Institute of Social Studies

THE STATE, THE MARKET AND CIVIL SOCIETY: WHITHER DEVELOPMENT IN KENYA?

A research paper presented
by
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(Kenya)

In partial fulfilment of the requirements for the award of the

Degree of

MASTER OF ARTS IN DEVELOPMENT STUDIES

Supervisors:
Dr Frank Hirtz &
Professor John Markakis

The Hague, November 1998.

This document represents part of the author's study programme while at the Institute of Social Studies; the views stated therein are those of the author and not necessarily those of the Institute.

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Dedication

To Ann and Lydia: Nothing can separate us from the Love of God

and

To My Parents: “But for you
My pots would have lain in the sun
Cracking.
Now I tap them,
Delicately
Fearing their silent completeness”
(The late Jonathan Kariara, Kenyan poet)

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Acknowledgements

I wish to sincerely thank all those who in one way or the other made the writing of this paper possible. I must add that there are many, who for want of space, will not be mentioned by name. To you I say this: you made it happen, and I am deeply indebted.

First and foremost, my special gratitude to the Dutch Government for giving me a fellowship. I am especially grateful that that fellowship brought me to The Institute of Social Studies. In this regard, I have a confession to make: I know of no other institution of higher learning where I would have enjoyed the degree of intellectual freedom and tolerance as I did at the ISS. For this, I am extremely grateful, both to the Dutch Government and to the entire ISS community.

The next round of thanks must go to the people who directly made this possible, my supervisors. Frank Hirtz, your insistence that I 'stay focused' was a very demanding one; but I am very proud of its fruits. *Thank you very much* does not quite reveal the depth of my gratitude. John Markakis, you are the unacknowledged source of much of the insight informing the chapters on 'The State' and 'Civil Society'. I was lucky to have you both as my lecturer and second reader. To Jan Aart Scholte: you helped in the initial design of this paper and intervened at a critical moment when all hope seemed to have been lost. So much is owed to you. To Gabriel Rugalema, my discussant, I benefited immensely from your comments. Accept my sincere thanks.

Next, I must single out the staff of PADS for special mention. To Jan Nederveen, Mohammed Salih, Rachel Kurian, Frit Wils and Martin Doornbos, I will and can never thank you enough. I learnt a lot from your classes. To Jose Hannapel, my special thanks. I must also thank Mr. Obondo and Mrs. Obiero (my nominees for the fellowship); and my two referees to the ISS: Professors Paul Achola and J. D. Olewe Nyunya. To the latter, your persistent interest in my academic career has been a major inspiration.

Raymond Muhula, Wanyama and my entire family: you are the best I have. Last but not least, I wish to thank Carrol-Ann, Aaron (for your continuous interest in my paper), Godwin, Juma, Ndolo, Lydia and Josphine. Thanks for your constant encouragement. Thanks also to the PADS 1997/98 group, you were simply wonderful. Finally, I enjoyed writing this paper. It was stressful; it was strenuous; and at times extremely annoying, but: it is my own. The usual disclaimers apply.

List of abbreviations

(only those likely to be unfamiliar to the reader are included)

DDC- District Development Committee

DC – District Commissioner

DFRD – District Focus For Rural Development

GBM – The Green Belt Movement

GEMA – Gikuyu, Embu, and Meru Association

KADU – Kenya African Democratic Union

KANU – Kenya African National Union

KGGCU – Kenya Grain Growers Co-operative Union

KPU – Kenya Peoples Union

NCCK – The National Council of Churches of Kenya

Chapter I

Introduction

2.0.1: Introduction

The dominant trend taken by Kenya in her development, since the colonial times, has been state-led capitalist growth. This trend has been marked by periodic booms, with very high growth rates in key sectors of the economy. However, the trend has also been prone to periodic crises, with their roots in internal factors, and at other times, in external ones. Another feature is that the trend has been marked by unequal growth within and across communities, regions, and sectors of the economy. For much of the post-independence period, Kenya registered one of the highest growth rates in Africa, an average annual rate of 6.8 % (Azam and Daubree, 1997: 19). This massive boom in economic performance benefited a few and excluded many.

Such exclusion has been the outcome of conflicting and often contradictory roles played by the state since the colonial times. The state has had to play *entrepreneurial, regulatory and redistribution* roles simultaneously. This has impeded its own development as an institution, that of market forces and civil society. To-date, the state in Kenya remains weak in structure, extractive in nature and repressive in its dealings with its subjects. In essence, little has changed from the colonial times. Accumulation, redistribution, legitimation and control, though highly conflicting goals, have been pursued concurrently, both by the colonial and the two post-independence regimes. The state's regulatory role has been governed more by political expedience than by imperatives of capitalist accumulation, i.e. the spoils mentality has dominated over the profit motive. The state should provide the social framework within which capitalist growth occurs; but the space created for this by the Kenyan state has remained rigid, constricted and highly distorted. The state's regulatory role has favoured a few to the exclusion of many, has over-protected unproductive sectors from fair competition and has resulted in drawing resources from productive sectors to subsidise the operations of unproductive ones.

The state's entrepreneurial role has in most cases given way to redistributive policies, often aimed at serving narrow constituencies, and not wider social goals. Redistribution too has been motivated more by patronage, than by the need to offset asymmetries and imperfections that impede accumulation. The result is that the boom in the economy experienced in much of the 1960s and 1970s was neither used in a sustainable manner nor did this growth benefit a wider segment of society. It excluded many.

Those excluded have either sought livelihood elsewhere, or have joined forces to challenge the status quo, i.e. have been compelled to find alternative 'informal' ways of meeting their economic needs, or expressing their political grievances. Those excluded by the market have had to find alternative livelihood in the so-called informal sector, have withdrawn into subsistence activities or engage in criminal activities. Similarly, exclusion from the political realm has compelled others either to operate clandestinely, or to form groupings through which they have sought to challenge state power. Interestingly, it is what is excluded that has periodically acted in ways that force the 'centre' to adjust.

By the 1990s, it was clear to both internal and external observers that the state had failed in its development role. External actors diagnosed Kenya's development and concluded that the state *was* the problem. This diagnosis over, the prescription was simple: minimise the state's involvement, and thereby restore growth and stability in the economy. The market was to solve Kenya's problems by efficiently allocating resources and by removing the distortions created by the state. Period. Not much was said about inequality. By the mid-1990s, it became clear that the magic of the market was not going to work alone. Civil society, or its *strengthening,* was taken on board. The result has been a mushrooming of NGOs in Kenya, supported by funds from the North, just as civil society groups have multiplied in their number. Lately, the call has been to strengthen the institution of the state.

Whither Kenya's development?

2.0.2: <u>The Research Problem</u>

This paper seeks to understand the role that the state, the market and civil society ***can*** play in Kenya's development. It seeks to understand current debates on development in light of changes that have occurred in the process of Kenya's development. In doing this, it aims to understand the role that structures of control (i.e. the state and its instruments of control) have played historically and how external forces have influenced this process. Secondly, it also aims to understand how production and exchange relations have influenced social structures. In taking the above approach, the paper hopes to find out why the state continues to have an entrenched role in Kenya's economy. Secondly, it also hopes to unearth the factors behind the underdeveloped nature of social forces in the country; and thirdly, why the state, the market and civil society groups remain fractionalised in spite of over thirty years of political independence. It will be revealed in the course of this discussion that Kenya's development is influenced by three overlapping factors: the prevailing conditions in the world economy; the dominant development dogma of the time and other competing theories; and the disposition of the incumbent regime and the balance it is able to maintain between itself and the competing interests of the various social forces.

It is the dichotomisation of these three agents that has impeded Kenya's development. At independence, the state was expected to be the engine of growth. By the mid-1980s, the state had failed and was supposed to take a back-seat and leave Kenya's development to market forces. Of late, civil society is being asked not only to strengthen the state, but also to heal the wounds inflicted by the imperfections of the market and the distortions of the state.

This paper contends that theoretically, the roles that the state, the market and civil society carry out in development can be separated for purposes of analysis. In reality however, these roles are complementary. This paper maintains that the Kenyan polity, economy and society have inherent contradictions. Such contradictions require co-ordinated action among the state, the market and civil society. It holds further that global pressures are pushing the country towards a direction in which these agents will need consolidation, rather than isolation, to confront such pressures. In this regard, the paper hopes to highlight pitfalls in insisting that the state needs to be rolled back to leave room for the market to solve Kenya's development problems. By the same token, the paper hopes to reveal the pitfalls in arguments that are hesitant to recognise the role of the market in generating forms of growth which may propel the country onto the path of development. Views which see the IMF as the problem and dismiss its prescriptions as unworkable and imposed on the country are misinformed. Some of the Fund's prescriptions could revitalise the Kenyan economy.

Based on the above, my position is a middle-of-the-path, albeit, an unpopular one. Capitalist growth, exploitative as it is, is inescapable if Kenya wants to regain its past development record. Such growth will be based on the country developing the market forces by granting autonomy to exchange and production mechanisms, while at the same time regulating these mechanisms to ensure that they are in line with the country's development goals. Such a position requires granting autonomy to social forces as well because there are entrenched interests both within and outside the country which will fight hard against such changes. Circumstances have changed and roles too need to change. The state, the market, and civil society need to work together. Past failures could be useful lessons in the present; and success in the past has laid the basis on which to make present and future progress. It is discovering the nature and quality of capitalist forms of exploitation that are less destabilising, that result in less inequality and that have benefits for large segments of society which should be the goal of development. This offers more potential than the current trend in which sections of society and the economy are engaged in piecemeal, competitive and isolated efforts.

2. 0. 3: Structure of the Paper

Chapter 1 is the introduction. It states the problem and the basic position of the paper. Chapter 2 gives the theoretical framework. It is devoted to understanding development in the context of Kenya, arguing that social transformation and reduction of vulnerabilities are key to such understanding. Further, it argues that a political economy approach which borrows from the Marxian and Keynesian notions offers a richer framework for understanding development, in this case, Kenya's. Chapter 3 analyses the state and its role in Kenya's development. It highlights the limitations of the state's role, emphasising structural limitations and those that were of a deliberate nature. Chapter 4 looks in turn at the role of the market, again noting its limitations. Chapter 5 then investigates civil society and its assumptions. It is found to be limited too, when applied to Kenya. The final chapter (6) postulates that since all the three agents are limited in how far they can go, cultivating synergy among them offers higher potentials for development.

Because of the approach used in this discussion, and the breadth of the issues covered, two problems arise. First, certain issues are highlighted, while others are not. By leaving out some issues, the broad field that constitutes development is not represented fully in this essay, nor are all issues given equal treatment. Conspicuously missing are issues of gender, environment and ethnicity. These issues are important, but the approach adopted in this paper does not make their analysis salient. Secondly, a degree of generalisation has been inevitable because of the range of issues covered. Lastly, but not related to choice of method, no fixed alternative is offered; some pertinent issues are identified in the hope that they will trigger further discussion and research.

2.0.4: Kenya's Development Problems: an Overview

The problem Kenya faces today could be said to be the fractionalisation at the level of the state, within the market, and at the level of society. This fractionalisation means that the levers of state power are used to tilt resources to certain groups within certain communities or regions, while the rest of society is excluded. Class conflicts in Kenya assume an ethnic dimension, so that the elite from one ethnic community appeal to ethnic sentiments of their communities in seeking access to state power, and the phrase *it is our turn to eat* is not so uncommon in the electioneering process in Kenya.

Fractionalisation of the market compels firms to hold excess capacity, to integrate vertically and this impedes transfer of technology and diversification across sectors of the economy. It makes firms operate inefficiently and unable to develop coping mechanisms for dealing with shocks from internal and external economic changes. At the level of society, there is division and ethnic animosity that occasionally bursts into violent confrontations the like of which have periodically rocked the Rift Valley and Coast Provinces. Such division is fuelled both by economic inequality and the resentment and fear these evoke within and among societies. But ethnic strife is also caused by political machination by threatened political elite.

Years of repression of civil society groups, dating back from the colonial times through the successive post-independence regimes, have impeded the development of vibrant national civil society groups. To-date, most civil society groups remain elitist, non-inclusive, parochial in their goals and unable to effectively engage the state. Like the rest of society, most civil society groups seem to have sunk into the ethnic quagmire that bedevils Kenyan politics.

Fractionalisation has led to a mentality that national resources are to be doled out for purposes of patronage and to be looted. Hardly is national wealth seen as a collective good to be nurtured and developed for the benefit of the rest of society. This has resulted in corruption of unprecedented levels. Peter Gibbon (1995: 13) cites several cases of corruption in which 'political banks' operating outside normal banking regulations siphoned public funds from the exchequer, at one time to the tune of US $ 145 million. There seems to be little effort to stop corruption; the perpetrators of the '*goldenburg scandal*' of 1993 (in which non-existent minerals worth US $ 365 were purportedly exported) are still scot-free although evidence to indict them exists (Gibbon1995: 13). It is external actors who have had to act at times to stop corruption and economic mismanagement. For example, the IMF at one time demanded an overhaul of the entire senior Central Bank of Kenya personnel; and donors, through the Consultative Group, suspended the payment of quick-disbursing aid of approximately US $ 350 million in 1991 to push the incumbent regime into carrying out badly needed reforms (Barkan, 1994: 37). The privatisation exercise, which seems to be the only visible project the government is currently engaged in, has created more room for corruption. Bids for sale of State Owned Enterprises have been won by politically influential people or their allies.

Economic mismanagement is in part responsible for the continuing and increasing public indebtedness (see end-note[i]). Economic mismanagement creates a fragile policy environment and few investors are willing to commit resources in countries with poor policy rating like Kenya. Poor economic management is also seen in the lack of co-ordination between the various sectors of the country's economy; a subsistence economy exists in parallel with an export economy. This dual economic structure, prevalent from the colonial times, has persisted and constitutes a major impediment to development.

There are other problems which have to do with Kenya's position in the international division of labour. Much of the government budget relies on earnings from export of primary commodities, tourism, and donor funding. Government revenue from these sources has continued to dwindle over the years. Kenya has faced marked falling returns from trade since the mid-1980s (see end-note[ii]).

A related problem is the external orientation of Kenya's economy. The large production firms in the private sector practice vertical integration, i.e. import most of their components from outside and assemble them locally using cheap labour and then export the products (Masinde, 1996: 24, 25). Moreover, the trend from around the 1980s has been a move towards massive net capital transfers abroad, ostensibly through factor-price and other equity payments (Vaitsos, 1991: 8, 9; see also Leys, 1996).

Kenya's development policies have also been infiltrated and influenced by the International Monetary Fund (IMF), The World Bank and donor governments. In lieu of national development, Kenya's economy has been subjected to stabilisation and adjustment policies advised by the IMF; which have been pursued alongside retrenchment in the civil service, huge inflationary trends and the net result has been deepening poverty. Over-reliance on foreign aid compromises long-term growth due to debt repayment.

Chapter II

Theoretical Framework

3.0.0: Outline

This chapter problematises development and looks for a suitable theory for understanding Kenya's development. It begins by defining development, then moves on to an isolation of its variables, before finally suggesting that a political economy approach is useful both for understanding Kenya's development, and for looking for alternatives to the country's development. Just what is development?

3.0.1: The concept of development is imprecise, ideologically constructed and is the object of competing attempts at definitions and theorisation. No less than some 72 definitions of development had been offered by the mid-1980s (Martinussen, 1997: 35).

Attempts at conceptualising development are not value free, nor need they be (see Martinussen, 1997: 14; Himmelstrand, et.al. 1994: 4; Leys, 1996; Mittelman and Pasha, 1997). In these attempts, however, there is need to distinguish *the project* of each theorist. In other words, how is the problem of development defined, in whose interest are solutions offered, and how closely do the definition of the problem and the preferred solutions relate to the specific circumstances of the society in question?

Development defined

John Martinussen (1997: 14) identifies three dimensions of development, namely a *development concept, development theory,* and *development strategy.* A development concept is a value statement of what development is or ought to be; it is the ideal that a particular theorist or analyst believes the process of development should achieve. It embodies notions of conditions or objectives which must be met if the ideal state is to be met. For instance, the modernisation theory postulates a linear path of growth for Third World countries that eventually culminates into the stage of development already reached by most industrialised societies of the North, i.e. a high mass consumption society.

A development theory problematises the values and variables that comprise social reality. It tells us 'how social reality is actually structured - as opposed to how it ought to be structured' (Martinussen, 1997: 15). The choice of variables and values, and by extension their analyses, is not value-free. Each theory, however, must empirically be subjected to validating or invalidating tests using universally accepted procedures against actual conditions and historical experiences. Other analysts, whether or not they share the normative elements, or endorse the value premises or the theory's conclusions, should accept the validity of the method used and the subsequent conclusions arrived at. The third aspect, development strategy, is an abstract notion referring to the actions and interventions which can appropriately be used to promote strictly defined development objectives. While the strategies chosen to meet certain goals are weighed in terms of their cost and effectiveness, the element of 'choosing' is not value free; and the context in which 'choosing' by decision-makers occurs is characterised by limited insight about the context itself, but also of other causal relationships. In essence then, development strategies will also reflect prejudices, ideologies and personal preferences (Martinussen, 1997: 15).

The three dimensions of development are not isolated but complement one another. Social theory construction is based on a concrete historical context (Cox, 1995: 31) and thought and action are characterised by reflexivity, both constantly being refracted back upon one another (Giddens, 1990: 38) so that social theory should be seen as a guide to mapping and understanding social reality with a view to maintaining or changing it (Cox, 1995: 35).

How then is the ideal of development visualised?

James Mittelman and Mustapha Kamal Pasha (1997: 25) see development as entailing 'increasing capacity to make rational use of natural and human resources for social ends.' The assumption here is that 'capacities' already exist so that they just need to be increased. This may not always obtain. Himmelstrand, et.al. (1994: 4) maintain that development should address 'human predicaments' while Deborah Eade (1997: 13) holds that the process should reduce 'vulnerabilities' and increase 'capacities.' Others (Julie Hearn 1998, for instance) suggest that development should be understood as social transformation. I find the term *predicament* limiting. It suggests, as the authors themselves note, 'a perplexing situation from which it is difficult to disentangle oneself'(Himmelstrand, et. al. 1994: 4). If development is a process, then predicament suggests a type of incapacitation which once removed, allows action towards a state of near [or permanent] stability. The variables constraining development do not allow this type of permanence, nor are they hard and constraining as the notion of *predicament* suggests. The term ***vulnerability*** is more preferable; it conjures the notion that the constraining variables can be overcome; yet once removed, could recur if not sustained.

I thus define development as a *process of social transformation entailing the identification of vulnerabilities, so as to remove or reduce them to allow capacities to be enhanced for the attainment of cumulative and sustainable human progress.* The vulnerabilities of each society are particular, yet external variables may heighten them further, or reduce them. Altogether, even the global economy, as it is constituted currently, is characterised by vulnerabilities, i.e. the destabilising tendencies of financial capital through speculative activities and the tendency for certain markets to shrink or even be captured by rivals.

At the risk of simplification, it can be argued that modernisation and dependency/world systems theories focused on growth, i.e. *production*. Neoliberal theory, on the other hand, can be said to emphasise exchange, i.e. the *market*. A third group of theories, basic needs approach, sustainable and participatory development, could be said to be preoccupied with *redistribution*. In sum, then, it can be argued that development aims to bridge these three components of the economy. The means of attaining each, the weight that should be attached to each and the priority that each should command in development strategies are issues that have remained controversial, and possibly will for a long time to come. This is reflective both of the normative perspectives of the various theories or theorists, but also of the different stages of development that particular societies find themselves in.

3.0.2: Privileging Production

What each of the development theories does not deny is the central role of *production*, that is, each society must produce its means of survival. The way production is organised, regulated and used is a political process, embedded in the social institutions of the society in question. Key to understanding development is thus an understanding of how politics and the economy interact to apportion rewards and costs to various actors in society, and how such action is rationalised, institutionalised and reproduced. The remaining parts of the chapter develop a political economy approach, drawing selectively both from Marxian and institutionalist (Keynesian) notions. The contention is that a pattern of capitalist growth is inescapable in the current era, but a case is also made that the process should occur within a socially regulated framework (see Peck and Tickell, 1994).

3.0.3: Capitalism, Society and Transformation

Development experience in the current Century has largely been one of capitalist-driven growth, a truism that is evident in both the former communist (command) economies and the so-called liberal (free market) ones. This is likely to be the trend in the forseable future; already, analysts project that 90% of the world's population are under capitalism, linked as they are 'through open trade, convertible currencies, flows of foreign investment and political commitments to private ownership as the engine of economic growth' (Falk, 1998: 10). Similarly, it is hard to imagine development outside capitalist patterns of accumulation, given the level of interdependence of economies globally and the might of *global capital,* which finds expression in such entities as the IMF, The World Bank, WTO, The G-7 and global business conglomerates, whether these be Trans-National Corporations or financial speculators.

If it is hard to imagine development outside capitalism, then it must be imagined within capitalist patterns of accumulation. Michael Watts[1] (1997: 7) maintains that this is feasible because capitalist societalisation is still incomplete and capitalist development is a socially and institutionally embedded process. Because production and its derivatives occur within a socially defined framework (see Peck and Tickell, 1994), productivity itself is societal in nature. Thus '(L)abour, land and capital goods are obviously essential for production, but only because they are part of a comprehensive social and cultural process' (Nitzan, 1998: 178). Each type of technology is specific and relevant to a particular phase of a society's development. For technology to have practical utility in any society, there must exist ability for its use by members of that society. For instance, as a form of productive technology a computer software, however advanced, would be useless to Maasai nomads in Kenya, just like the Maasai milk gourd would be to bank employees in the same country

[1] Michael Watts, University of California, Berkeley. These views were presented at The Global Futures Conference, at the ISS, October 1997 in a paper entitled: **Reworking Development at the End of the Millennium**

or in fairly advanced societies. In both cases, a form of productive technology would serve ornamental, rather than production goals. That technology is important for altering the material condition of a given society can not be gainsaid. A symbiotic relationship exists between technology and society; both alter and improve each other, though the reverse could equally hold.

Marxists talk of the *transformative potential of capitalism,* and of how it brings within its sweep the entire spectrum of a society's life - from religion, to social relations, through to technology and to the entire system of beliefs. The process of capitalist accumulation 'turns to account all branches of knowledge that have to do with material sciences'(cited in Nitzan, 1998: 173). But the logic of capitalist accumulation also breaks down old forms of material and social existence, so that '(A)ll fixed, fast frozen relations, with their chain of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air...' (cited in Rees, 1998: 18). In essence then, capitalism societalises all aspects of life and turns them to its own inner logic, but this is yet to materialise globally. Capitalism has not entirely integrated all parts of society, especially those of the Third world, to its inner logic. True, Third World societies have been penetrated by forms of capitalist accumulation, but *the nature and quality* of this penetration have been primitively exploitative rather than qualitatively transformative.

If capitalism turns everything to its own inner logic, it is also a socially and institutionally embedded process; for it 'is the *social* essence of capital which makes accumulation possible in the first place. Capital measures the present value of future business earnings, and these depend not on productivity of industry as such, but on the ability of absentee owners strategically to limit productivity to their own differential ends' (Nitzan, 1998: 169). The value of capital thus 'represents a *distributional* claim' manifested 'partly through ownership, but more broadly through the *whole spectrum of social power'*. The earnings of any business depend 'more on the *community's overall productivity'* and less on the business' own productivity (cited in Nitzan, 1998: 176 emphasis original) Moreover, power is not only a means of accumulation, but also its most fundamental end' (Nitzan, 1998: 173). The ultimate purpose of any business concern is thus not profit maximisation per se but the attainment of a *differential* gain over competitors by beating the average (rate of profit), necessary for exerting *market power*.

In a layman's language, the point of the above observation is that the environment in which accumulation occurs, not to mention consumption of what the capitalist system produces, is governed by social norms and expectations. Members of any society generally respect property rights, enshrined as these are in laws; agree to honour contracts; and to accept socially defined roles, either as workers, managers or directors of enterprises. Road networks, discovery of certain technology that make production and exchange possible, training of manpower and a whole host of social and physical infrastructure, are provided not by capitalists themselves, but by institutions in society. Capitalists just lay appropriational claims on these and use them in productive activities (Nitzan, 1998).

Capitalists are able to lay such claims on 'societal resources' because of the power they have in terms of technology, possession of capital goods, or financial capital. Such power allows capitalists to set relational claims on property and its use, and these are sanctioned by social institutions, are institutionalised and reproduced through repeated practice and eventually become accepted as normal by the rest of society. But the power that such relational claims gives capitalists is contested and as such, each capitalist struggles to maintain a lead in the market. This is done by reaping higher profits, or by maintaining differential (i.e. a difference in) gains over others. Maintaining such a lead through differential gains gives capitalists their market power. Without these social and institutional arrangements, the chaos that would result would make capitalist accumulation almost impossible. This what I term a *socially regulated framework*.

The ability of capitalism to exert and extract differential gains from society thus occurs within a set of institutional and social arrangements, not least of which is provided by the institution of the state itself. Marxist political economists emphasise the aspects of the state that make accumulation possible. The state's activities are experienced as an externally imposed power, which takes 'the form of a separate and *apparently autonomous* organisational apparatus that acts with varying degrees of efficacy...to secure, in the face of conflict..., general conditions for the accumulation of capital' (Berman, 1990: 25 emphasis in the original). Such action fetishizes and reifies capitalist social relations through a process of abstraction, entailing an 'institutional differentiation and separation, and an ideological dimension of depersonalisation and articulation of abstract principles' (Berman, 1990: 26). Social relations, whether they constrain freedoms of person and property of certain people, are defined and regulated within juridical-political forms that treat them as the only way in which such activities may legitimately be conducted.

Since the state's activities entitle others while simultaneously disempowering others, such actions are abstracted so as to appear impartial, occurring by natural right or designed to promote social welfare and carried out in the public interest. As such, they 'become part of the *dull, repetitive factivity of the obvious* and lose their human and historically contingent character' (Berman, 1990: 26 emphasis in original). However, the positive right (of individual entitlement to property by each citizen) and the negative right (of denying others entitlement in the production and exchange relations) are contradictions the state can not transcend, 'hence the state is neither an instrument in the hands of a particular class, nor the functionalist expression of a particular interest, nor the remedy of some functional failing in the economy. Rather *it (*the state) *is the expression of a contradiction that can not be resolved at the level of society alone'* (Williams and Reuten, 1997: 423, the italics are mine).

According to Sheelagh Stewart (1997: 17), the state, the market and civil society operate within a space which 'is characterised by cross-cutting, shifting and blurred alliances, few of which benefit the disempowered.' To this may be added the observation that the state's actions are governed by calculations of power, necessary for maintaining citizen's loyalty and for exercise of differential power in its dealings with other actors. In most cases, this takes various forms, rational legitimation of such exercise of power; ideological and normative abstraction of the state's actions; manipulative redistribution; concessions, or at times, sheer brute force. Obviously, whatever course of action the state takes in distributing or redistributing economic gains and opportunities, some actors are likely to be disadvantaged. Whichever imperative dominates at any one given time depends on the task at hand, the particular constituency the state is dealing with and the implications of such action on the state's overall power position.

Citizens too are aware that the state, or whatever level of the state they are dealing with, can negotiate, manipulate and be manipulated, and can concede, or repress. Thus, the type of strategy such citizens adopt in dealing with that particular level of the state will depend on the task at hand, the citizen's organisational acumen and their position in society, i.e. whether they are allied with the state, or opposed to it. But the strategy adopted will also depend on the group's power and the pressure they can bring to bear on state action or inaction. Power can allow access; thus, 'powerful citizens are in a position to influence both civil society and the state' (Stewart, 1997: 17). Civil society groups, just like the state or the market, are therefore characterised by differential power both in their internal organisation and in their interactions with other actors in society. Participation in civil society gives both economic and political gains, and the realm within which actors in civil society operate is characterised by competition, conflict and differential levels of power.

3.0.4: <u>The Regulatory Approach</u>

A different way to look at the state's involvement in the economic issues of society is that it is the only institution with the legal, normative and political wherewithal to intervene where claims to resources are characterised by differential power. In such situations, some actors may constrict the space within which accumulation occurs to the exclusion of others. The process of capitalist accumulation, based on competition and obsessed with the drive for *differential power,* is prone to periodic crises. Besides, capitalism excludes and renders superfluous what it can not turn to its own logic. Competition and the drive for differential accumulation can have adverse effects on society, and the excluded are a burden to the economy because their potential is not tapped. Moreover, the excluded may threaten further accumulation through socially destabilising actions; are voters in their own right and thus their loyalty must be won by the state, lest they are taken over by rivals. As such, the state normally uses its power to extract *redistributive rents* from capitalists to win the allegiance of the excluded, in form of social security and other benefits. Secondly, the state should act to stop actions of capitalists which threaten to constrict the realm within which accumulation occurs. At other times, the state is the only entity capable of opening up certain sectors of the economy for capitalist accumulation because entry costs may be high. At other times still, certain goods can only be provided by the state because of the free-rider problem. This is the position often adopted by institutionalist political economists, its focus being on the regulatory aspects of the state. In the widest sense, the state acts both to stimulate demand and to remove imperfections in the market that would impede accumulation (see Prager, 1992; Sawyer, 1993; Grindle, 1996; Altavater, 1993).

I use an eclectic combination of both Marxian and institutionalist notions of political economy because I believe this is relevant to the project I have undertaken in this paper. Each of the agencies: the state, the market and civil society are reviewed in the succeeding chapters. Since the breadth of the topic covered is wide, some level of generalisation is inevitable.

Chapter III

The State and Development in Post-Independence Kenya

4.0.1: The contradictions

The patterns of development pursued during the colonial period made it imperative after independence for the state to intervene directly in the design and implementation of development policies. At independence, a modern capitalist sector in the hands of foreign investors existed side by side with a highly stratified and unbalanced peasant economy. Even the urban markets, the most developed at the time, were also highly stratified. In essence, internal markets were weak, demand low, incomes equally low and investment lacking: both because there were few capitalists willing or able to invest, but also because the risks of investing in such an environment were numerous. Moreover, the state was expected to provide the infrastructure needed to expand markets, to build social facilities, regulate redistribution and generally help private investors internalise the costs inherent in investing in such a fragile and uncertain business environment. The levers of economic control were, however, securely in the hands of settler-farmers and other foreign investors.

There were also contradictions at the level of politics. The whole the country, though administered as one colony, had never been united as one nation. Development practice in the previous period had privileged white-settler areas, while the so-called non-scheduled African reserves were administered differently according to the dictates of the district commissioners, and the means of the Local Native Councils. In practice, the Church and the entire gamut of the colonial administration struggled subtly to divide and prejudice one section of the African community against another. The aim was to diffuse any form of organised and collective political action by Africans which could threaten the basis of European dominance (see Berman, 1990; Tignor, 1976). With granting of formal political independence, institutions were hastily created which were to promote competitive democracy where not so long before, brute force and manipulation had prevailed. Structures which privileged voluntarism in politics, consensus-building, bargaining, and negotiation were hurriedly put in place. These structures reflected more the emerging democratic practice that was unfolding in Britain and were hardly designed to meet the needs of the fragile political entities prevailing then. Promises by the nationalist leaders in their agitation against colonial domination repeatedly painted a rosy picture, promising a fairer distribution of resources, greater autonomy and respect for the African; but most important, the return of land forcefully taken from the African masses. At least in principle, the *democratic* institutions created meant that the new leaders had to be more democratic in their dealings with their respective constituencies (Berman, 1990).

Such democracy was to be practised in the face of the rising tide of urban riots by the unemployed which were threatening both the maintenance of order in the newly independent state, and investor confidence (Cowen and Shenton, 1996; Berman, 1990). The situation worsened in the period immediately after independence with the release of 60 000 jobless and landless Mau Mau detainees (Migot-Adhola, 1984: 205). Further, the state was expected to negotiate between the demands of raising internal levels of income and productivity that would permit control and continuity (legitimation), and to provide conditions which could allow the country to survive in the international capitalist economy (accumulation) into which it had been integrated in the colonial period. The state, being the only institution endowed with the legitimacy and coercive ability spanning the entire spectrum of the Kenyan society, had to intervene to create order, predictability and to regulate conflicts between and among competing interests in the country.

Given these contradictions, there was fear especially within the British Government that the new nationalist leaders might *'go off the rails'* in their desire to change things (Cited in Berman, 1990: 414, emphasis in original). Such fears were bolstered by the Cold War rivalry which was beginning to rear its head on the African continent. As the nascent leadership shopped around for the most suitable ideological baggage, across the span of the African continent, the virgin ship of African socialism stood waiting to take on board statesmen and the masses of their population to the promised land of plenty and egalitarianism. The spectre of African socialism created the fear that the new leadership might jeopardise British investments in Kenya, and that it would turn the country from a capitalist to a socialist pattern of growth with a possible Communist take-over of the vast resources already developed by the British colonial government. This growth had been based on huge trade deficits, subsidised by imports from Kenya's neighbours, Uganda and Tanzania (see Barkan, 1994; Berman, 1990). Another fear was that the nationalists might not effectively operate the existing state structures, especially '**the real core of the state in the at once extensive and intricate bureaucratic apparatus of political control and economic management**...' given particularly the contradictions and conflicts that remained in the political economy of Kenya (Berman, 1990: 408, emphasis mine).

4.0.2: <u>The patch-ups</u>

A formula was needed that could be used across the entire spectrum of the Kenyan polity to contain and regulate these contradictions. The formula came by way of arrangements between the new president and the British government. In essence, this arrangement entailed getting firm guarantees that both the settlers and other commercial investments would remain secure after formal granting of political independence. In addition, other international actors were brought in as a further safeguard. The World Bank, by extending loans for agricultural settlement and development to Kenya, had Kenya's development policies yoked to the Bank's ideological outfit and would henceforth closely monitor development in the country (Berman, 1990: 415). Other international actors which extended loans to Kenya, and hence ensured that the country's economy was integrated within the international capitalist system, were the Commonwealth Development Corporation and other funding agencies, both from Britain and the USA.

Part of the arrangement also entailed the appointment of permanent secretaries in each of the ministries to socialise the nationalist leaders by trying to '*tame* the ambitious politician to see that he *did not go off the rails* in his desire to change things' (Cited in Berman, 1990: 414, emphasis in original). These arrangements worked; for the nationalist leaders 'showed an increasing tendency to rely not on their own political organisations but the state, particularly the bureaucracy' and could get things done through more easily than had been possible under the old system (Cited in Berman, 1990: 414). A policy of Africanisation proceeded slowly in the civil service, former British officers were retained as advisors within the ministries while some joined international development agencies working in the country, such as The World Bank.

The other part of the deal found its fulfilment in the institution of the presidency. This is perhaps the most established institution in Kenya's political set up; in a period spanning over thirty years of political independence, Kenya has had only two presidents. The presidency has, besides, been strengthened through political and constitutional manipulations by both its incumbents. It has thus played a key and decisive role in Kenya's development and is almost synonymous with the 'state.' Kenyatta, as Kenya's first president, had to contend with the contradictions already outlined. As the president, he lacked a power-base spanning the entire spectrum of Kenya, and had to rely on a loose coalition of ethnic-based, fragile and elitist political parties hastily assembled in the run up to Kenya's independence. He had barely headed a party spanning a cross-section of the Kenyan communities when he was detained by the colonial government. He came out of detention to head a party which had little contact with the masses of the population; and to lead a country which had never at any one time been united as a nation. Besides, he had to satisfy varied, diverse and conflicting expectations (see Barkan, 1992).

First were the demands for redistribution by the regions which had provided the bedrock of KANU's climb to power; and Kenyatta's own community, the Kikuyu, demanded the return of the land alienated from them during the colonial times. On top of this and as noted already, the British government feared that the new regime would succumb to these demands for redistribution and jeopardise foreign investments in the country and engaged in behind-the-scenes moves to forestall this. Yet still, some within Kenyatta's camp, like the vice president, Oginga Odinga, wanted Kenya to go the socialist path, a prospect which would have created massive withdrawal of foreign investments in Kenya. In 1964, for instance, uncertainty with the policies of the new regime had made the Nairobi Stock Exchange experience a panicked capital flight reaching £1 million per month, a dramatic decline in new foreign investments, virtual halt of new urban construction or investments in settler estates and a rapid decline in employment (Berman, 1990: 408).

Kenyatta had two options. He could either institutionalise consensus-building by relying on the constitution and the rule of law. In other words, though not schooled in the democratic tradition, he could learn to be a democrat and bargain and negotiate with challengers to his rule. Such an outcome would have weakened his bargaining position as the president but strengthened the inherited institutions. The next option was that he could build his position as the president by selectively doling out resources to certain constituencies while ignoring others. This would mean less reliance on institutions and more on the president's political initiatives. Kenyatta chose the latter and pursued a type of rule in which he retained the power of making important policy decisions but gave autonomy to the regional, mostly ethnic representatives.

As the inherited institutions were to be relied on less by Kenyatta, the constitution became a fetter, and was thus one of the first casualties of his regime. He carried out seventeen amendments, key elements of which dismantled regionalism, gave the president power to appoint and dismiss civil servants, restricted the ability to form opposition parties and to stand for election, extended presidential powers over issues of public security and justice, restructured parliament and rules of voting, and enabled the president to nominate special members of parliament and those of the electoral commission (Grindle, 1996: 79). Legal opposition was treated with suspicion, and opponents were co-opted into the system (Moi and his KADU outfit, along with labour unions) or repressed and outlawed (Odinga and his KPU outfit).

4.0.3: Patching up the development process

Under the motto of *Harambee* (pulling together), each regional representative, or Member of Parliament (MP) was in charge of development activities of his/her constituency. The MP's stature rose with the number of self-help development projects initiated in the constituency through *harambee.* It was a system of patronage by proxy: Kenyatta was the chief patron, and the ministers and MPs got the benefits from him and passed such gains down the hierarchical chain of patronage to the lower constituencies. Politically, it reduced competition at the top and shifted it to the regions. Local elite used *harambee* to build their own local power bases, and their power depended on the amount of resources they could get from the centre and bring down to the local level. The regional patrons were allowed to build their own power-bases as long as they did not pose any challenge to Kenyatta's patronage. This arrangement also shielded Kenyatta from directly identifying with the interests of any one camp in the polity (see Barkan, 1992; Barkan, 1994), except of course, the powerful clique of Kiambu politicians who formed the inner core of his political alliance (see Kanyinga, 1995). However, this system perpetuated and, at times, heightened inequalities among and across communities, regions and classes. It merely reinforced the fractionalisation and worsened the fragile unity across and among the various sections of the Kenyan society.

Economically, *harambees* allowed transfer of factors of production across regions and allowed communal shouldering of development activities. Schools, health facilities, and other income generating activities were built across several regions through self-help effort. The limitation here was that not all areas benefited from this type of patronage. In most regions *harambees* were used by local elite to settle political scores, and not for development purposes. The luckiest were areas in Central province, Kenyatta's province of birth. While colonial settlement had bequeathed to the region infrastructure like roads, electricity, hospitals, schools and agricultural extension services, Kenyatta's policies again deliberately tilted national resources in the favour of this region. The result has been that Central province has some of the wealthiest indigenous Kenyans. Besides, until recently, the most developed infrastructure, schools, hospitals, self-help projects, etc. were also located in the province.

On the economic front, Kenyatta gave lip-service to African socialism and followed a decidedly capitalist oriented path of development. In part, the decision to pursue a capitalist-oriented pattern of growth was a reflection of the presence of *Technical Advisors* in ministries and key decision making areas of the government. In part it was also a reflection of Kenyatta's decision to grant relative autonomy to senior civil servants, themselves imbued with the doctrines of growth theories and having stakes which could best be oiled by capitalist patterns of accumulation.

The distinction between the bureaucracy and the political establishment was thin because senior civil servants were drawn mainly from the educated elite, mostly from Kenyatta's own Kikuyu community, or from those communities which provided Kenyatta's baseline political support. Moreover, Kenyatta saw 'himself first as the trustee of an emergent propertied class and only second as a patron dispensing individual favours' (cited in Cowen and Shenton, 1996: 321). Kenyan bureaucrats, being the products of Western education and operating within its own logic and rationalisation, were committed to seeing an increased role for professional and technical input into national policy making. They were thus inclined, more than anyone else, to defend the capitalist system because it not only gave them their wealth and status, but also because it was one in whose ethos they shared (Cowen and Shenton, 1996; Grindle, 1996; and Barkan, 1994).

While one of the architects of *African Socialism,* Tom Mboya, had strongly argued against bureaucrats taking up active roles in private enterprise, Kenyatta's government allowed senior civil servants to buy large estate farms from the settlers, financed by loans from the government. Straddling was openly condoned (Cowen and Shenton, 1996). Civil servants were the major beneficiaries of the nearly three-quarters of former White Highlands farms transferred intact to individuals, companies or co-operatives (Migot-Adhola, 1984). As a result, civil servants became patrons, doling out patronage in their own right (Cowen and Shenton, 1996). Participation in the extensive economic activities in the private sector ensured that the interests of senior bureaucrats coincided with those of the political establishment, thereby creating a shared commitment to a long-term view of Kenya's development. In particular, the promotion of coffee and tea, the development of African commerce and industry, encouragement of foreign investment, and nation-building through investment in physical and social infrastructure (Grindle, 1996: 122 - 123). The economy was to grow faster through investing in sectors that would yield the largest increase in new output. As such, areas which had abundant natural resources, good land, and rainfall, transport facilities, and people receptive to active development would be the recipients of development money (cited in Migot-Adhola, 1984: 211). Although it hardly needs stressing, these reflected the thinking and notions of growth theories privileging state-led economic growth, dominant from much of the early 1950s to the late 1960s.

To contend with the problems of unemployment, agricultural productivity was to be developed in rural areas to absorb the extra labour, while the large estate farms, particularly those of tea and coffee, formerly in the hands of colonial settlers were to be improved to yield revenue for the government and for investment in the industrial sector. It needs to be reiterated that this was the sector where elite interest converged, and it formed the hub of Kenya's economic growth and was the focus of much policy making in the Kenyatta era. The path to be followed was an agricultural revolution in which the eventual concentration of land and resources in the hands of the most efficient producers would create a surplus labour to be absorbed in industry. Industrialisation was to be left in the hands of private enterprise, with the government only providing a facilitative and protective role.

Kenya's economy under Kenyatta had one of its fastest growth periods, an annual average of 6.8%. A number of factors were responsible for this. Among them were pragmatism of the incumbent regime, Kenya's relative economic power compared to her neighbours in the Eastern African region, predictability of the regime which bolstered investor confidence, and relative autonomy both of the civil service and the economic sphere. Most important, however, is that this period was also marked by a relative boom in the global economy and Kenya's traditional exports, tea and coffee, fetched foreign earnings that were in turn invested in the import substitution industries which were still in their formative stages. As I have indicated, this economic growth benefited certain individuals in certain areas but largely marginalised most sections of society.

4.0.4: Moi and on-set of economic decline: reworking patronage and development

Moi assumed power in 1978, following Kenyatta's death in office. He confronted a different set of problems, which were nonetheless just as daunting as those Kenyatta faced when he took office. Like Kenyatta before him, Moi had no solid political base, nor did he belong to any economically powerful group. Moi's ethnic community, the Kalenjin, had been marginalised during the colonial times, and Kenyatta's politics of patronage did not reach far enough to create any economically dominant group within Moi's own community. Besides, he assumed office when a powerful clique around Kenyatta, the so-called Kenyatta Succession group, was planning a constitutional change that would have prevented him from automatically succeeding Kenyatta. It has been claimed that this powerful clique was training a private army, the *Ngoroko*[2], for the purpose of taking over power; but that divisions within the community, and swift action by the Special Branch (a

[2] The Ngoroko are said to have been a special unit within the police force which was ostensibly being trained to take over power once Kenyatta died. The plan was allegedly engineered by some powerful individuals within the Kikuyu community to ensure that the presidency remained within the community.

unit within Kenya's security apparatus) stopped such a move. Moreover, the prevailing economic circumstances, within and outside the country, had adverse effects on Moi's policies in particular and the country's political situation in general.

Moi's policies were at first populist, meant to expand his political base and to win the confidence of the major tribes in Kenya. He announced that he would follow Kenyatta's footsteps (Nyayo).[3] This was aimed at retaining the Kikuyu community's confidence in his regime. He also introduced free primary school education, free milk to all primary school-going children, released several political prisoners and travelled widely throughout the country on 'meet the people tours.' With time, however, and especially after the attempted coup in August 1982, Moi's suspicion of the Kikuyu-Luo alliance heightened, much as his sense of insecurity in office. To shield himself from his adversaries, he moved quickly to dismantle the alliance by banning all tribal groupings, particularly GEMA[4] - the powerful alliance of the Kenyatta Succession Group comprising influential and ambitious Kikuyu operatives. To undermine the Kikuyu threat further, Moi entered into an alliance with the Asian businessmen. It has been argued that the process of capitalist growth (by default according to some[5]) that had started taking root among the Asian business class was undermined when it became politicised because Asian businessmen began to rely less on their competitiveness to survive but more on state patronage.

Next, Moi systematically hounded prominent Kikuyu and Luo elite out of the civil service. In the their place, he hired a bunch of collaborators, mostly from his Kalenjin community. This started a process of political appointments where skills were rarely matched with the incumbent's position. Recruitment into the civil service sought to create jobs for communities hitherto marginalised. The tenure of senior civil servants who had served under Kenyatta were shortened and this heightened their insecurity and eroded their professional commitment to duty. In the face of such insecurity and lack of

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The details have been captured in Philip Ochieng's book The Kenyatta Succession, published in the early 1980s or thereabouts.

[3] Later Moi made it clear that the Nyayo (footsteps) to be followed were his own, and cracked down hard on any one deemed not to be following the 'Nyayo Philosophy' [read personal glorification of the president].

[4] Gikuyu, Embu, and Meru Association

[5] David Himbara's thesis, which has earned both praise and condemnation, is the most explicit exposition of this school of thought.

professionalism, there ensued frenzied plunder of public resources, in parastatals, through political banks and nearly every sector of the economy. Meanwhile, policy making became haphazard; at political rallies, the president would direct civil servants to carry out actions whose costs were enormous, and economic benefits questionable, thereby throwing everything into chaos (see Barkan, 1992; and Grindle, 1996).

The inefficiency of the bureaucracy and its politicisation have compelled the government to rely on external experts whenever controversial policies or plans (in which external actors have a stake) need to be drawn because such people are more impartial and are unlikely to be influenced by the clique around the president (Grindle, 1996). The danger is that such people neither have a complete picture of the contradictions inherent in Kenya's economy hence are bound to adopt text book blue-prints in their policy prescriptions, nor are they accountable to the country's population and cannot be lobbied by those who have a stake in Kenya's development.

The agricultural sector, the mainstay of the Kenyan economy has grossly been interfered with by the government. For instance, the government undermined coffee and tea production through the creation of Kenya Grain Growers Co-operative Union (KGGCU) and the Nyayo Tea Zones. The aim was to shift government support for agricultural production away from the traditional coffee and tea growing areas in Central to the Rift Valley Province where the president comes from. Further, the management of agricultural co-operative societies, which governed the production and marketing of agricultural produce in each district has been politicised and these have become avenues that local notables use for building their political profile. Corruption has been the net result.

Under Kenyatta, each province had a single or a few powerful politicians. The GEMA experience had proved that these could become potential threats. On ascending to power, Moi cunningly aimed to make himself the direct focus of all political patronage and determined to undermine the political bases of provincial patrons by directly interfering in elections in each province. In addition to this, he instituted the policy of District Focus for Rural Development which would henceforth confine patronage within districts rather than provinces, and the District Commissioners began to closely monitor and undermine the patronage of local politicians. By directly making district commissioners overseers of development activities in the district, they had the excuse to monitor every minute detail unfolding in their areas.

The District Focus for Rural Development (DFRD) deserves special treatment. It was a plan implemented in 1983, just after the attempted coup of 1982, and was meant to shift development planning and implementation to the local, district, levels. Stakeholders at the local level: the provincial administration, voluntary development agencies and elected officials were to consult in prioritising development needs in each district, and request funds for integrated development activities from the Treasury in Nairobi. In the past, each ministry had been in charge of sectoral development within its ambit across the country, and priorities were set and funds disbursed to the districts for projects identified and prioritised by central planners in each ministry. Truly speaking, this left most districts marginalised in development activities. The basic premise of DFRD was entirely valid: central planning by ministries at the national headquarters in Nairobi was divorced from local development needs (see Grindle, 1996; and Kanyinga, 1995). DFRD was to alter this.

On the ground, however, the DFRD became highly politicised. It shifted state patronage to local provincial administration officials. Henceforth, local MPs and other agencies had to get formal approval from the District Development Committee (DDC), headed by the district commissioner, before they could implement *their* development projects (Kanyinga, 1995: 108, emphasis retained). In practice, powerful politicians by-pass the DDC or divert funds meant for certain projects and at times, decisions on what projects to implement are reached through informal arrangements, long before the DDC meetings are convened. Besides, few DDCs involve the input of local stakeholders in development activities. In addition, in the multi-party era, elected officials from the opposition are rarely allowed a chance to give their input in the DDCs because in KANU districts, '*people speak with one voice*' (Kanyinga, 1995: 109, emphasis retained); and that voice is normally KANU's.

Just like Kenyatta before him, Moi abhors any challenge (real or imagined) to his rule. Anyone who opposes him is a traitor, on the pay-roll of foreign masters, and does not have the country's future at heart. To bolster his personal power and tighten his grip on the citizenry, especially in the 1980s, Moi made several constitutional changes. For instance, he abolished appeals about political outcomes, extended police powers, and eliminated the security of tenure for the Attorney General, the Auditor General, members of the public service commission, and the High and Appeal Court judges (Grindle, 1996: 97; see also Barkan, 1994; and Cowen and Shenton, 1996). The parliament - already robbed of its power during Kenyatta's tenure – was merely a political rubber stamp for implementing Moi's unpopular policies, especially in the high tide of his repressive rule in the 1980s. From the 1980s, Moi has determined to muzzle the press, and to deal decisively with those he fears pose threats to his regime. The state-owned broadcast media, the Kenya Broadcasting Corporation, is a massive propaganda machinery that the government has used to reach out to and manacle the loyalty of the mostly semi-literate rural population. As late as the 1990s, the regime frantically struggled to enact laws aimed at *controlling* the activities of NGOs (Ndegwa, 1996).

Conclusion

There seems to have been a divorce between economic development and political development[6]. Economic growth seems to have been the ideal to be achieved in development, and the engine of that growth was to be the state. This reflects the thinking of growth theories predominant at the time. However, the state's entrenched role in Kenya's development landscape eventually came to impede, rather than bolster growth. If the state is to continue playing any role, it has to be structured differently. A stronger role for the civil service and its autonomy, with a weakened role for the presidency would serve the country a world of good. Changes in the international economy demand a stronger, not a weakened role for the state. It is particularly this type of state which lacks in Kenya. Calls to liberalise the economy are valid to the extent that they identify the state as the problem. But is the market any better solution? The next chapter addresses this.

[6] I am grateful to Prof. John Markakis for drawing my attention to this fact.

Chapter IV

Market-Led Growth in Kenya

5.0.1: Outline

This chapter begins by briefly looking at the history of the development of 'market forces' (by which is meant all forms of exchange and production relations, and the mechanisms arising therefrom) in Kenya. It then looks at the neoclassical approach, which makes a case for rolling back the state and privileging market forces in the economy. These views are critiqued to show their limitations both theoretically, and as they relate to Kenya. The chapter then analyses the role that the market has played in Kenya's development. It makes the point that while the state has impeded the operations of the market, especially household, commercial agriculture and the manufacturing sector, structural constraints have also been responsible. It is the presence of structural constraints, particularly constraints on labour, acquisition of technology, weakly developed markets and the volatility of both internal and external markets that demand greater, rather than less, state intervention.

5.0.2: The Nature of the Market in Kenya: a historical overview

The market in Kenya reveals a number of tendencies. It is highly fractionalised, volatile and fragile. Its fractionalised nature dates back to the colonial times when the state pursued deliberate punitive policies aimed at impeding the rise of an African capitalist class. Private sector development favoured the European colonial settlers: fertile agricultural land in the African reserves was forcefully taken and given to settlers either free or at throw-away prices and African labour forced to work for free or very meagre pay on the setter-farms. This policy was to continue until after the Second World War; and was aimed at rebuilding Britain's war-torn economy, at improving the balance-of-payments position and reducing the dependence of the colony on imported manufactured products from the USA[7] (see Bates, 1989: 20 - 22; Berman, 1990: 260 - 261).

[7] The British government introduced a number of incentives to induce settler-farm productivity. For instance, the government pledged to buy a fixed quantity of produce at guaranteed prices and guaranteed the farmer a rate of return commensurate with his production programme in the event of loss of crops, while the settler pledged to produce a fixed quantity of produce. Besides, the government now tacitly

Furthermore, the settlers were given more control over the production and marketing of produce and began to control nearly all internal marketing channels hitherto in the hands of Indian traders. Placed as they were in the economy, and enjoying the economies of scale made possible by state subsidy, the settlers supplied nearly all the food needs of a growing urban population. The proceeds from this boom laid the first foundations of import substitution industrialisation as it acted as an incentive for investors to engage in massive investment in Kenya.

Land alienation was hoped to create cheap abundant labour that could work on the settler farms. However, Africans refused to work on the settler-farms because of low wages; and consequently, a form of taxation, the hut tax, was introduced to 'encourage' Africans to supply wage labour on European farms, to subsidise the costs of settler-farming. There was also the fear that productivity by the African farmers might outstrip that of settler-farmers, a prospect which might eventually induce the Africans to demand land rights commensurate with those enjoyed by European farmers. As a result, hut tax was increased and poll tax added to 'increase the [African's] cost of living' (cited in Berman, 1990: 59). Additional measures were needed to curb the threat posed by increasing African productivity and thus Africans were for a long time forbidden to grow export crops and were only allowed to sell their produce through settler-farmers. Prices paid on peasant produce were kept artificially below the prevailing commodity market rates to discourage further productivity, and hence, competition with settler agricultural production.

The Swynnerton Plan and the Royal Commission Report of East Africa marked major turning points in African commodity production. Both policies allowed Africans to grow export crops. Because these crops - tea, coffee, pyrethrum, and later dairy produce - were ecologically confined to settler farming regions, they benefited from land tenure reforms such as individual land titles which allowed accessing credit for further agricultural development; expanded extension services; and the benefits of research conducted for

subsidised development programmes in Kenya, especially the construction of infrastructure and agricultural research and development. Massive aid flows were disbursed to improve productivity. Between 1946 and 1952, for instance, official grants to Kenya rose to £6.1 billion in contrast to a meagre £300, 000 during the entire decade of the 1930s (Berman, 1990: 262). Besides, the farmer could get farm credit, either as advances of farm inputs, or as a collateral for private loans on condition that all produce settler farms. While these policies allowed African producers entry into international export markets, they led to less emphasis on food crop cultivation and more emphasis on cash crop farming (Migot-Adhola, 1984: 204).

In the post-independence period, a number of state policies were to perpetuate these contradictions. The neglect of peasant production kept many households on the fringes of the formal economy; merely eking out life in subsistence production. Commercialisation of land through title deeds made many landless. Recently, politicisation of land has led to killings in Kenya's Rift Valley province. Agricultural production for export, the backbone of the Kenyan economy for a long time, eventually fell victim to over-bureaucratisation of state owned marketing boards and massive state interference of the sector. Global trends pushed the sector towards rapid decline, while lack of diversification of proceeds from export crops to the development of other sectors of the economy created a path-dependent growth which seems hard to break out of in the increasingly competitive global economy.

Policy failure has led to slow growth of the industrial sector, with only about 80% of the installed capacity of Kenya's industries being used (Masinde, 1996). Such a trend limits the growth of industrial output, and makes growth in value-added equally low, a situation exacerbated by the low capital accumulation per worker (see Masinde, 1996; and Gunning 1998). Sectors of the economy are not integrated and hardly any comprehensive policy exists to integrate peasant households, commercial agriculture and the manufacturing sector. With greater globalisation, shocks from the external economy are hitting both investors and households alike. Worse, heightening indebtedness makes it hard to imagine any viable alternatives: first because debts are a claim on future earnings and secondly, because increasing indebtedness leaves planning the country's development vulnerable to forces whose policy prescriptions seem to be worsening, rather than redeeming, the pace of economic decline. These pressures come by way of stabilisation and adjustment policies.

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was sold through the government owned marketing boards; though later, settlers were allowed to sell a quarter of their produce outside government marketing channels.

5.0.3: <u>Placing Market-Led growth in Context</u>

The introduction of stabilisation and adjustment policies was a response to the changing trends in the global economy, in particular, the decline of the Keynesian welfare state policies. But this shift was also a response to greater competitiveness in the global economy, much as it was reflective of the realisation in the industrialised Northern economies that an adjustment was necessary if they were to remain competitive globally. However, in Kenya, it also reflected the general dissatisfaction with the level of economic mismanagement by the incumbent regime. This dissatisfaction was not only reflected in the donors' and international financial institutions' insistence that the state withdraws its active engagement in the economy, but it was equally reflected in the popular support that the call received from within the country itself.

While this is not the place to catalogue the myriad cases of economic mismanagement (see the introduction of this document, also Cowen and Shenton, 1996; Barkan, 1994; Leys, 1996 and Gibbon, 1995), it must be pointed out that economic mismanagement had reached such high levels that something had to be done. Since the configuration of social forces locally was weak, it was the international community who, channelling their dissatisfaction through the Consultative Group meeting in November 1991 in Paris (Barkan, 1994: 37, 38) finally set a number of conditions which the country's leadership had to meet before further aid would be disbursed. These conditions, which the donors believed would stem off the level of economic mismanagement, included political and economic liberalisation measures. Subsequent conditions became more specific, demanding among others, the privatisation of loss-making state owned corporations which continued to drain scarce resources from the exchequer; liberalisation of the grain and cereals market; deregulation of the financial sector; an end to import substitution; and in general, removal of all barriers to trade. The explicit aim was to rejuvenate the economy by stimulating export-led growth in order to improve the country's balance-of-payments condition. The implicit aim was to ensure that the economy performed at a level that would allow repayment of debts accumulated especially in the petro-dollar boom from the 1970's onwards.

How far can the stabilisation and liberalisation policies rework the contradictions in Kenya's economy? But first a look at the major assumptions of neoclassical economics which inform these measures.

5.0.4: Neoclassical Economics: Major Assumptions on Development

Neoclassical economic theory emphasises the unfettered operation of markets so as to maximise efficiency in production of goods and services, because of the utility and satisfaction gains that consumers derive from using such. According to this theory, resources are allocated in response to prices; and price movements serve to co-ordinate economic activity. Individual consumers are said to be guided by instrumental rationality, and thus voluntarily participate by seeking to maximise their choices from the range of goods and services available in the market (see Sawyer, 1993; Pitelis, 1993; and Harris-White, 1996). Similarly, individuals and firms in their roles as producers are compelled by competition in the market to look for the most efficient way of producing a good or service. This ensures that no resources are wasted in the process of production and that only those economic agents who can minimise costs but still provide the best quality to their customers stay in the market. The absence of competition creates inefficiency because agents cease to fear losing a share of their market to rivals (Prager 1992: 302), and the net losers are the economy in general and the consumer in particular[8].

State intervention is abhorred because anything that the government does the private sector can do better; whatever the government does will be offset by actions of the private sector; and government intervention worsens, rather than improves, resource allocation

[8] Although markets may experience certain imperfections at times, the neoclassicists maintain that since firms and individuals are guided by rational expectations, for instance, the expectation that market imperfections will clear instantaneously, the tendency is for such imperfections to clear of themselves and this ultimately restores market equilibrium. By the same token, knowledge of prices of the various goods and services available acts as an incentive that guides producers and consumers to maximize profits and/or utility, hence contributing towards a state of equilibrium (see Sawyer, 1993; Pitelis, 1993; and Harris-White, 1996). To contend with market imperfections, it is asumed that there should in principle be a disinterested auctioneer who adjusts prices until an equilibrium between demand and supply is reached in each market, at which point resource allocation resumes (Sawyer, 1993: 28). This notwithstanding, neoclassical economists insist that the unpredictability of markets and the enormous degree of creativity and accuracy needed in making business forecasts make it safer to leave private decision makers to take risks according to their own judgements because the multiplicity of such bets, based on different forecasts,

(Stiglitz 1996: 12). Because government intervention invites 'rent seeking behaviour'- income earning activity by some economic agents derived from state intervention - (Keily 1995: 112), it perpetuates a situation where state subsidies to such inefficient firms are passed on to consumers purchasing such products, or through other forms of taxation (Keily 1995: 112). Import substitution strategies are bad because they bequeath to a country an industrial structure over-reliant on imports of intermediate goods (Fine, 1995: 65). Free trade is better because this allows countries to benefit by specialising in producing those goods and services in which they have a comparative advantage.

State intervention in the economy is distortionary because it privileges non-viable investment projects over profitable ones, and government investments generally have lower average efficiency. The cumulative effect of such investment is that it disrupts the market mechanism of prices, and thus paralyses market incentives, just like setting of prices by the government does. Furthermore, huge consumption expenditures by the government coupled with persistent and rising deficits are a drain on the total volume of domestic savings needed for private investment, a situation worsened by artificially low interest rates which discourage domestic private savings. The end result is capital flight, lack of funds to invest further and this constrains investment itself. Inflow of foreign aid is no redemption to this situation. Rather, it promotes demand for non-tradable goods and induces domestic producers to target not production for world markets, but for the domestic ones. This fact, combined with poorly developed financial markets, impedes flexible reallocation of factors of production across sectors of the economy - a process without which productive investment is almost impossible (Lensink, 1996: 40 - 47).

While proponents of free market admit that markets do not always operate perfectly, they still hold that 'market imperfections are preferable to state distortions.' (Lal 1993 cited in Keily 1995: 122). Free market-led growth, neoclassical economists agree, may lead to inequalities in income distribution but this is viewed as natural and inevitable (Keily, 1995: 136; Altavater, 1993: 248; Stiglitz, 1996:13). Trade Unionism is scorned as it interferes with managerial decision making powers, leads to factor misallocation and a loss of

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is a sounder strategy in the uncertain environment of business than those of centralised planners (Lal 1995: 59).

efficiency and prosperity (Altavater 1993: 248). Worse still, unrealistic demands by trade unions may threaten investors who would simply re-locate to other regions where labour is more compromising.

5.0.5: <u>Theorising the Market</u>

The market is little theorised by neoclassical economists. In the sense used above, it could either imply 'the voluntary exchange of a well-defined commodity at a uniform price', such uniformity in price normally obtaining as 'a characteristic both of a market for a particular commodity and the equilibrium of outcome' (Sawyer, 1993: 23). In perfect conditions, such a market would have a similar price paid for the same good at the same time in all parts of the market. Such a market would have 'an infinite speed of price adjustment and hence always be in equilibrium' (Sawyer, 1993: 23). Out of equilibrium and hence uniformity of price, it would be questionable whether similar commodities traded at different prices would be regarded as being in a single market. The second aspect relates to the contact between individuals seen through 'exchange at parametric prices in specific markets or within the market mechanism in general' (Sawyer, 1993: 24). Neoclassical economics is pre-occupied with the analysis of exchange through markets and pays little attention to the production process. But "of the enormous number of transactions in an economy, only a tiny fraction of them takes place in what may be literally called 'the market' because of the scale of transactions within firms and within households" (cited in Sawyer, 1993: 25).

Markets operate within three circuits of capital: trade, finance and production (Carmody, 1998: 28). The financial circuit of capital allows investors and consumers to engage in exchange relations because money acts as a medium of exchange. Trade is equally important because it permits further production. Investors produce with exchange in mind, and it is trade which gives goods or services their value (see Nitzan, 1998; and Mittelman and Pasha, 1997). The production circuit, on the other hand, is where commodities to be exchanged are produced. Over the long run, places will not consume 'if they do not produce sufficiently high value-added commodities to sustain reproduction' (Carmody, 1998: 29). The roles of each of these sectors are complementary, but are not performed in harmony. Speculative activity or volatility in the financial sector may jeopardise trade and investment, just like an underdeveloped or overdeveloped financial sector relative to the other two will impede further growth in the economy. Similarly, opening up the trade circuit of capital when domestic capital is not competitive has disastrous effects on macroeconomic stability (Carmody, 1998: 30). In the same vein, weak internal markets and inability to access external markets impedes the development of a country's productive sectors.

5.0.6: <u>The Market as a socially embedded institution</u>

Unlike what the neoclassical theorists, and their Bretton Woods practioners would have us believe, markets operate within a politically mediated context, and rely for their functioning on a socially regulated framework. Prices and profits do influence the actions of economic actors; but it is equally true that economic actors are socialised within units in society where power, culture, ideology and factors other than price and profit incentives exert their influence. Economic actors, as individuals, thus embody other forms of rationality, apart from those of profit and price incentives. Similarly, investors use the cumulative stock of a society's knowledge in producing goods, services and so on. Besides, predictability in business is based as much on the stock of social capital available in a community, among investors themselves but also between the investors and their target market. One of the basic variables of capital, money, has both an economic and political value. The *national currency* must be trusted by the citizens, and money has a symbolic-political role which makes it have a special economic and national value (see Giddens, 1996). It is thus socially embedded and politically significant.

In certain cases, investors are willing to make losses at first to curve a niche in the market by winning the loyalty and confidence of a group of customers, i.e. to cultivate trust in their products. Moreover, it is not profit per se that is the end-goal for most investors. The goal for both politicians and investors is power. Actors in markets have different capabilities and levels of power (Carmody, 1998: 25) and use this power position in their dealings with other actors in the market. This would probably explain the use of patents and copy*rights* in business, and the struggle by investors for monopolies. Such business claims are institutionalised and reproduced within society and are enshrined as *natural* *right*, accepted by individuals and firms as such and are enforceable in law in case of a breach.

Besides, it is common knowledge that the mere presence of physical stock of capital goods and labour power does not influence an investor's decision to enter a target market. In Jonathan Nitzan's (1998: 180, 181) view, the profit an investor makes is the ransom he/she gets in lieu of the sabotage he/she could inflict on industry (society) by deciding not to produce a particular good or service, i.e. the price paid to him/her by society for not making both labour and machines idle. Profits represent not a firm's *ability to produce*, but the *power to appropriate* (Nitzan, 1998: 183, emphasis original). In setting prices, besides, an investor calculates the costs incurred in production so that the final price includes both costs and profits, and at times a further rent representing differential accumulation. This rent would represent the additional revenue an investor earns for controlling a particular market segment, or for exercising monopoly control over a type of technology. It is differential gain that a firm gets for exercising market power (Nitzan, 1998).

States, in contrast, are interested in the economy because participation yields revenue, in form of tax and other rents, with which loyalty of citizens is bought. The end goal again is power, not loyalty for its own sake. The state's involvement in the economy is thus meant to ensure that economic actors reproduce the society's means of survival, and that the relational aspects of accumulation are not upset but are governed not only by a set of legalistic norms, but also by ideological and coercive means. In essence then, state institutions are brought to bear so that accumulation takes place, but rents are also collected so that loyalty is bought and perpetuated on a continuing basis, in the form of provision of social services, infrastructure and other redistributive aspects. Thus in talking of markets, it is imperative that the artificial divorce between economics and politics is jettisoned for the richer political economy approach which emphasises the role of power and its motivational and mediating role in the economy.

In the ensuing analysis, much focus is on the production circuit of capital. This is deliberate. With over 80% of Kenya's population living in the rural areas, and the industrial potential of the country still not exploited, this is a useful point of entry because vulnerabilities abound in the production circuit. More important, is that revitalising production has more potentials for transforming the Kenyan society. It is within this circuit where foreign investors, the state, investors in Kenya and civil society groups need to work. This discussion highlights structural constraints that could be confronted to make the market's role beneficial to the country's development. The hope is that this may provoke further research and discussion.

5.1.1: The Agricultural Sector

The agricultural sector heavily subsidises the other sectors of the economy. It is projected for instance that without such subsidies, urban wages in Kenya would be 97.4% higher than they currently are (see Coughlin and Ikiara, 1991: 4). This notwithstanding, transformation of the sector, especially the subsistence economy, has been very slow. A number of factors could explain this. In a country where a majority of the population depend on the land for their livelihood, land as a factor of production is needed by households for meeting their livelihood needs. In practice, the problem of landlessness, inherited from the colonial period, has never conclusively been resolved. This is in spite of the presence of successive government plans, the so-called Sessional Papers, which have spelt out ways of dealing with the problems of unemployment and poverty alleviation. For instance, a policy of improving rural agriculture so as to absorb additional labour and stem off the high rate of rural-urban migration was put in place as early as the 1970s (Cowen and Shenton, 1996). It was predicated on the belief that channelling resources through progressive farmers, or to those areas which had abundant resources and entrepreneurial people, would eventually draw other less endowed people or areas out of poverty and into productive growth (Migot-Adhola, 1984).

To see such a project through, land titles are given to farmers; but land titles give a commercial value to farms and the progressive farmers, once introduced to the niceties of capitalist accumulation and the power this embodies, believe less in trickle down and more in bolstering their economic power by purchasing more land from their less enterprising colleagues (see Migot-Adhola, 1984: 211 - 213). In the first decades of independence, large parcels of land were transferred from the settler farmers, because ostensibly, this would enhance productivity. Contra this argument, it has since been established that productivity by small-holder farmers is higher (see Migot-Adhola, 1984; Cowen and Shenton, 1996). Moreover, wholesale transfers of estate farms have benefited either wealthier commercial farmers, or '*telephone farmers*' who otherwise use such land for speculative gains, while scarcely exploiting their potential productivity. Most big land buying companies exist only on paper, and are hardly performing the tasks for which they were originally established, i.e. buying estate farms from settler farmers to maintain their agricultural productivity (Migot-Adhola, 1984).

Moreover, household peasant production has been hampered by lack of credit facilities for agricultural development; until recently by controlled markets for agricultural produce through state-owned marketing boards, poor on non-existent extension services; and by diversification into non-productive activities aimed at spreading risks. Peasants who can not make ends meet grow several crops simultaneously, keep several animals or practise a type of mixed farming to cope with the uncertainties of crop failure or loss of stock due to the vagaries of weather and other diseases. While engaging in multiple income generating activities allows peasant households to spread risk, such practice limits the scope of learning-by-doing embodied in specialisation, and energies and capacities are dissipated over a wide range of activities which may in general have very low returns (Gunning, 1998: 30, 31).

Finally, since rural households form a large percentage of the population, keeping them perpetually on the fringes of the formal economy reduces the size of domestic markets, and limits government revenue from this sector of the economy. By developing this sector, self-sufficiency in food, extended markets, improved livelihoods and an expanded tax-base for the government may be realised. Issues of land reforms should be the focus of more research. Land evokes emotional, cultural and political sentiments that go beyond 'market imperatives' while on the other hand, peasant production needs to be improved and revitalised.

Commercial agriculture of coffee and tea, I have emphasised, has been a key foreign exchange earner. However, it needs to be noted that commodity products are characterised by wide price fluctuations in world markets, by low value added, and that competition in world markets is constantly forcing prices of such products to decline.

Relying on them compels a country to a path-dependent growth and at times the volatility that inheres in world commodity markets is transferred to other sectors of the economy. This makes planning and adaptation difficult (Gunning, 1998).

Besides, government practice towards agricultural activity has at times acted as a disincentive, rather than an incentive. For instance, the politicisation of the management and operations of agricultural co-operative societies eventually led to corruption and mismanagement; and this compelled most of the farmers to withdraw from these co-operatives. Similarly, the politicisation of marketing boards and their over-bureaucratisation led most farmers to withdraw into non-taxable subsistence activities, or to find their own marketing channels (Kanyinga, 1995). This not only robbed the government of much needed tax revenue but it also curtailed the institutionalisation of networks through which social learning and consensus-building could occur. Such networks are crucial for cushioning farmers against adversities, and may provide a convenient framework within which skills, expertise and technology may be diffused to farmers. In the Moi regime, flagrant violation of import regulations by highly-placed politicians worked to impede certain agricultural sectors. As an illustration, by 1979 Kenya had become fairly self-sufficient in sugar production; however, by 1985 the country had become a net importer of sugar again through the activities of certain influential people in the government. Huge sugar imports were carried out in the face of farmers' disenchantment with low returns and delayed payment; and the failure to match crop development and factory capacities (Coughlin and Ikiara, 1991: 3). The agricultural sector needs to be developed as a way of diversifying the economy so that factors of production can be moved from this sector into others, or vice versa. More research should establish forms of industrialisation that could lead to sustainable forms of agricultural production.

5.1.2: Industrialisation: Intention or Process?

There seems to have been no clear or co-ordinated policy on industrialisation, right from the time of independence. Nor was there a precise vision as to whether industrialisation would be the path to take in reaching a capitalist stage of growth, equivalent to the stage prevailing in the Western industrialised nations, the ideal prescription of the growth theories of the 1940s to the late 1960s. As M. P. Cowen and R. W. Shenton (1996) argue, the *intention* to develop seems to have been confused with the *process* of capitalist growth. It was not clear whether industries were to be governed by the pursuit of profit, a *process* of capitalist growth; or whether they were to provide employment and foreign exchange, an *intention* to develop; or both. What seems apparent is that a clear vision lacked from the onset. The incumbent regime seemed to have been more interested in taking over white settler-farms, leaving the industries to foreign-owned Trans-national Corporations (TNCs) and Kenyan-Asian businessmen. African investors were more keen on agriculture, real estate, land holdings, and traditional services but made no significant investments in large-scale manufacturing (Vaitsos, 1991: 7, 13).

It is this anomaly which must have compelled the state to enter into joint ventures with foreign investors so that skills and technology could be transferred to an indigenous class of African capitalists. The growth booms inherited from the agricultural production of the 1950s, which laid the bases of import substitution industrialisation, and in which Kenya ran large balance-of-trade surpluses, subsidised by Tanganyika and Uganda, continued well after the first decade of independence (see Barkan, 1994: 12; Berman, 1990; and Vaitsos, 1991: 8). Net foreign private long-term capital inflows had a great impact on the Kenyan economy's macroeconomic performance and transformation. Foreign direct investment, mainly channelled through TNCs, contributed a large proportion of capital formation and bolstered the balance-of-payments and sectoral growth patterns of the early post-colonial years (Vaitsos, 1991: 8).

The relationship between the state and foreign investors in the import substitution industrialisation was symbiotic. For instance, foreign investors relied on the state to set wage policies and hence keep labour unrest low, to circumvent the myriad regulations it set, to shield foreign investors from the rising tide of Kenyanisation and calls for redistribution and generally to provide infrastructure like roads, telephones, electricity and so on. The foreign investors on the other hand were to provide a huge part of the capital formation and managerial expertise[9] (see Vaitsos, 1991: 8, 9). The state owned much

[9] This placed foreign investors in overall control of investment decisions, with state officials only in administrative positions from which they doled out patronage especially in terms of employment of their clients in lower cadres. The result was that in the first decade after independence, the country benefited in

equity in these firms but had no effective control over key managerial decisions, nor did it have control over technology or major financial aspects of the running of these enterprises. The limitation was that the state entered the industrialisation project not as an investor seeking profits and productivity growth, but as a sovereign power seeking to control key areas of the private sector (Vaitsos, 1991). The manufacturing sector remained foreign dominated and such dominance created a high concentration of foreign capital. The result is that the government's lack of control over the industrialisation project has made Kenyan industries remain capital intensive, with a high proportion of their inputs imported. Most firms produce for the domestic market using mostly obsolete technology (Masinde, 1996).

5.1.3: Impediments to Industrialisation

It is projected that the import substitution industrialisation project could have performed better but a number of handicaps limited this. First, as noted already, there was lack of a clear policy to co-ordinate industrial activity across sectors of the economy. Nor did there exist clear targets to be achieved, nor a clear vision informing the entire industrialisation process. Since foreign investors were neither united in goals or intent, each sector developed independently of others. Even those components which could be made locally were imported by local subsidiaries from their parent firms abroad. This prevented technological deepening locally. The result was that technology transfer remained at firm level, and learning and co-ordination across firms and sectors became difficult. Similarly, this prevented diversification because the same technology could not be used across sectors of the economy, and this further led to slow growth of local enterprises which could copy and consequently use the technology employed by the larger firms (see Masinde, 1996; Vaitsos, 1991; and Coughlin and Ikiara, 1991).

Secondly, and slightly related to the above, is that employment creation was emphasised without proper incentives or policies (Azam and Daubree, 1997). Firms coming to Kenya had to contend with low or semi-skilled labour. Most of them preferred to bring in their own personnel, but the policy of Kenyanisation and the requirement that expatriates get a work permit before they could be employed in Kenya limited the number of staff foreign

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terms of an improved balance-of-payments position and improved sectoral growth. However, by the mid-1970s, Kenya had become a net capital exporter, rather than a net user of foreign savings, because of the extensive control of the country's non-traditional manufacturing sector by foreign capitalists.

firms could fly in. Joint ventures came in handy in this case. However, the point that I intend to emphasise is that few firms were willing to train their workforce because of the fear that such employees would relocate to other industries. Joint ownership with the government meant that it would handle labour policies.

However, government educational policy never explicitly emphasised training for the industrial sector. Most people acquired formal education with the aim of joining government service. This is understandable as indigenous Kenyans were needed to take over positions from departing colonial civil servants. Voluntary educational initiatives, often uncoordinated and finding their expression in the *harambees*, equally targeted acquisition of education for eventual employment in the public service. However, the neglect of training with the industrial sector in mind was to have its toll when the import substitution industrialisation entered its mature phase, in the mid-1970s. An innovative, adaptive and skilled workforce was lacking when it was most needed. Employment creation had been emphasised as an *intention*, not as a process of capitalist growth. This is to say that no policy was put in place to translate this intention into a form that could be useful for capitalist accumulation.

A policy of this nature consigned the country to a pattern of growth in which most indigenous employees remained unskilled or semi-skilled. Real wages and disposable income of those employed in industries remained equally low. Low wages combined with the low levels of industrial activity constrict internal demand for industrial goods, a pattern that impedes industrial expansion under the ISI scheme.

Thirdly, the lack of co-ordination across sectors of the economy impeded the development of a capital goods market. The absence of a well developed capital goods market has a number of limitations. One, it makes investment an irreversible process. Once an investor commits machinery to a production process, he (she[10]) can not sell them in case he needs to relocate. Further, it is hard to diversify in case of declining output or to discard old machinery in case new technology needs to be installed. This makes investment a risky process. The next handicap is that absence of a capital goods market compels firms to

[10] In paying homage to gender sensitivity, I use *she*. I advise the reader to note one important fact. The Kenyan society leaves little room for women in manufacturing concerns. In all sincerity, *he* should be apt.

hold excess capacity because getting supplies is difficult, or takes long. This prevents a firm from profitably employing its resources since not all capital or stock held may be of immediate use nor may such stock be employed and used in profitable ways. Finally, holding excess capacity prevents other micro- or medium enterprises from developing because the market for engaging in such activities is constricted; large firms develop and rely on their own inefficient internal supply markets instead of purchasing their components in outside markets at competitive rates (see Gunning, 1998; Masinde, 1996; and Vaitsos, 1991).

The fourth problem that firms in Kenya came to face was that the development of infrastructure by the state had been done haphazardly. Political imperative, rather than economic incentive, had been the guide. In the 1970s, when firms needed to expand into other regions because of industrial crowding in major towns, lack of infrastructure and an unwillingness by the state to extend it to those regions became a fetter. The 1980s were particularly critical because they were the prime of Moi's populist policies and the high tide of falling revenues from Kenya's traditional exports, coffee and tea. The country's economy needed diversification to absorb the shocks coming from the global economy and to extend the spheres of growth beyond the sectors previously giving it its fast growth. Infrastructure provision and construction by the state were thus needed urgently. Construction of physical infrastructure, just like in the Kenyatta era, were dictated more by political expedience, than by economic rationale[11].

The unequal patterns of development pursued and institutionalised since the time of independence worsened the situation. The regions which had abundant infrastructure were equally the most agriculturally productive, hence would not provide space for construction of industries. Those that were fairly marginal, hence with land for such construction were not connected by road networks to major towns, lacked basic facilities like electricity,

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[11] The Moi regime embarked on a series of ill-conceived construction projects. Colin Leys (1996: 158) notes the case of All Africa Games in 1986 where the government spent £33 million, with £14 million lost through inefficiency and corruption, and in 1988 when Moi used £10 million to celebrate ten years of his rule. In addition to these, *white elephant* projects abound in Kenya. The Turkwell gorge in which millions were spent to construct a hydro-electric power station on a seasonal river, tarmacking rural roads in Moi's Baringo constituency and in the Rift Valley Province, the Kisumu mollasses plant, and the recent construction of an airport in Eldoret readily come to mind. Such constructions have taken place at the expense of much needed infrastructure for both the agricultural and the industrial sector.

telephones and health services. People in such areas had low income, were unskilled and were unlikely to provide local markets for industrial produce. Presence of infrastructure would have meant skilled labour relocating to those regions, and industrial produce being marketed to major towns.

The fifth handicap was that restricted as firms were in their ability to expand both structurally and geographically, and forced therefore to hold excess capacity to survive, most firms demanded government protection. Protection from imports dominated the content of foreign firms' negotiations with the government, with some demanding as high as 90% protection, and the type and range of protection given in most cases coincided with the position taken by the TNCs in the negotiation process (Vaitsos, 1991). In fact, some firms in Kenya enjoy protection as high as 312% (Masinde, 1996: 21). Government protection has both benefits and disadvantages. Since my focus is on limitations that firms faced in the first phase import substitution, the disadvantages are highlighted. It prevented firms from developing coping mechanisms for adapting to the periodic shocks in the fragile local investment environment and those coming from the volatile external one; encouraged most firms to hold excess capacity even when it was not prudent; and gave foreign firms too much leeway. This leeway was to be capitalised on by foreign firms at the end of the 1970s when firms used this discretionary power to transfer capital abroad.

Openness to the establishment of new firms along with the ability to cope with the subsequent competition this entails are necessary, just as market and demand expansion and absence of vested political or economic interests which interfere with business operations are. In essence, it involves striking a precarious balance between protection and autonomy, and a gradual freeing up of the economy to competitive market forces. Lack of competition from other firms proves debilitating at the end of the easy phase of import substitution industrialisation (see Kirkpatrick and Onis, 1985; Abramovitz, 1998). At this stage, the complex phase, ISI should be more self-reliant, and policies should be geared towards making the industries rely on domestic value-added substitutes and less on imported essential inputs. Competition among local firms should allow exchange across various sectors, in terms of purchase of second-hand capital goods, and inter and intra-sectoral borrowing of technology and expertise. More research is needed to find out just when particular firms should be given protection, what type of protection and with what consequences for the economy.

However, of all the limitations on private sector growth, in particular that of manufacturing, the most serious was the fragile macroeconomic policy environment in which the sector found itself from the mid-1970s. This was the time when a stable macroeconomic environment, political stability, increased government spending on education and infrastructure, and proper planning and forecasting were needed to push the process into the next phase. During the last years of Kenyatta's rule, the cohort around him increasingly took advantage of his senility to create an unpredictable political environment which had the foreign investors on the alert, ready to exit anytime.

This heightened political situation and investor fear got added fuel with Moi's coming to power and his populist policies which signalled higher taxation, and the sudden decline in economic performance globally. Constantine Vaitsos (1991: 8) reports that by the mid-1970s, Kenya had become a net exporter of capital. During much of the 1980s, capital outflows for equity and business debt repatriations were usually three times more than inflows, and about 90% of these payments were made at the discretion of private businesses. Overpricing of imports and under-pricing of exports became rampant, while investments in services, mainly financial activities and the tourism industry, had nearly equalled those in manufacturing (Vaitsos, 1991: 9, 10; see also Kanyinga, 1995).

This seems to have been a reaction to the uncertainty created by Moi's coming to power, and the policies he pursued. At the time leadership changed hands, most investors seemed to have adopted a-wait-and-see policy. Moi's policies just served to confirm their fears. To build a viable alliance, Moi needed a bedrock of support from a cohort that were politically loyal to him but equally had a measure of economic muscle. This was necessary if he had to withstand the onslaught of the GEMA threat that the Kikuyu alliance would continuously pose to his regime. He created space for accumulation for this cohort in the state-owned enterprises, which, as I have indicated already, led to massive corruption[12]

[12] At one time, after dismissing the Central Bank of Kenya Governor, Eric Kotut, on July 23, 1993 on corruption-related scandals, Moi re-appointed him to head the Kenya Tea Development Authority, '*as a reward for his service*' (see Barkan, 1994: 44).

because management for profit was not the goal but a primitive urge to accumulate, and to do this as quickly as possible.

This amounted to a reworking of the dynamics of the private sector. By doing this, Moi undermined the sector's capacity to expand and to create jobs. It has been claimed, for instance, that the import substitution industrialisation project was just beginning to stabilise, having passed through the first phase, when Moi interfered with the management of state owned corporations. Exit became the chosen path for most foreign investors, while Moi's political appointees shifted large portions of the corporations' earnings abroad or into other businesses, especially those owned in partnership with Asian businessmen[13] (see Cowen and Shenton, 1996; and Barkan, 1994).

5.1.5: <u>Conclusion</u>

In conclusion, the greatest handicap to the development of market forces is the prevailing policy environment: there is poor planning, co-ordination and implementation of government plans. Poor policy rating by investors, whether real or misplaced, denies accessibility to international capital markets because few investors are willing to commit resources in constantly fragile and unpredictable environments. Policy needs special emphasis and focus.

There seems too to be no clear comprehension of changing global trends. Global trends demand more, rather than less, state regulation of the economy. And in this, certain policy prescriptions of the IMF and World Bank must be resisted. For instance, the requirement that the government maintains a sound balance-of-payments profile by promoting traditional and non-traditional exports through import reduction to raise export earnings is

[13] The Asians, it will be remembered, were held to be racially superior to Africans during the colonial regime, yet were denied access to the privileges enjoyed by the white minority. They consequently curved a niche as merchants, acting as middlemen between the African peasants in the rural districts and the emergent urban dwellers. Resentment towards the Asian business class was high in the post-colonial period and Kenyatta's regime was mildly tolerant towards them. Excluded from the system, they sought to survive by forging close social networks, and this eventually made them a formidable force in the manufacturing business. By the time Moi took office they were fairly entrenched in Kenya's economy but were the target of much resentment by the indigenous business class, especially the Kikuyu. Some prominent members of the Asian community became embroiled in corruption scandals, rekindling the resentment of most indigenous people towards the community as whole. Besides, some within Moi's cohort undermined the Asian businessmen's competitiveness by importing cheaply abroad thereby reducing the profitability and growth of the textile, sugar and other manufacturing concerns which were just beginning to stabilise.

difficult, especially in Kenya where import substitution has been pursued for decades. This may drastically affect overall economic performance (see Fine, 1995). In the same vein, liberalisation of the financial market may be risky where financial markets are underdeveloped, and this risks exposing fairly fragile economies like Kenya's to external destabilising trends beyond the control of national policy-makers. Moreover resources need to be channelled to productive sectors, and the state must take the lead.

Trade liberalisation and reliance on market incentives are inadequate to deal with the contradictions and the imperfections in Kenya's economy. Trade liberalisation has not created the growth prophesised but has instead created room for import of luxury products by the Kenyan rich from abroad. By December 1997, the growth in imports of consumer goods had risen from US $ 506m to US $ 760m. By the same period, growth in imports was faster than that of exports; but, unfortunately, growth in capital goods imports had slackened drastically (Central Bank of Kenya, Monthly Economic Review, December 1997). Scarce foreign exchange is used in this sense not to raise productivity growth, but to perpetuate a pattern of consumption totally in conflict with the country's development goals. Trade liberalisation assumes the existence of ready markets waiting to allocate goods and services to individual consumers; but in Kenya, *the markets need to be developed*; they are not big enough to support mass production, to begin with (see Gibbon, 1995: 21; Masinde, 1996: 26; see also Leys, 1996).

Whither development in Kenya? Civil society has been touted as the magic worker which may not only substitute for state failure, but may correct market imperfections. Is this just another grand dream, or does this postulation offer a viable way out? The next chapter examines this.

Chapter V

Civil Society and development in Kenya

6.0.1: Introduction

Civil society has gained currency in development thinking, and this has been caused by a number of factors. First, trends in the global economy are changing rapidly and greater competitiveness and the decline of Keynesian welfarism have been key features of the last fifteen years. Secondly, the failure of state-led growth in much of the Third World has evoked an anti-statist discourse within the development industry, creating a preference for a *rolled back* state and an enhanced role for market forces in the economy. Thirdly, to a certain degree, the inadequacy of neoliberal policies in offering a viable alternative to state-led growth have created room for civil society to enter both the development industry, and the development discourse. Finally, much donor funding continues to be channelled through NGOs, rather than through the state as has traditionally been the case.

Civil society (as a category), however differently they are defined and conceived, are expected to play three basic roles. First, they are believed to be more efficient than the state in delivering basic needs to the poor because they ostensibly work closer to the masses hence understand their needs better and are more accountable; are less bureaucratic hence are unlikely to be corrupt; and are flexible hence can expand easily or diversify into other activities without much damage to their efficiency (for an explication and critique of these views, see Hearn, 1998; Eade, 1997; and Stewart, 1997).

The second reason for bringing civil society within the development field is that they are better at promoting sustainable employment and income generation activities in local communities because development channelled through them is democratic, based on the local context and needs. They are said to incorporate local input, and to work face to face with local communities in identifying and prioritising development needs. Hence, their approach is bottom-up, rather than top down as in state-led growth which is planned at central ministries and implemented at the local level without hardly any input from the local communities. Civil society is also said to be innovative, tapping local talents and resources, and helping local communities to transform at a pace they can cope with. This is to say that civil society helps communities internalise learning-by-doing. They are thus favoured by donors and other development agencies for their accountability and for what they can do: achieving much, using less.

The third reason for civil society in development thinking is that they are believed to be the only viable challenge to state authority. Since the state has constricted the space within which citizens can participate in the life of their societies, both in economic and political sense, only civil society can act to reclaim this public space. Civil society in this sense is expected to democratise the space within which development occurs and to make governments accountable to their subjects. The assumption here is that civil society is democratic, that it is an inclusive category, and that it is always opposed to state action. How true are these assumptions?

6.0.2: Civil Society Conceptualised

I must point out that the term civil society is an ambiguous catch-all-phrase that compounds rather makes explicit who or what is inside it. Rather than dwell on what it does or does not mean, it is useful to delineate what I shall refer to as civil society in the ensuing discussion. I look at civil society as an organised and sustained form of citizen action, occupying the space where though profit and control over others within society may be ends in themselves, do not constitute the sole motive for such organised action. Rather, civil society reflects voluntarism, sacrifice and collective action for gains which accrue beyond membership in such groups. Civil society action aims at diffusing, not occupying, centres of economic or political power. Applied in the case of Kenya, civil society is used to refer to all organised groups, whether for the purposes of promotion of social, economic, or political welfare as long as these are organised outside government or commercial entities. As such, ethnic associations, community welfare groups, NGOs (local and foreign), church bodies and other commercial and professional associations are included in this category of civil society.

6.0.3: Civil Society in Kenya: an overview

Several features characterise civil society in Kenya. First, there is a very dense associational life, both in terms of type and numbers. This has its roots from the colonial times when churches and the colonial administration, fearing organised political activity among Africans across the reserves, encouraged confinement of development activities within each district or reserve. The result was that Local Native Councils were formed to give Africans forums at which they could 'harmlessly let off steam' and thus pre-empt any 'mischievous tendencies' which might develop among them (Berman, 1990: 216). Alienation and exploitation practised by the colonial regime reinforced the formation of associational activities. Land alienation and exclusion from the economic advantages that European civilisation brought with it were strong incentives for the formation of associations in which educational goals, land buying and, later, political agitation emerged. In the post-independence period, Kenyatta's motto of *harambee* reinforced the continuity of associational life. Associational life offered a powerful platform through which communities built schools, health centres, and provided for other basic needs, especially those that individuals acting on their own could not. The presence of niches in the economic and political spheres in Kenyatta's period, a period that witnessed transfer of political and economic privileges from the colonial regime to the emergent African elite, saw a more peaceful co-existence between the incumbent political elite and the diverse forms of associational life that dotted the Kenyan social landscape.

In Moi's time, opportunities for upward mobility were beginning to shrink both as result of the multiplier effect of *harambees* and as a result of the economic difficulties emerging from changes occurring in the global economy. The public service would not automatically absorb people leaving the educational institutions, and other sectors of the economy had not developed well enough to absorb the mass of people leaving the educational institutions. Moi's alliance-building project also created further exclusion. An army of the jobless and the disillusioned was gradually being created. Eventually, especially in the high tide of Moi's repressive regime in the 1980s, associational life became more confrontational in its dealing with the state. In sum, associational life, whatever nature it takes, has been institutionalised and reproduced in Kenya's development history and this is a feature of both urban as well as rural areas.

The second feature of civil society is their fractionalised nature. While this can be traced to the divide-and-rule policies of the colonial regime, successive independent ones have also capitalised on fractionalisation: state patronage has been dangled as a carrot for purposes of maintaining the loyalty of diverse constituencies. Economic constraints and exclusion from the mainstream of both politics and the economy have further sharpened fractionalisation in associational life. Creation of resources has been slow, but access to them has equally been selective. Competition for scarce national resources has naturally created suspicion and fractionalisation in the Kenyan polity.

The third feature is the non-inclusive nature of civil society groups in Kenya. In fact, it is not far-fetched to infer that most urban-based civil society associations are merely alternative avenues through which displaced intellectuals continue to participate in the political and economic life of Kenya (see Ndegwa, 1996, and Stewart 1997). A look at the composition of most civil society groups reveals that they are dominated by the former cohort that formed Kenyatta's inner core, mostly Kikuyus, the Luos, Kambas and Luhyas. The so-called 'smaller tribes' are conspicuously absent in the higher echelons of most of these organisations. Besides, urban civil society groups draw their staff from university graduates, formerly employable in the civil service, and from technical experts from the Northern development agencies, who themselves earn their livelihood from such civil society groups. Few donor agencies in Kenya are willing to extend their services to certain types of civil society groups, especially those that confront the state through extra-legal means because, it is claimed, this is an infringement on national sovereignty. Non-inclusiveness is thus manifested at the level of membership and issues covered.

Finally, only the foreign agencies have enough resources to diversify action across several activities. Most local civil society groups are characterised by limited funding. Most of them are therefore prone to capture by local elite, which limits the range of activities they can engage in and their own sustainability (see Ndegwa, 1996; Kanyinga, 1995). Given this scenario, what role can civil society groups play in Kenya's development?

6.0.4: Civil society, service delivery, employment and income generation

Kenya's development experience (see Kanyinga, 1995; Ndegwa, 1996; and Cowen and Shenton, 1996) reveals that much community development has been carried out by such non-governmental agencies. It is also evident that the state's policies in delivering basic needs has been haphazard, governed by patronage and have sharpened inequality across groups, regions or communities. In contrast, voluntary agents have been more efficient in doing these (see Kanyinga, 1995: 100 - 106). It is hard to generalise, however. The success of any intervention depends on the economic endowment of the beneficiaries; the configuration of local politics; and the intervening agency: its organisational structure and values, and the source of its funding. Activities by most voluntary agents in development have targeted mostly provision of basic needs like construction of schools, health centres, building of churches, and provision of water, relief and general welfare. In Nakuru, Kiambu and Siaya, NGO and church activity have also targeted agricultural activities, and credit schemes for small business start-up. Other agents, Undugu Society, the National Council of Churches of Kenya (NCCK) and the catholic Church (for instance) target training programmes for the youth and women (see Ndegwa, 1996; and Kanyinga, 1995).

Foreign development agencies in Kenya, especially CIDA, NOVIB, OXFAM, DFID, CARE-International, and USAID, to mention a few, are engaged in multiple activities which span basic needs, income and employment generation and these activities are carried out across several districts in Kenya. The resources of the respective beneficiaries of such agencies also differ. Some beneficiaries are fairly well-established and engage in sustainable employment and income generation activities, especially those located in Kiambu, some within Nairobi, Nakuru and other districts in Central Kenya. Those in marginal areas normally cover family planning services, provision of basic facilities like water, immunisation services and assistance with small scale business start-ups.

Another problem is that rural-based NGOs are vulnerable to capture by self-serving local political elite who use them as stakes for patronage (from wielders of state power, in which such elite become intermediaries) and as weapons for dealing with their political adversaries at the local level. At other times, their interventions are duplicated by local politicians who fear that such interventions may erode their local power bases. In one case (see Kanyinga, 1995: 111 - 112), a local Member of Parliament (MP) went ahead and ordered provincial administration officials to trail and arrest NGO staff so as to intimidate them. Lastly, even local NGOs are characterised by internal feuds and personality differences and this limits their efficiency and autonomy. What can not be established is the claim that NGOs do much with less resources because the success of a particular NGO intervention depends on other factors external to internal NGO organisation or resources at its disposal. It is true however that most private voluntary agencies in Kenya (NGOs, churches, co-operative societies) have generally performed better than the state (see Kanyinga, 1995; and Ndegwa, 1996); this holds if the quality of intervention and not geographical coverage is the basis for making such judgement.

Donor funded NGOs, and the Church funded ones have more resources, and thus can diversify and operate across sectors of society and the economy. This category of NGOs is also less prone to capture by political power brokers. However, donor funded ones operate on the organisational ethos of Northern-based development agencies and it is questionable to what degree they are accountable to local communities. I raise this scepticism for a number of reasons. First, what is to be funded, how much funds are given, and the impact of intervention is assessed on the basis of the criteria, in most cases technical organisational blue-prints, set by Northern development agencies themselves. Flexibility and innovation become issues of concern. Secondly, since most foreign development agencies draw their staff from the educated class in Kenya, themselves recipients of Western education with a set of assumptions about local communities and how their problems can be solved, it is again questionable just how much local input such people can accept in their interventions. As an illustration, Michael Burisch (1991) reports a case in which a donor funded rural industrialisation initiative in Western province in Kenya, relying more on technical blue-prints by both local and foreign NGO staff and ignoring local realities, only managed to create 100 jobs after over 10 years of operation in the area.

Finally, and this is true for all voluntary agencies working on Kenya's development problems, wider macro-political and economic issues are intricately linked to the outcome of any development intervention. Economic mismanagement at the national level, or disturbances in the global economy have their impact on local interventions, given particularly the increasingly interdependent nature of economies in the current era. While the Kenyan state can only pragmatically affect and direct national economic policies within its borders, and this is becoming limited by the day, civil society groups' actions transcend nation-state borders. It would be tempting to suggest that civil society groups could liaise with their partners in the industrialised North in socially engaged action which transcends national borders. But this is defying levels of power differences globally, and the non-inclusive structure and often parochial vision of most civil society groups in Kenya.

6.0.5: Civil Society and democratisation

Democratisation has never been the tuff of most Kenyan civil society groups, and their experience in this field does not stretch long enough. This is not to deny that civil society groups (if we accept the broad term I have adopted, then the Gikuyu Embu and Meru Association (GEMA) until its being outlawed by Moi) have played a major role in Kenya's politics. GEMA not only wanted to change the constitution to stop Moi from automatically succeeding Kenyatta, but they went ahead to train a private army, the *Ngoroko:* just in case the constitutional change project failed. Clearly, GEMA's involvement in Kenyan politics was not aimed at democratisation but the opposite: restricting the space within which other communities could engage in Kenyan politics by perpetuating a Kikuyu dominance (Kanyinga, 1995). The proliferation of various groups crusading for democracy can be traced to global trends, especially the fall of the communist bloc; and the release of Nelson Mandela leading to an end of apartheid in South Africa. But locally, this can be said to be the result of the failures of Moi's populist policies and the disillusionment this created across many sections of society, and heightening economic conditions nationally (Kanyinga, 1995, and Ndegwa, 1996).

The proliferation of such civil society groups, many of which have no contact with local communities where the majority of the population apparently live (Ndegwa, 1996), gives Kenya the *form* of a democratic society when in *content* it is not (see Stewart, 1997). Some NGOs exist only in the minds of single individuals, 'briefcase' NGOs where the member is a single individual and a sheaf of papers in the briefcase.[14] Kenya's experience shows that meaningful change has only come about when exerted effort is put not within the legal confines defined by the state, but both within and outside such a framework. The Mau Mau peasant revolt, which eventually forced the British colonial government to relinquish control of Kenya, operated outside the racially biased colonial laws which supported settler dominance and exploitation of Africans. In much of the 1980s, the

[14] I am grateful to Jan Aart Scholte for making this observation.

NCCK, and other clandestine groups, notably a group calling itself *Mwakenya,* comprising a group of disenchanted intellectuals, engaged the state through extra-legal means.

A repressive state like the current one in Kenya has no qualms in using elections to give pseudo-legitimacy to its unpopular cling to power, especially when it has the means to rig them. In the eyes of the Western observer, such elections *are free and fair,* but in the eyes of most Kenyans, they amount to gross abuse of justice, and at worst a conspiracy. Elections in Kenya are ***highly punitive***, and they are used by the incumbent regime to sanction who should or should not benefit from state resources[15]. When the regime is that repressive then what is legal or otherwise become issues of political whim, and where the rules limit arbitrary use of state power, they are simply bent, or ignored. Engaging such a state within the legal framework alone is thus an exercise in futility.

If Northern development agencies are serious about their interventions in Kenya, they must support political action, even those that occur outside the state-defined legal framework. Few such agencies, except notably NOVIB which has connections with social movements in Kenya, tacitly support activities that engage the state directly. Locally, the NCCK and the Green-Belt Movement (The GBM) are notable exceptions of agencies that engage the state directly, apart from engagement in basic needs provision and employment and income generation for their beneficiaries. While the Church is not taken by most people to be part of civil society *per se*, the Green-Belt Movement is. The problem with the GBM is that it does not cover the whole of Kenya, and political engagement with the state is done by its leader, Wangari Maathai, not by the group's diverse membership. A conscientisation programme is carried out by the GBM but this is limited to environmental issues and participation of women, not core engagement with the state on issues of political democracy (see Ndegwa, 1996).

What is not clear is whether this type of scaling up, i.e. taking on board political issues dissipates an agency's energies and resources. Further research could find out the impacts of political engagement by NGOs on other dimensions of development activities in Kenya.

[15] After the 1992 elections, government ministers, especially Hon. Francis Lotodo, and William Ole Ntimama, frequently reminded regions where the opposition garnered a majority of votes that they would not benefit from government development projects. In the Kenyatta era, the entire Luo-land was marginalised because of Kenyatta's differences with Oginga Odinga, a politician from the area.

The fact is that whatever interventions are carried out in the development realm will continue to be dwarfed by economic mismanagement at the macro-political level. It is a truism that a democratic state promotes the growth of strong and vibrant civil society groups. A repressive state is hostile to such an outcome and will do everything in its power to stop it. Civil society cannot thus strengthen a weak state but the reverse is the case (Stewart, 1997). In a rapidly globalising world, a strong civil society is needed to shield the state against destabilising global tendencies. If the legally defined framework can not bring such an outcome, then forces within society, however they are composed, will emerge to restructure the state. Turbulence in the Eastern African region has brought illegal import of guns into the country and the possibility of such arms getting to the hands of ethnic chauvinists in Kenya's Rift Valley province send worrying signals that the global community must confront if another Rwanda is not to recur on television screens across the world. It is a choice between two bad worlds. My choice is simple. Better purposeful action by progressive social groups operating both legally and extra-legally to restore sanity to the system. Such action must be purposeful, inclusive and based on a desire to strengthen key institutions of the state. It is time that most grassroots organisations took on politicisation of development. This is obviously more beneficial than leaving it to the Rift Valley mafia to settle scores with their political adversaries.

The majority of Kenya's population lives in the rural areas. These people are the most marginalised, and NGO action with selected constituencies may deliver basic needs, improve livelihoods, but still leave such communities vulnerable to capture by local politicians. Civic education in this regard would help; development is a political process which can not be confined to the material domain alone. Similarly, selecting beneficiaries, in spite of its hallowed advantages, serves to fractionalise society further, exacerbates inequalities within and across societies and leaves local communities still vulnerable to macroeconomic instability coming from the national level.

Co-ordination of activities by all agencies engaged in development at the grassroots level (whether government, voluntary local agents or foreign development agencies) would avoid unnecessary duplication, permit more efficient use of resources and help local communities build social networks that may act as a buffer against macroeconomic instability and political manipulation. If civil society is to enhance democratisation, then they should learn the basic nuances of consensus-building and transmit the same to local communities, or else they will fall victim to the same crimes the state is accused of committing: fractionalising of the Kenyan society, and enhancing and perpetuating inequalities.

Similarly, those civil society groups working in urban centres, the *democratisers*, ought to know that there is strength in unity. Dissipated action, often aimed at getting donor funds, is hardly the path to travel. Obviously, they should be more inclusive and representative, and listen to donors while simultaneously engaging the state on issues of national concern, which need not be confrontational if the state is willing to listen. In like fashion, a little taking of economic issues on board is overdue. It is futile to preach rights to a starving person, especially if the right or (more aptly) the means to a decent standard of living is being denied by economic mismanagement of resources at the national level. In summary, these groups must learn to be democratic before they give the state the basic lessons on democracy.

Chapter VI

The State, the Market and Civil Society: a case for synergy

7.0.1: Introduction

In the discussion so far, I have shown that none of the above agencies, acting alone, has the ability to transform society. The discussion has also shown that the role of each of these agencies converges at times, while tension between and among them is not uncommon too. The remaining part of this discussion confronts three related issues:

- the contention that capitalist development is inescapable in the current era, that is has great transformative potential, and that it is possible for even poor countries like Kenya to develop,
- the contention that in Kenya's development, the state must continue to play an active role, while giving market forces autonomy to develop,
- and confronting the reality that the destabilising tendencies prevalent in the global economy, and the entrenched power positions of both local and external economic forces call for cultivating synergy between the state and social forces.

I tackle each of these positions in no systematic way; they are highlighted because they form the gist of my arguments.

7.0.2: Confronting development in the current era

Capitalist growth is a painful, conflict-prone process that tears down old social ties, results in massive exploitation and, if unchecked, may create mass poverty and misery. However, under the right conditions, capitalism allows technological progress, high levels of productivity and social transformation of unprecedented levels (German, 1998; Mittelman and Pasha, 1997). Exploitation is inevitable in the process of capitalist growth. Capitalists are driven by profits, and labour and capital are only useful to the extent that they can be used to realise higher returns. If labour becomes costly, capitalists invest more on machinery and less on labour to improve or maintain the same levels of profit. This is what makes technological progress possible; the labour-cost cutting motivation of capitalists (Mittelman and Pasha, 1997; Leys, 1996; Nitzan, 1998). Third World societies, Kenya included, have to accept this basic characteristic of capitalist growth. They must allow social transformation based on capitalist exploitation of labour and capital goods[16].

The quality of a country's stock of capital goods; the expertise and skills of its workforce; and the nature of its internal markets, in particular, the flexibility with which factors of production can be deployed across sectors of the economy are key features which attract investors. What Third World societies can do is to regulate the *nature and quality of such exploitation*. Global capital is neither a monolithic whole, nor entirely impenetrable. There are capitalist enterprises which may be keen and willing to work with states in improving the conditions of their workers and in using resources in sustainable ways. It is the state's, and by extension social forces, role to ensure that society is insulated from the adversities of capitalist growth.

The possibility for Kenya developing lies in meeting two slightly related goals. First, raising levels of productivity to ensure self-sufficiency in food, income levels high enough to provide an internal market for goods and services produced, and integration in a way that allows transfer of factors of production across sectors of the economy. Secondly, levels of productivity should be high enough to allow export, necessary for improving the country's balance-of-payments position. In the current competitive global economy, this needs possession of skills and technology that will allow innovation and adaptability so that quality products may be produced. This also means forging ties the nature of which may permit access to global capital markets for both exports and imports (Fitzgerald, 1996: 89).

[16] Exploitation may be a dirty word in the ears of many but in Kenya, exploitation by the British colonial government pushed many out of land and the result was that many people struggled to get education, some became petty merchants and, even more importantly, colonial exploitation and discrimination eventually gave the impetus for organised protest by Africans to end colonial rule. Closer home, the so-called Jua Kali sector is where those excluded by the formal economic processes curve a niche for themselves. Exploitation, rather than necessity, seems to be the mother of invention in Kenya.

For these two conditions to obtain, the state needs to play a key and central role: in setting a stable macroeconomic policy framework, in providing infrastructure and in stimulating investment in key sectors of the economy. It needs to set a regulatory framework in which investment goes to key sectors with potentials for triggering forward and backward linkages across sectors of the economy. There is also need to regulate the financial sector to ensure that financial capital is channelled to growth triggering sectors of the economy, and not to speculative investment which may create shocks and compromise further productivity growth. Trade also needs to be regulated to prevent spending scarce foreign currency on luxury imported products.

The above would require a highly qualified and motivated civil service, free from political manipulation. Planners would need an intricate comprehension of changing global trends, and must be adept at collecting, processing and providing timely information to investors. This will help investors shift resources and investments across sectors if and when necessary.

Another requirement would be giving private investors relative autonomy, once key areas have been identified and productivity goals and targets set. This calls for striking a subtle balance between regulation and autonomy, and is necessary to allow adaptability and innovation. The state needs to commit funds to provision of infrastructure, but even more important, education needs special focus. This is necessary to raise the country's social capability, i.e. the ability of the population to fully exploit the power of an existing technology. There is a link between social capability and technological opportunity, since social capability constrains a country in its choice of technology (Abramovitz, 1998: 39). Other factors that would enhance technological deepening would be the pace at which diffusion of knowledge occurs, the rate of structural change, and the pace at which capital is accumulated and demand expanded (Abramovitz, 1998: 41).

In the current political set up in Kenya, this is a far cry from reality that could prevail: it is simply building castles in the air! The civil service is highly politicised, corrupt, inefficient, bloated and hardly motivated. Planning bureaux exist which do not seem to be doing much; or if they do, then their plans are hardly implemented. Economic mismanagement seems to have created a state of indebtedness that allows hardly any government expenditure on infrastructure (see end-note i). Besides, the prevailing global economic framework would not look too kindly towards such overtures by the state. Global financial institutions seem more keen on having the government respect its debt repayment commitments[17], than in seeing public expenditure committed on projects with long-term growth prospects for the country.

The plethora of government regulations on imports and trade licensing open fault-lines in the system that corrupt government officials use to seek rents. Even local small-scale investors in the informal sector are required to have a licence for every business activity they have under a single premise (Ikiara, 1991). Trade regulations prevent rapid deployment of resources to investment opportunities as too much time is wasted on seeking clearance from government bureaucrats. Besides, they prevent diversification.

In the absence of a concise government policy and provision of information, the market keeps performing inadequately. Households diversify into non-productive activities, large-scale investors hold excess capacity, integrate vertically, invest in speculative activities or employ labour in conditions that neither improve firm nor worker productivity. Transformation becomes an elusive goal which benefits none of the actors in society.

7.0.3: A case for the state, the market and civil society working together

Kenya's development potentials have not been exploited fully. Most large firms hardly use their installed capacity (Masinde, 1996), and low returns to investment, rather than low investment, impedes further growth (Gunning, 1998). The good news is that most Kenyan industries have passed the shallow import substitution threshold. Untapped potential exists in the manufacture of industrial and agricultural chemicals, implements and light machinery for agriculture, and components and materials used in producing consumer goods and durable (Coughlin and Ikiara, 1991: 5). The government in particular needs to prioritise industries with forward and backward linkages between manufacturing and the agricultural sector. Further research could identify what type of linkages could work in which industries.

[17] The recent tug of war between the government and teachers over pay rise, in which the IMF insisted that the government commits itself to debt repayment rather than meeting the teachers' demands, is a case in point. I am grateful to Frank Hirtz for drawing my attention to this.

The structural constraints to growth of industries and the agricultural sector in Kenya offer potentials for further development. Restructuring in the global economy is opening gaps in investment, which internal restructuring in the Kenyan economy could take advantage of. Greater competition in the global economy is pushing larger firms to move away from mass production based on the assembly line. Rather, the move seems to be towards small-batch production for specific niche markets using flexible machinery. Large firms re-organise and emphasise 'flexible work organisation, external input and process sourcing, and clustering and networking of suppliers, market segmentation and vertical disintegration of enterprises' (cited in Masinde, 1996: 26). Such work organisation, based on flexible production schedules using flexible machinery, allow large firms to maintain a lean flat and adaptable organisation, capable of coping with unpredictable and volatile markets, like the one prevailing in Kenya. Firms holding excess capacity in Kenya could thus outsource some of their production processes to the smaller firms. Besides, arrangements could be entered into between larger firms in Kenya and foreign TNCs for technology and skills transfer.

An arrangement, as the one visualised above would be beneficial to both global TNCs and firms in Kenya. For global TNCs, this will mean breaking out of overly competitive mass markets to take a lead in developing markets. Obsolete technology in the North could be recycled in slightly underdeveloped markets in Kenya, where technological deepening has not occurred. In the Northern economies, the technological and chronological ages of the technology embodied in a specific stock of capital tend to converge. In developing countries, the reverse applies; and the stock of embodied capital may be obsolete relative to its technological age globally, but still applicable in the country's technological progress (Abramovitz, 1998).

For firms in Kenya, this would mean invaluable access to global capital markets. Several conditions are needed to see such an outcome through. First, the presence of a macroeconomic framework that ensures predictability, stability and setting of clear achievable goals. Occasionally, the government may need to spearhead investment in key sectors where entry costs are high, or where returns to investment take long to mature. Secondly, government intervention to ensure that infrastructure and social capability exist for rapid technological diffusion. Also needed are deep and extensive networks across sectors of society. The acrimonious in-fighting among industries in Kenya, which forces many firms to invest defensively in redundant capacities, should eventually give way to mutual networks (Coughlin and Ikiara, 1991: 4). Thirdly, local firms must be able to innovate and improve on imported technology. A balance needs to be struck between improving and invigorating productive capacities of and for local markets, and penetrating external markets. Regional markets could also be used for both exports as well as imports (Vaitsos, 1991). Lastly, the presence of strong internal social forces that may help build social trust while simultaneously fighting off any tendencies which may constrict the economic, social or political spheres for citizen participation.

Large firms in Kenya could enter into franchise arrangements with global TNCs, and still have additional links with their smaller counterparts in Kenya. The advantage here is that the small and medium enterprises in Kenya could link larger firms with the agricultural sector. The small- and medium-scale enterprises, the so-called *Jua-kali* sector, are flexible in terms of size, mobility and work schedules, and are labour intensive. This makes them easy to set up, to manage and to relocate. They are characterised by innovation and adaptability; and they use technology appropriate for Kenya's resource endowment, mainly relying on second-hand equipment and recycling industrial scrap discarded by larger enterprises. This saves foreign exchange and makes the *jua-kali* sector a viable platform for technology transfer between larger and relatively smaller enterprises (Ikiara, 1991: 310 - 315).

By offering the right incentives, the small-scale operators in the *jua kali* sector could be helped to enter into franchise relationships with larger firms that will ensure transfer of technology and skills to the sector. The type and nature of the franchise arrangement is important. The best would be a case where technological specialisation and or economies of scale is the underlying rationale. This would serve the interest of the smaller firms better because they can achieve technological leadership in a given area and thus improve their bargaining power in terms of negotiation for prices over what they produce (Altenburg, 1997: 26). Other advantages for the smaller firms are that they gain access to a reliable market and eventually learn to develop standard products. Other forms of franchising or outsourcing arrangements as are currently being practised in Kenya's Export Processing Zones (EPZs) are disadvantageous to the country. To me, they amount to sweatshops where the desire to cut wages is the overall motivation. No meaningful skills or technology transfer takes place; and this benefits neither the country nor the workers. This is what I call primitive capitalist exploitation with no transformative potential. Subcontracting arrangements aimed at reducing work overflow and smoothing production would similarly achieve little technology or skills transfer. Smaller firms risk losing investments unless and until the larger firm in the franchise arrangement receives production orders beyond the latter's own capacity. This does not help the smaller firm commit itself to investment in either machinery or the skills of its workers (Altenburg, 1997).

This is an area where the government has to take the lead. Investors can only outsource when they are sure that quality supplies will be delivered in time to meet their production schedules. The case of Kenya in the first phase of import substitution is instructive. Most investors tended to follow, rather than, lead the government's industrialisation initiatives (Vaitsos, 1991). At the present, structures and institutional arrangements exist which could be used to foster franchise arrangements for rapid development across sectors of the Kenyan economy. For instance, the Kenya Subcontracting and Partnership Exchange (KSPX), formed in 1991 with the assistance of UNDP (Masinde, 1996: 23), could be extended beyond the motor vehicle manufacturing sector where it was initially meant to target. Similarly, the *Jua-Kali* co-operative societies and the national *Jua Kali* Loans Committee could be revitalised and used in bolstering synergy among the *jua-kali* entrepreneurs. Franchisers could be encouraged to work with organised *jua-kali* entrepreneurs for skills and technology transfer. Likewise, a credit scheme could be operated under the loans scheme that encourages team work, rather than isolated individual efforts. Individuals operating their own units would still benefit but teamwork would be emphasised and encouraged more.

Investment is a learning process. Mastery of technology and its deepening across sectors is by no means easy, just as the ability to innovate and adapt; and these develop gradually. Investors, both large and small, must be helped to internalise the costs of learning. Further, social trust is necessary if such a project is to succeed. A framework should be worked out in which this can develop. An impartial legal and institutional arrangement is necessary to help in contract enforcement and punish defaulters. Associational life that nurtures consensus-building, negotiation and social trust are equally vital. Further, workers could be encouraged to accept wage increases higher than inflation but lower than productivity growth (see Carmody, 1998: 35) as firms struggle to internalise costs of adapting to new technology and making further innovations on them, along with coping in a fragile investment environment.

Civil society groups are needed on several grounds. There are structural limitations to what the state, or the market can do. Voluntary development agencies must come in to help complement these efforts. In doing so, there is need for co-ordinated, rather than isolated action. All stakeholders need to be involved, and voluntary development agencies could help in meeting some of the social and economic costs of revitalising the peasant economy and in seeing the franchise arrangements through. In particular, research could establish how far the agricultural sector can subsidise the industrialisation process without compromising the former's further productivity, sustainability and growth.

Secondly, a major limitation is the nature of the state in Kenya. Civil society groups must use both legal and extra-legal means to create meaningful change in key institutions of the state. Finally, the current global set up is hostile to state intervention; yet in Kenya, the state has to intervene. Civil society groups have the advantage that the state lacks: they can appeal directly to other groups in other countries, or indeed liaise with certain global actors to resist political pressure coming from the global centres of power. This is why the state needs a strong civil society; to shield it from pressures that seek to make Kenya a warehouse for imported goods, and a sweatshop where firms come to make components using cheap labour.

Conclusion

It is possible for Kenya to develop and overcome the current impasse. Such development will have to occur within capitalist forms of economic growth. The state, the market and civil society groups have specific roles to play in development. The more these roles are played in conflict and isolation, the further Kenya's development is pushed away. The more they are co-ordinated, the higher the chances are that Kenya can develop faster. Global trends present constraints that could reduce the country to a sweatshop, and at worst a warehouse for imported products. But global trends have presented a unique opportunity that the country could use to capitalise on its early post-independence growth. Whether this opportunity is capitalised on will depend on how social forces restructure the state to take on this onerous role. But it also depends on two other factors. Strong pressures exist globally which constrain any alternatives to Kenya's development which may be in conflict or competition with such pressures. Secondly, years of institutionalised inequality have bequeathed to the country a political culture which makes unified purposeful action difficult. The gains in revitalising the economy have long-term benefits for all with a stake in Kenya's development. Allowing the reverse to happen could open the door to chaos and anarchy: Kenya could as well be another Rwanda. The question asked in the title of this document is still apt. Whither development in Kenya?

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End-notes

[i] By December 1996 the total public debt was US $ 6,241 million (Quarterly Budget Review, Ministry of Finance, March 1997: 26). By October 1997, the current account deficit stood at US $ 326 million, about 4.2% of GDP. Of this, trade deficit had widened to about US $ 131m, constituting about half of the increase in the current account deficit; while a decline in the services account surplus had reached US $ 139m (Central Bank of Kenya Quarterly Review, December 1997: 30). Kenya's external debt is of particular concern because it continues to rise; by 1997, the country's external debt accounted for 70 per cent of its debt portfolio. The overall balance of payments position had deteriorated to US$ 58 million by February 1998 (according Central Bank of Kenya Monthly Economic Review- April 1998)[i].

Increasing public indebtedness is a major obstacle to development; a huge proportion of public expenditure and, by extension, any gains in productivity are used to repay especially external debts. At times, it is only possible to service the interest on such loans, leave alone repaying the principal sums owed. By March 1998[i], interest payments on debts amounted to Sh. 30 billion, an amount equivalent to 20% of total government expenditure.

[ii]this is partly a reflection of greater competitiveness in world commodity markets and partly the result of declining agricultural productivity, by 1970 agricultural production was 33% of GDP, whereas in 1992, it had fallen to 27% (Lensink, 1996: 13). In spite of the increase in the prices of coffee and tea in world markets, overall productivity of coffee had fallen by 28.9% by August 1997, and that of tea declined by 13.1% by July 1997. This decline is forecast to continue and will have adverse effects on overall GDP because the agricultural sector contributes nearly a quarter of GDP and has strong links with other sectors of the economy[ii]. Earnings from tourism, on the other hand, fell by US $ 21m to US $ 428m (Central Bank of Kenya Monthly Economic Review, December 1997: 31). Moreover, primary products apart from being vulnerable to fluctuations in world markets, are characterised by low value-added and do not contribute significantly to the country's development.