the weaknesses of its programs and complained that lack of ownership on the part of the Moi government prevented the implementation of its policy recommendations. A review of its support to Kenya going back to 1961 pointed to mixed results with respect to effectiveness, outcomes, institutional development and sustainability. It listed poor design and inadequate ownership among the stakeholders, including some in the government (Bank 1998).

It was not the first time that both the World Bank and IMF fell short of their objectives in Kenya and yet the institutions continued to disburse financial aid. The Moi government knew this and therefore the threats from the IFIs to suspend financial aid were not a significant factor in pushing the government toward reforming the public sector and addressing government corruption. Continued to get frustrated by the government’s lack of initiative to address corruption and promote
good governance practices, which the IMF argued were “key to improving Kenya’s economic performance,” the institutions suspended their financial aid for most of the 1990s (Bank 1998; IMF 2009:5). Despite the suspension of financial aid, however, Kenya continued with reforms to combat public sector corruption, indicating that it was not the IMF and the World Bank that were the primary actors pushing it to undertake such reforms.

5.6 Conclusion

The goal of this chapter was to show how domestic pressures, especially pressures from the non-Kalenjin business elite, combined with pressures from a failing economy, and the external actors linked to broader national campaigns to push the Moi government to concede to reform. Having been alienated from their privileged political and economic positions by Moi, members of the Kikuyu political and economic elite and allies protested and demanded reforms. Their agitation and demands coincided with efforts by the IMF and the World Bank and the two sets of actors created an alliance of convenience. Absent of the efforts of the internal actors, the IFIs would not be in position to significantly influence Kenya’s behavior toward liberalization.
The external actors could not move Kenya toward liberalization despite the influence they were said to have because of their financial power and conditionality they imposed. However, evidence provided in this chapter suggested that conditionality as a tool had limited influence in forcing Kenya to embrace liberalization. Rather than external actors, the chapter argued that internal pressures were more influential in forcing the Moi government toward reform. As economic conditions deteriorated and various groups got agitated because they lost their privileged positions in Kenya’s deeply-rooted ethnic rivalry, the Moi government was forced to concede to reforms. The government started by lifting controls on investors in 1983, deregulating financial markets, and divesting from state-owned financial institutions as the decade wore on. These reforms led to greater shares of the sector in the hands of Kenya’s private investors.
6.1 Concluding Analysis

The conventional explanation for developing nations undertaking reform has focused on external actors, the underlying rationale being that developing countries over the last 30 years have been forced by the IFIs to reform by virtue of their dependence on the IFIs for development aid. This explanation certainly has some merit but it also underrepresents the work and influence of domestic actors and conditions in bringing about political and economic reform. The merits and shortcomings of the IFI-influence argument have been examined exhaustively in a number of other studies, and some are discussed in Chapter One of this dissertation. The IFI-influence explanation is only part of the story in Kenya’s case, however. It is only part of the story in Kenya because of the compelling domestic factors at play there, factors that the IFIs could not overcome on their own.
The emphasis on the role of domestic actors and factors in bringing about liberalization in Kenya puts in context the role the external actors had played. When considering the role of external actors in the context of Kenya’s history dating back to colonialism and postcolonial politics, it becomes clear that the IFIs’ influence in bringing about liberalization was complementary and secondary. In fact, well before domestic actors’ agitation for reform reached its peak in 1990, for over ten years the IFIs and Kenya had engaged in an on-again off-again relationship without realizing any substantial reform.

What can be deduced, however, based on the length of time the IFIs have been involved in Kenya and the level of assistance they have provided, is that if they had more influence than domestic actors or were the primary drivers of liberalization, as many have argued, Kenya would have been a “model student.” The reforms the IFIs demanded would have been implemented easily and with a high rate of success. This was not the case, however, under President Moi. Instead, the relationship between the IFIs and Kenya turned out to be frustrating and contentious, indicating the limited nature of the power of the IFIs to force their will on Kenya.

Illustrative of the stalemate was the IMF’s offer to loan staff to the Kenyan government to help it write legislation. The IMF made the offer because it was frustrated that the government was not moving fast enough on reforms. But the President and many parliamentarians did not believe in the reforms or they needed
more time to evaluate them. The offer was turned down, and even civic organizations that were generally supportive of the IMF’s efforts called its offer meddling in a country’s internal affairs. The effect was that domestic actors frustrated the efforts of external actors—and they often did in Kenya—even when the external actors had power over the country by virtue of their financial position.

This incident shows how domestic forces and considerations can frustrate the efforts of the IFIs, though it does not necessarily mean that external forces have no influence at all. The Moi government complained about “outside forces” having been behind “unconstitutional bills” being “pushed [on] the government” and pledged to resist those forces, referencing the IFIs as those forces (Kamau 2001:3). Therefore, there is no doubt about the reach of the IFIs to influence parliamentary debate around reforms, but having that kind of influence does not necessarily translate into “causing” actual reforms. In order to actually assess which type of actors—internal or external—can bring more effective influence or pressure to bear in moving a country toward reform, it is best for scholars to take a micro-level approach to the analysis. A micro-level approach involving interviews with activists, experts, and participants on the ground enables one to better understand how what may have seemed to be minor events had major consequences on the behavior of the state. Such an analytical approach would help answer questions about the extent to which externally imposed conditionality, the primary mechanism through which IFIs’ leverage is used to force countries to reform, can actually force countries to reform.
6.2 Limits of External Influence and Aid Suspension

As discussed in the previous chapters of this dissertation, Kenya had IFI conditionality imposed in a number of areas, both political and economic. Conditionality terms alone had no significant impact on the reform process. When domestic actors were involved in pressuring the government, however, there was movement toward reform.

IFI pressure for reforms under President Moi throughout the 1980s did not result in any significant policy changes. In most cases, there seemed to be agreement on the need for reform, or some reforms would be initiated, but the government would renege, causing suspension of support from IFIs or Parliament would pass reform measures but there would be little or no implementation of the laws. This pattern went on for over ten years. Threats and suspension of financial aid by the IFIs did not improve the prospect for policy implementation. Part of the reason threats of aid suspension were not effective was because Kenya could always find financial assistance elsewhere, as donors had conflicting interests and often sent conflicting signals as to the seriousness of their threats. Press (2004) sought to make this same point when he argued that the IFIs and donor countries failed to leverage their funding to compel President Moi to improve his human rights:
The donors as a whole failed to use their aid leverage for reforms collectively except for a dramatic moment in November 1991. Otherwise they sent conflicting signals to the regime which in turn attempted to play the game well enough with concessions aimed at staving off real threats to its power and at keeping aid money flowing (143).

Even the “dramatic moment” in late 1991 was not the primary force pushing President Moi to concede to reform. The donors committed to suspend $350 million, but the actual amount suspended was only $115 million, less than a third of the amount threatened.\(^\text{14}\) For that year, the suspended aid amounted to only a 12 percent reduction from the previous year. It is a reasonable argument to make that the amount of funds suspended was not such that it would have a significant impact on the conduct of the government.

Kenya’s refusal to comply with the demands of the IFIs was reflected in the number of times that its financial aid packages were suspended: at least two suspensions for non-compliance in each decade from 1980 to 2000. When aid was suspended in 1991, it took two years before another agreement could be reached. After a suspension in 1997, it took another three years of negotiation for a new package; and as Press (2005) puts it, “[h]ad the funding issue been pivotal, the regime would likely have moved swiftly to meet the demands of the donors, which

were primarily economic, not political in 1991” (14). Further suspensions followed within months after the new arrangements.

The frequency of aid suspension would be surprising if a country’s embrace of reform were indeed linked to receiving development financial assistance. In Kenya’s case, however, whatever leverage the IFIs had, it was not independent of stronger, more influential domestic factors. Throughout those years, the government was rebuked by the IFIs but there was no strong call from the IFIs for significant political and economic reform. It was not until after domestic actors rose against deteriorating internal conditions that President Moi conceded to calls for reform. Less than a year after the attempted coup, for example—a coup that the plotters claimed was a response to government corruption—the government initiated both political and market reforms by lifting controls on investors. After popular protests in 1989 and 1990, the government launched political and market reform by divesting of parastatals.

6.3 Resilience of Domestic Factors: Customary Land Rights

The limit of external influence was also apparent in the issue of individualized property rights. The IFIs had some influence in promoting individualized land tenure rights, something that they have been promoting in Kenya
since the 1950s under similar assumptions to those of the Swynnerton Plan (assumptions that individual free-holding property rights would induce economic growth through increased credit, increased investment in agriculture because of land tenure security, and the increase in land area controlled by the most efficient farmers). As in the colonial period, these benefits did not materialize because of ethnic traditions, as some of these assumptions could not be fully practiced. The assumptions failed because the IFIs neglected to consider the durability of customary traditions in the ethnic communities. The assumed benefits of individual free-holding rights were not sufficient to override customary tribal traditions and tribal communities continued to practice communal land tenure (property) rights. Attempting to institute a liberalizing system led to direct confrontation with tribal traditions (Kieyah and Kameri-Mbote 2010).

This contradiction between customary and legal land rights resulted in confrontation among ethnic communities in post-colonial Kenya. Land disputes were the outcome of the system that created land markets where affluent members of different communities could acquire land in other’s traditional areas, effectively negating the customary land rights practiced among virtually all ethnic groups in Kenya. Under an authoritarian one-party system, the state contained such conflict until it could no longer manage it, as agitation for political reform intensified in the early 1990s. Ethnic violence over land and other political rights occurred in the Narok District between the Maasai and Kikuyu in 1992, and in the Trans-Mara
District in 1997 between the Maasai and Gusii. This type of ethnic violence continued up to the last presidential election in 2007. Maina Kiai, Chairman of Kenya’s National Commission on Human Rights, explained the root cause of ethnic violence was land. The Kenyatta government failed to returned ex-settlers land to tribes who originally lived in some areas in the Rift Valley and their resentment against Kenyatta’s tribe, the Kikuyu, persists to today (Gettleman 2008).

There were also reform assumptions that did not materialize simply due to the nature of agriculture, especially as it relates to smallholdings. The assumption that individualized land tenure would induce increased credit to farmers failed to materialize because it did not take into account that credit agencies would be reluctant to issue credit to small farmers because of the high risks involved in such an investment in Kenya’s ethnically divided society. A willing purchaser would have difficulty obtaining credit to buy land, as credit agencies would have difficulty foreclosing on properties in the event of default because of the prevalence of customary tenure. In short, the benefits of individualized land rights did not materialize because of a disconnect between its objectives and the actual practices on the ground (Kieyah and Kameri-Mbote 2010).

This domestic reality was not something that IFI conditionality could have influenced in a way that would make it conducive to reform. Recognizing the challenge of customary land rights, President Moi had to issue a presidential
directive aimed at requiring family members and title-holders to enter into agreement prior to any sale or the use of land as collateral. How these agreements would be enforced and how they would be verified was not clear. “Under such circumstances,” as Pinckney and Kimuyu (1994) put it, “it is not surprising that there is little supply of land-secured credit, and those who do receive such credit frequently pull political strings or have access to substantial off-farm income” (5). Domestic actors are more likely to be the primary actors in reforming such a customary land tenure system.

6.4 Effects of Colonialism and Ethnic Politics

The way in which colonial administrators manipulated ethnic interests to govern Kenya set a precedent that has affected the way in which Kenya has been governed since independence. Post-colonial Kenyan leaders learned how policies of the colonial administrators benefited settlers and their commercial supporters. They, too, adopted policies that favored their ethnic groups and their allies. It may be that some individuals in particular ethnic groups believed in liberalization, or at least professed to, but they believed in it within the context of ethnic politics. These leaders have catered to their ethnic groups, and when a leader of a tribe takes control of the state, the inclination is to establish systems that favor his/her tribal communities (Amutabi 2009). This does not mean that all other groups were completely excluded and marginalized; rather, it means that the tribe of the president
received a disproportionate share of public positions and resources. Statistics provided in this dissertation show this was the case under both Kenyatta and Moi.

The way in which President Moi used ethnic politics to create a financial crisis, which in turn allowed him to further marginalize the Kikuyu business elites, is an indication of the power of domestic actors and factors in influencing reform. In retaliation, influential members of the Kikuyu community joined the opposition against the Moi government. This confrontation between the Kikuyu business and political elites and President Moi resulted in increased government repression of political opposition, which in turn further heightened popular protests against the government. By the summer and fall of 1990, the agitation for reform had reached a peak, leading to increased protests, which were followed by increased use of force by the government against the protestors (Lehman 1992). Seeing the level of domestic unrest, the IFIs decided to support the protestors. The indicator of their support was their announcement of aid cancellation to the Moi government. All of these pressure points eventually forced President Moi to concede to reform.

Just as the consequences of harmful colonial policies and practices led to protests and rebellion, so too did the policies of Moi and his government. Economic hardship and political repression, infused with tribal resentment, led people to the streets to demand political and economic reforms. Protests over economic malaise and political corruption and repression broadened when it was alleged that
government security forces were complicit in the murder of Foreign Minister Robert Ouko. Soon, university faculty associations and leaders of civic society organizations joined the protests. By the end of July 1990, President Moi agreed to political party reform, starting with his ruling KANU party. Among the major complaints against him were tribal favoritism, political corruption, and too much concentration of power. This domestic pressure for reform, and the government’s initial consideration of reform measures, were the beginning of political liberalization in Kenya and the catalyst for the announcement of broader reforms the following year. Contrary to IFI pressure, these events show that it was internal popular protests that kick-started efforts for reform (Legovini 2002).

Reforms were influenced more by the efforts of domestic actors and the general context of domestic politics, including the existence long historical rivalry among Kenya’s politically important ethnic groups. Domestic actors, through protests and various forms of public pressure, were able to create space to challenge President Moi and his ruling KANU party. Even though popular pressures forced KANU leaders to claim that they believed in reform, as they had pledged to the IFIs, they did all they could to maintain their authority to safeguard the status quo. This was to be expected, as reforms entailed the opening of political and economic spaces for other groups to participate.
The political and economic reforms in Kenya cannot be fully understood outside the entrenched historical rivalry among Kenya’s three politically important ethnic groups: the Kikuyu, Kalenjin, and Luo. Political and economic reforms under President Moi up to 1992 were attempts to alter the direction of or completely reverse policies that were implemented in the 1960s and 1970s under the Kenyatta government. President Moi sought reforms that would weaken Kikuyu advantages and increase those of the Kalenjin and his allies. He took advantage of IFI financial support in many instances in the 1980s but carried out little to no externally imposed reform. Areas that would have had adverse implications for his power were never reformed in the way that the IFIs wanted. The National Cereal and Produce Board (NCPB), for example, which the IFIs wanted privatized since the early 1980s, did not see any reform until 1992 because the NCPB was an effective mechanism for President Moi to channel largesse to supporters, especially Kalenjins, in the agricultural sector (S. Ambrose, personal correspondence, February 15, 2012). It was not until his political power was threatened in 1990 by popular protests that President Moi conceded to political reforms.

6.5 Implications of Domestic-Actor Focused Study for Reform

Through a domestic-focused explanation for Kenya’s (often reluctant) embrace of political and economic reform and why IFI influence on the reforms in
Kenya was limited, this dissertation contributes to the literature on the design and implementation of reform and development programs, a contribution that has policy relevance both for developing countries and for international financial institutions. Kenya’s persistent non-compliance with IFI conditionalities while at the same time achieving real progress toward reform points to the influence of a number of domestic actors and conditions—including the nature of ethnic division and politics influenced by a legacy of colonialism—that donors in the future should consider in their reform program blueprints. In designing reform policies and programs, all efforts should be made to understand how each project would affect different ethnic group.

A micro-level analysis that elucidates the role that popular protests and resentment had in forcing President Moi to concede to reform affirms the importance of these factors and leads to a recommendation that the international financial institutions consult with domestic activists from all sectors as part of their engagement with governments on any reform initiative. This recommendation is very important for two reasons. First, if development policies are to be successful, all of the internal actors must be fully involved in all stages of the policy process—planning, designing, and implementation—because ultimately these actors are primary in determining the extent to which policies are implemented. Second and more importantly, it is they who will have to live with the consequences of the policies.
APPENDIX A:
LOCATING KENYA: MAPS AND CURRENT STATISTICS

The former colony of Great Britain is located in East Africa and borders Ethiopia, Tanzania, Uganda, and Somalia. Kenya is more than twice the size of the U.S. state of Nevada with a total area of 580,367 square kilometers. It currently has a population of 43 millions growing at a rate of 2.44 percent making Kenya is the 31st most populated country in the world, between Tanzania and Argentina. Life expectancy at birth is 63.07 years (male: 61.62; female: 64.55) with a median age of 18.9 years. The maps below provide more details about Kenya’s territorial characteristics.

Administratively, Kenya is divided into seven provinces and the area of Nairobi. The country adopted a new constitution promulgated in August 2010, which “designates 47 yet-to-be-defined counties as first-order administrative units” (CIA Factbook 2012). The new constitution also abolishes the position of prime minister and establishes a bicameral legislature. Many of the provisions in the new constitutions have yet to be finalized and will not probably be enforced during the next administration. The next presidential election was supposed to be held in the fall of this year, but there is news that it has been postponed until March 2013.

---

Appendix B: Selected Events under President Moi

<table>
<thead>
<tr>
<th>Year</th>
<th>Political events</th>
<th>Economic policies/Events</th>
<th>Relations with IFIs</th>
</tr>
</thead>
</table>
| 1982 | • Kenya's National Assembly declares KANU Kenya’s the sole legal party. Press censorship and political detentions increase.  
• Attempted coup d'état in August led by a Luo officer in the Kenyan Air Force. Oginga Odinga accused of being involved in the plot and placed under house arrest. | • Creation of the Central Bank of Kenya.  
• Change in exchange rate regime (fixed to crawling). | • Second World Bank Structural Adjustment Credit approved. |
<p>| 1984 | • Increased anti-government protests, including emergence of dissident student groups. | • Severe drought caused corn and other staples shortages. |  |</p>
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>Student protests and public education campaigns increased. Parliamentarians critical of the government arrested and accused of being connected to Mwakenya, a leftist movement.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vote by secret ballot replaced with &quot;queue&quot; voting where voters stand in lines marked for their choice of candidate. This was an attempt to intimidate people from voting against the government.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consolidation of executive power. Parliament passed a constitutional amendment to increase the president's power over the civil service and the judiciary.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coffee boom. This helped the government to reduce its budget deficit.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>World Bank disbursed two loans: $60 million agricultural sector adjustment operation credit and $13.2 million agricultural sector management credit to reform the National Cereal and produce Board (NCPB).</td>
<td></td>
</tr>
</tbody>
</table>
1988
- Moi dissolved the National Assembly and released some political prisoners. Moi re-elected president and many opposition leaders arrested.
- Constitution amended in July granting the executive branch the power to dismiss judges as well as extending legal authority to detain without trial to 14 days (from 24 hours).

1989
- Minister Kenneth Mabita forced to resign for criticizing the result of the 1988 election. Matiba became one of the leaders of the opposition movement in 1990.

<table>
<thead>
<tr>
<th>1988</th>
<th>• World Bank approved more sectorial loans to Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Enhanced Structural Adjustment Facility (ESAF) agreement with IMF. WB approves financial sector loan</td>
</tr>
</tbody>
</table>
1990

- Opposition to KANU’s single-party dominance intensified. In July, Charles Rubia, Matiba and Raila Odinga were arrested and detained without trial and their public "pro-democracy" rallies banned.

- Protests in the Central Province. Government-sponsored review of KANU in a one-party system. Public discontent with the government and KANU increased. In August, Oginga Odinga and six prominent opposition leaders, form the Forum for Restoration of Democracy (FORD), a coalition of different (multi-ethnic) opposition groups.

1991

- Moi accepted demands for political pluralism.

- The National Assembly amended the constitution to allow for multi-party elections and made it a requirement that presidential candidates win at least 25% of the vote in at least five of the eight provinces, in addition to an overall plurality. The president was given the authority to appoint all (11) members of the Electoral Commission

- Kenya operating under a dual exchange rate system.

- Kenya’s Central Bank lifted all controls/restrictions on commercial banks’ loans. Commercial banks were allowed to determine fees and interest rates on their loans.

- WB approves second agricultural and export development sector loans.

- International donors announced suspension of $350 million in quick-disbursing loans from the IMF.

- WB approved education sector loan.
<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
</table>
| 1992 | Establishment of more new political parties. Mwai Kibaki's Democratic Party, Odinga's FORD, and other smaller parties such as the Social Democratic Party, the Kenya National Democratic Alliance, the People's Union of Justice and New Order and Islamic Party of Kenya.  
  
  FORD organized first legal opposition rally in over 20 years. Civil unrest broke out in the west central region. Kalenjin warriors attack Kisii tea farmers, disrupting tea production. Outbreaks of violence continued to mount over the following two years, seeming to confirm the government's predictions that multi-party politics would exacerbate ethnic tension and eventually splinter the country along tribal lines. Opposition parties accused the government of inciting the violence. Estimated 2,300 people dead and 25,000 displaced.  
  
  In March women protesters attacked by police with tear gas and batons during a hunger strike to liberate political prisoners. Demonstrations in Kisumu, Odinga's stronghold, and the western town of Homa Bay. New | Goldenberg scandal: Businessman Kamlesh Pattni and then-permanent secretary in the Ministry of Finance Wilfred Koinange allegedly exported nonexistent gold as part of a credit-for-export program to help Kenya recover from the effects of the First Gulf War. The fraudulent scheme cost Kenya over 2 billion shillings in export fees. |
protests in Nairobi.

- In the December elections, Moi won the December presidential election with 36.35% of the votes (Kenneth Matiba takes 26%, Mwai Kibaki 19.45%, and Oginga Odinga 17.48%). Opposition won 88 out of 188 seats in Parliament. Opposition protested the election results, calling them invalid on the grounds of procedural irregularities, but observers did not think the irregularities merited annulments of the results.

1993
- President Moi sworn in on January 4, 1993, for another five-year term.
- Kenyan Shilling allowed to float.
- ESAF agreement with IMF.

1994
- FORD disintegrates into rival ethnic factions: FORD-Asili (Kikuyu), FORD-Kenya (Luo and Abaluhya).
- International aid resumes in December.

1995
- International aid stops over corruption/management disputes
<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>President Moi set to retire before the end of 2002. Constitutional review set to begin dialogue on a referendum on a new Constitution.</td>
<td>- Anti-corruption and Economic Crimes Bill failed to pass. - Government expands VAT to all goods and services. Minister of Agriculture announced end to Coffee Board of Kenya marketing practices and 90% retrenchment of its staff.</td>
</tr>
</tbody>
</table>

Source: (Jonyo 2002; Kanyinga 2007; Legovini 2002)\(^{16}\)

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\(^{16}\) Table credited to Legovini 2002. Author made some revisions and added additional information from other sources as needed.
Appendix C: World Bank Loans and Credit to Kenya’s Agricultural Sector, 1964-1997

<table>
<thead>
<tr>
<th>Appraisal Year</th>
<th>Loan (L) or Credit (C) Number</th>
<th>Project Name</th>
<th>Disbursement ($ million)</th>
<th>Disbursement Approval (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>C64</td>
<td>KTDA</td>
<td>2.2</td>
<td>79</td>
</tr>
<tr>
<td>1968</td>
<td>C119</td>
<td>Tea II</td>
<td>0.1</td>
<td>5</td>
</tr>
<tr>
<td>1974</td>
<td>L993</td>
<td>Tea Factory</td>
<td>10.4</td>
<td>100</td>
</tr>
<tr>
<td>1977</td>
<td>L1389</td>
<td>S. Nyanza Sugar</td>
<td>25.0</td>
<td>100</td>
</tr>
<tr>
<td>1978</td>
<td>L1636</td>
<td>Sugar Rehab</td>
<td>12.8</td>
<td>18</td>
</tr>
<tr>
<td>1979</td>
<td>C914</td>
<td>SH Coffee I</td>
<td>10.5</td>
<td>39</td>
</tr>
<tr>
<td>1982</td>
<td>C1237</td>
<td>Cotton</td>
<td>21.6</td>
<td>98</td>
</tr>
<tr>
<td>1989</td>
<td>C2062</td>
<td>SH Coffee II</td>
<td>30*</td>
<td>82*</td>
</tr>
<tr>
<td><strong>Rural Dev’t Phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>L1303/C650</td>
<td>IADP I</td>
<td>6.7</td>
<td>33</td>
</tr>
<tr>
<td>1978</td>
<td>C858</td>
<td>Narok ADP</td>
<td>3.2</td>
<td>25</td>
</tr>
<tr>
<td>1979</td>
<td>C959</td>
<td>IADP II</td>
<td>5.3</td>
<td>12</td>
</tr>
<tr>
<td><strong>Program Lending Phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>C1277</td>
<td>Grains Ag. TA</td>
<td>6.0</td>
<td>100</td>
</tr>
<tr>
<td>1986</td>
<td>C1717/AFO21</td>
<td>ASAO I</td>
<td>60.0</td>
<td>100</td>
</tr>
<tr>
<td>1991</td>
<td>C2204</td>
<td>ASAO II</td>
<td>33.7</td>
<td>45</td>
</tr>
<tr>
<td><strong>Institutional Dev’t Phase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>C1387</td>
<td>NEP I</td>
<td>14.5</td>
<td>97</td>
</tr>
<tr>
<td>1986</td>
<td>C1718</td>
<td>ASMP I (NCPB)</td>
<td>13.2</td>
<td>115</td>
</tr>
<tr>
<td>1987</td>
<td>C1758</td>
<td>Animal Health</td>
<td>11.4</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>C1849</td>
<td>NARP I</td>
<td>18.4</td>
<td>94</td>
</tr>
<tr>
<td>1988</td>
<td>C1974</td>
<td>Rural Services</td>
<td>21.9</td>
<td>105</td>
</tr>
<tr>
<td>Year</td>
<td>Code</td>
<td>Project Type</td>
<td>Amount</td>
<td>Percentage</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>--------------</td>
<td>--------</td>
<td>------------</td>
</tr>
<tr>
<td>1990</td>
<td>C2198</td>
<td>Forestry IV</td>
<td>10.5</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>C2199</td>
<td>NEP II</td>
<td>9</td>
<td>50*</td>
</tr>
<tr>
<td>1992</td>
<td>C2445</td>
<td>ASMP II</td>
<td>8*</td>
<td>55*</td>
</tr>
<tr>
<td>1993</td>
<td>C2460</td>
<td>Drought Recovery</td>
<td>12*</td>
<td>80</td>
</tr>
<tr>
<td>1995</td>
<td>C2797</td>
<td>Arid Lands RMP</td>
<td>14*</td>
<td>N/A</td>
</tr>
<tr>
<td>1996</td>
<td>C2907</td>
<td>Lake Vic. EMP</td>
<td>8*</td>
<td>N/A</td>
</tr>
<tr>
<td>1997</td>
<td>C2935</td>
<td>NARP II</td>
<td>27*</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Not Classified**

<table>
<thead>
<tr>
<th>Year</th>
<th>Code</th>
<th>Project Type</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>C129</td>
<td>LS I</td>
<td>3.6</td>
<td>92</td>
</tr>
<tr>
<td>1969</td>
<td>L641</td>
<td>Forest I</td>
<td>2.6</td>
<td>100</td>
</tr>
<tr>
<td>1972</td>
<td>C105</td>
<td>SH Credit AFC</td>
<td>3.6</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>C344</td>
<td>SH Credit II AFC</td>
<td>6.0</td>
<td>100</td>
</tr>
<tr>
<td>1974</td>
<td>C477</td>
<td>LS II</td>
<td>12.5</td>
<td>58</td>
</tr>
<tr>
<td>1975</td>
<td>L1093/C537</td>
<td>Group Farms</td>
<td>5.2</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>L1132/C565</td>
<td>Forestry II</td>
<td>19.9</td>
<td>99</td>
</tr>
<tr>
<td>1977</td>
<td>C692/L1390</td>
<td>Ag. Credit III</td>
<td>18.7</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>L1389</td>
<td>Bura Irrigation</td>
<td>34.9</td>
<td>87</td>
</tr>
<tr>
<td>1979</td>
<td>C962</td>
<td>Baringo (SA)</td>
<td>4.0</td>
<td>62</td>
</tr>
<tr>
<td>1980</td>
<td>C1051</td>
<td>Fisheries</td>
<td>0.2</td>
<td>2</td>
</tr>
<tr>
<td>1981</td>
<td>L1995/C1443</td>
<td>Ag. Credit IV AFC</td>
<td>35.0</td>
<td>100</td>
</tr>
<tr>
<td>1982</td>
<td>L2098/C1213</td>
<td>Forestry III</td>
<td>24.6</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: (Bank 1998). * The full amount of the loan/credit and the percentage disbursed was not known to the World Bank’s Operations Evaluation Department.
**APPENDIX D: IMF/World Bank’s Arrangements with Kenya, 1980-2000**

<table>
<thead>
<tr>
<th>Year</th>
<th>Type</th>
<th>Original Amount (Million)</th>
<th>Disbursed (Million)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>Stand-By Arrangement</td>
<td>SDR 241.5</td>
<td>SDR 90</td>
<td>Remainder cancelled, 1982</td>
</tr>
<tr>
<td></td>
<td>Supplementary Facility</td>
<td>SDR 184.8</td>
<td>SDR 50.1</td>
<td>Remainder cancelled, 1982</td>
</tr>
<tr>
<td>1982</td>
<td>Supplementary Facility</td>
<td>SDR 96.8</td>
<td>SDR 96.8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplementary Facility</td>
<td>SDR 60.4</td>
<td>SDR 60.4</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>Stand-By Arrangement</td>
<td>SDR 175.9</td>
<td>SDR 175.9</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>Stand-By Arrangement</td>
<td>SDR 85.2</td>
<td>SDR 85.2</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>Compensatory Facility</td>
<td>SDR 37.9</td>
<td>SDR 37.9</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>SAF Loan</td>
<td>SDR 99.4</td>
<td>SDR 28.4</td>
<td>Replaced by ESAF, 1989</td>
</tr>
<tr>
<td>1989</td>
<td>ESAF Loan</td>
<td>SDR 241.4</td>
<td>SDR 216.2</td>
<td>Remainder suspended, 1992&lt;sup&gt;17&lt;/sup&gt;</td>
</tr>
<tr>
<td>1993</td>
<td>ESAF Loan</td>
<td>SDR 45.2</td>
<td>SDR 22.6</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>ESAF Loan</td>
<td>SDR 149.6</td>
<td>SDR 24.9</td>
<td>Remainder suspended, 1997</td>
</tr>
<tr>
<td>2000</td>
<td>PRGF Loan</td>
<td>SDR 150</td>
<td>SDR 33.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: (IMF 2001; IMF 2008:18; O’Brien and Ryan 2001)

<sup>17</sup> The suspended balance of this loan was renegotiated in December 1993 and was drawn by December 1994. Kenya was supposedly under suspension.
Special Drawing Right (SDR) is an international reserve asset created by the IMF and credited to member countries to supplement their existing reserve assets. The value of the SDR in U.S. dollar is calculated daily as the sum of the values in U.S. dollars of the four major currencies in the world, the Euro, U.S. dollar, Japanese yen, British pound sterling, based on exchange rates quoted at noon at the London Stock Exchange. The SDR exchange rate is posted daily on the IMF web site: www.imf.org. Countries that have been granted SDRs have to exchange them for currencies from other members of the IMF with enough reserves to perform the exchange.

Compensatory and Contingency Financing Facility (CCFF) provides contingency loans to member countries experiencing temporary export shortfalls. The CCFF also helps countries finance excess costs of cereal imports resulted from circumstances beyond the members’ control. In other words, this facility assists members with financial aid arrangements to protect themselves from unexpected, adverse external developments. In the case of Kenya, the 1986 compensatory loan was to help the country respond to its need of maize crises caused by a major drought started in 1983.

Stand-By Arrangements (SBAs) are described as the “workhorse” in IMF lending. SBAs are quick disbursing loans to a member countries that are
experiencing balance-of-payment problems. Rates are non-concessional, which means they carry an interest rates, although the rates are most often than not lower than what countries would be charged by private markets. Kenya received three stand-by loans in the first part of the 1980s totaling more than SDR 351 million.

The Supplementary Financing Facility was established in 1980 as a subsidy account to help reduce the costs of financing incurred by eligible developing countries. Countries use this subsidy to help cover periodic changes that they would have made to the IMF General Resource Account. Kenya received such subsidy in 1980, but most of the fund had to be suspended because the IMF and Kenya could not agree on the kind of reforms that the country should undertake.

Structural Adjustment Facility (SAF) loans were concessional loans given to low-income member countries facing protracted balance-of-payments assistance. These were typically joint loans with the World Bank and other lenders and were conditioned on the recipient countries agreeing to undertake structural reform. Kenya received one SAF loan, as the facility was being converted and extended to the Enhanced Structural Adjustment Facility (ESAF) from 1987 and 1993.

ESAF loans were similar to SAF loans but with broader terms and prospects to higher amounts. As successor to the SAF, it had similar objective, eligibility, and “program features, but differed in scope, terms of access, and funding sources.” In 1999, ESAF was replaced with the Poverty Reduction and Growth Facility (PRGF). Currently, PRGF loans have the same terms as ESAF, but the IMF has more
flexibility in considering social spending to reduce poverty. In other words, the IMF is now able to consider conditionality around public social expenditures as part of its economic growth strategy.¹⁸

APPENDIX E: Interviewees

Soren Ambrose
Action Aid International (Kenya)
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