Rethinking Development Aid Strategies for Kenya

Kenichi Ohashi*

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Abstract

Development partners have long recognized that "governance" is the fundamental development problem in Kenya. Yet, they have not been able to devise an effective approach to help the country address it. In the meantime, "traditional aid" has continued on large scales. This is not a uniquely Kenyan issue. In a companion report (Ohashi 2022), I present a generalized framework to explain why aid fails in such a situation, and argue that the central focus of aid should shift from helping developing countries fill resource gaps to helping them make a transition from an elite-favoring and rent-centered political economy system to an "inclusive" one. I argue that in most developing countries, there are social forces that are pushing to make their countries more inclusive. By aligning their support with such internal dynamics, development partners can provide much more effective aid. Applying this broad framework to Kenya's development patterns, this report outlines how the elite-captured system obstructs robust economic growth through multiple channels. The study then identifies the devolution process that began under the 2010 constitution as the critical tipping point for social dynamics in Kenya. It has given Kenyan citizens a political channel through which to express their demand for change more forcefully. Out of 47 counties, several have emerged as vanguards of the movement toward establishing an inclusive political economy system. Some of the key success stories form reform-minded counties suggest that finding ways to remove or counter cartel behavior is far more powerful than "fighting corruption" by prosecuting the perpetrators. Building on these two key elements, the report suggests several strategic ideas for a more coherent aid program for Kenya that is focused on assisting the country in moving toward an inclusive system.

Keywords: Kenya, governance, corruption, political economy, aid strategy, devolution

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* Senior Economic Advisor to the Presidency of the Republic of Kenya from 2014 to March 2021, and former Country Director, the World Bank (kenohashi2@gmail.com). He commonly goes by Ken Ohashi.

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1. Introduction

Similar to my companion report (Ohashi 2022), this report uses "aid," as opposed to the broader "development cooperation," to emphasize the financial dimension of assistance that development partners provide to developing countries, for this is the area that is often most problematic in an environment of bad governance. "Governance" refers to "the formal and informal arrangements that determine how public decisions are made and how public actions are carried out," as defined by the Organisation for Economic Co-operation and Development (OECD).[1] The OECD further notes the principal elements of good governance are accountability, transparency, efficiency, effectiveness, responsiveness, and rule of law.

This report is based primarily on my work as Senior Economic Advisor to the Presidency of Kenya from 2015 to 2021 as well as my work on Kenya at the World Bank during 1996-99. It also draws on the broader experience from my career at the World Bank (1979 to 2011) and on an assignment with the Japan International Cooperation Agency (JICA) in Myanmar more recently.

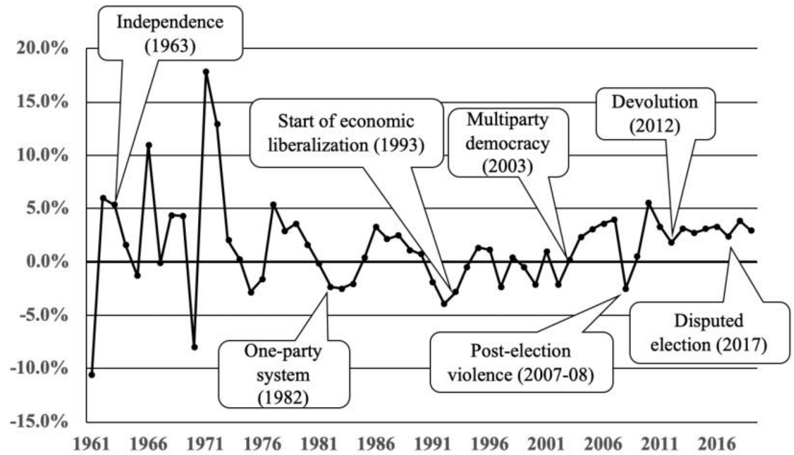
At the tine of its independence in 1963, Kenya was the leading economy in East Africa, with a more advanced industrial sector, good basic infrastructure, and a well-educated workforce. Yet, it has never achieved the kind of sustained economic growth that many observers believed was possible. Chart 1 shows Kenya's annual per capita GDP growth rates since 1961 as well as the timing of key political events. As Kenya became less dependent on the exports of a few key commodities (notably coffee and tea), the variability in the growth rate has become attenuated after the 1970s. However, only in the last 10 years, Kenya has been able to maintain positive growth rate for any extended period. Still, the average annual growth rate of 3.2% from 2009 to 2019 falls far short of the 7+% goal set out in "Kenya Vision 2030,"[2] the country's long-term

[1] See the overview section of the OECD's policy framework for investment. http://www.oecd.org/investment/toolkit/policyareas/publicgovernance/

[2] Government of the Republic of Kenya (2007).

development vision statement. There has long been a widely-shared agreement that the fundamental development problem of Kenya is "governance." However, development partners have not been able to devise an effective approach to help the country address it. Of course, this is not a uniquely Kenyan problem.

Chart 1: Kenya's annual per capita GDP growth rates and key events



Source: World Bank database.

While acknowledging the central importance of governance problems, in Kenya and elsewhere, development partners have tended to take a "micro" view of aid, i.e., justify individual projects by looking at the economic rates of return or other measures of direct benefits from such interventions in isolation. Because the needs for specific help (be it in roads, water, education, healthcare, or agriculture) are acute and apparent, it is natural to focus on solving the narrowly-defined problems. However, ignoring the fungibility of aid is deeply flawed in an environment of poor governance. Fungibility means an additional $1 from a development partner earmarked for a particular sector does not generally lead to an additional $1 expenditure in that sector. Rather, the additional spending is spread across many sectors. Therefore, its impact should be measured in terms of what benefits the additional $1 in general expenditures brings. From such a "macro" viewpoint, aid in a poor governance environment becomes a highly questionable proposition. At best, even with rigorous oversight by the development partner, the amount of high-quality spending is likely to go up by only a fraction of $1. At worst, they can perpetuate an elite-captured political regime by giving the government more resources to solidify the status quo.

In the companion report (Ohashi 2022), I offered a broad perspective on this challenging but profoundly important issue. After validating the thesis that the most important determinant of a country's ability to sustain economic growth is the inclusiveness[3] of its political economy system, based on comparative analyses of several East Asian economies, the report argued that the focus of aid should shift from helping developing countries fill resource gaps to helping them make the transition from an elite-favoring and rent-centered political economy system to an inclusive system. This calls into question more traditional, project-oriented thinking on aid. The report argued that development partners should try to align their support with domestic social forces that are pushing the country toward the critical passage to an inclusive system.

That general framework proves to be an appropriate analytical tool to understand Kenya's governance challenges and explore possible donor approaches to asssist the country more effectively. After describing how the elite-favoring system stymies robust economic growth through multiple channels in Kenya, the report identifies the devolution process that started under the 2010 Constitution as the most important source of impetus for transformational change in the country. In effect, Kenya has created its own "break in history," which can open a window of opportunity to set aside the old ways of doing business and establish a new set of rules. As such, the report encourages development partners to place a strategic emphasis on supporting reform-minded counties as the spearhead of socio-political change.

The report also emphasizes the importance of addressing "corruption" issues from the perspective of "de-cartelizing" the economy, for such an approach has proven far more effective

[3] In development discourse, "inclusive" commonly means "pro-poor." In this report, it is used slightly differently. It describes a system in which the elite group does not enjoy special access to economic opportunities. See the conceptual discussion in section 3.1 for the definition of "inclusive" in this report. Footnote 8 explains the difference more explicitly.

than the prosecutorial approach to “fighting corruption.” Furthermore, it notes the importance of a professional and independent media as a key agent for mobilizing public pressure for reform.

This approach does not mean that the “traditional aid” should be abandoned. Instead, the report suggests ways in which more familiar forms of aid can evolve into effective instruments to promote the transition toward an inclusive political economy system.

2. Past efforts to address governance problems in Kenya

As early as 1998, the World Bank pointed out in its Country Assistance Strategy (World Bank 1998) that the basic problem of Kenya was “economic governance”[4] and that providing large amounts of financial assistance was not helpful. The Country Assistance Strategy (CAS) backed up its argument with the findings of a Public Expenditure Review (PER).[5] The PER demonstrated that despite the increases in public spending on healthcare, education, and roads, the quality of all three had fallen. The overall level of public spending was quite high (around 30% of GDP). The issue was not scarcity of funds; it was the ineffectiveness of the spending. Whether the funds were poorly used or “stolen” outright, the problem came back to bad governance. Although the World Bank lending to Kenya was on highly-concessional terms, it did increase Kenya’s debt. If World Bank-funded projects were not meaningfully raising the capacity of the economy to grow, they were merely adding to the debt burden of the future generation of Kenyans. Therefore, the CAS proposed that the World Bank lending to the country be scaled back sharply, pending credible reform actions to address the governance issues. This stance was strongly supported by key bilateral donors, which had formed the “Economic Governance Group

[4] This was one of the first CASs at the World Bank to focus explicitly on “governance” as a key issue. The General Counsel of the World Bank at the time considered the simple term “governance” to be “political” and hence outside the institution’s mandate. Thus, the use of the term “economic governance.” However, the World Bank soon began to speak plainly about good governance as an important basis for sustaining development.

[5] *Kenya Public Expenditure Review 1997*. It was conducted jointly by the Government of Kenya and the World Bank, and the report was meant to be published by the Government. However, because of internal transitions, etc., the document was never published.

(EGG)," including the World Bank, to focus on addressing governance issues in Kenya. The EGG often met at the level of the heads of missions, i.e., ambassadors in the case of bilateral programs, indicating the seriousness they attached to the issue.[6]

Following the recommendations of the 1998 CAS, the World Bank put the Government of Kenya on notice that it would keep the lending at the "low case" level until the Government took some credible measures to demonstrate its commitment to improving governance. This meant that the lending program would be kept at around $150 million for 3 years, as opposed to $300-500 million in a "base case," or middle-level, scenario, and even higher in a "high case." The Moi Government responded by appointing Dr. Richard Leakey, a prominent opposition leader, to the post of the Head of Public Service in 1999. Under his leadership, several experienced and reform-minded Kenyan professionals were appointed to key senior posts. To assure their independence, they were drawn from outside the government bureaucracy, including from the World Bank Group. This "Dream Team" was to push forward much-needed policy and institutional reforms. In the end, it is clear the World Bank ramped up its lending prematurely.[7] It was based more on the promise of action by the Government and the World Bank's faith in Dr. Leakey's ability to overcome the political and bureaucratic resistance. Some within the World Bank cautioned senior management to wait until meaningful and not-so-easily-reversible progress is made before releasing budget support. However, the old argument that "we must support the reformers," coming from the top of the organization, prevailed. In the end, even the "Dream Team" could not overcome the entrenched political interests. Many Kenyan observers felt Mr. Moi outsmarted the World Bank, much as he had done before. World Bank money started to flow again, but no real change happened.

[6] US Ambassador Prudence Bushnell, for instance, was an active and influential participant in EGG discussions.

[7] The World Bank approved Kenya Economic and Public Sector Reform Credit ($150 million) in August, 2000 (World Bank 2000). The first two tranches ($50 million each) were disbursed, but the project closed in 2004 without disbursing the last tranche, and was later rated "unsatisfactory" by the World Bank.

Despite this disappointment, the concern for governance was not lost in the thinking of the World Bank and other development partners in Kenya. However, the solutions they would recommend have tended to be technocratic. They would advocate for a more modern public financial management (PFM) system, online systems to deal with many citizen services, "e-procurement," information disclosure, and so on. Time and again, the design and implementation of such programs have been manipulated to leave loopholes that the "rent seekers" could abuse. For instance, Kenya has required many categories of government employees to declare their assets to the Public Service Commission every 2 years. In reality, no disciplinary actions seem to happen. It is clear that the system is not taken seriously.

The national government has long been a source of "rent"[8] in Kenya. In early days, allocation of state-owned land was a major source of rent. More recently, public finance itself has become the target of rent seeking. This made the elite class willing to spend much money to gain political power, especially in multi-party politics after 2002. As elections became more "expensive," the need for rent seeking too intensified. It is a vicious circle that has pushed Kenya deeper into a money-driven, rent-centered political economy system. Despite the greater political openness and the space for dissenting voices since the restoration of multiparty democracy in 2003, it is fair to say that the basic governance system has not improved in Kenya. In the meantime, development partners have continued to give Kenya large amounts of traditional aid, without being able to make much headway in helping Kenya address its governance issues.

3. A framework for considering aid in an environment of poor governance

3.1 Central importance of the political economy system to sustained growth

[8] In economics, "rent" generally refers to an excess return over and above what a market equilibrium would yield. In this report, "rent" as in "rent seeking" is used more specifically to mean excess profits from preferential arrangements, including illicit deals.

Recent works by Douglass North, John Joseph Wallis, and Barry R. Weingast (2009. *Violence and social orders: A conceptual framework for interpreting recorded human history*) and Daron Acemoglu and James A. Robinson (2012. *Why nations fail: The origins of power, prosperity, and poverty*) have argued that an "inclusive" political economy system (or "open access order" in the language of North, Wallis, and Weingast) is the central driving force for sustained economic growth. When the system favors the elite group, by creating many opportunities to generate "rents," there is little incentive to compete in the market on the basis of innovation, quality products, and productivity gains. By establishing a system in which everyone is given a fair chance to benefit from their industry and ingenuity, a country can promote innovation and productivity growth. This is the fundamental driving force for sustaining economic growth and raising the general income levels.

Consistent with the works of North et. al. and Acemoglu and Robinson, this report defines the two contrasting political economy systems as follows:

> **An "inclusive system"** consists of a set of institutions (including social norms) that assures every citizen of the country equitable opportunities to engage in any lawful economic activities and be rewarded fairly for their efforts.[9] That would commonly include institutions to conduct economic policies transparently and effectively, regulate economic activities to check abuse of market power and violation of safety or environmental rules, and prevent acute economic inequality. There would also be legal and judicial systems to protect private properties and enforce contracts, as well as an education system to equip everyone with the abilities to engage productively in economic activities.

[9] In development discourse, "inclusive," as in "inclusive growth," is often used to mean "pro-poor." If "pro-poor" implies giving the poor a preference, an "inclusive system" in this report does not necessarily suggest that. However, such a system does give the poor basic social services (e.g., education and training) and social protection so that they are able to participate in economic activities productively.

> **A “non-inclusive system**,” which this report often calls more descriptively an “elite-favoring and rent-centered system,” consists of a set of institutions that gives the elite class privileged access to profit-making opportunities, i.e., a license to generate rent. This is typically done by giving elites a monopolistic power in the market or preference in public procurement, allowing them to abuse workers, consumers, and weaker firms, and letting them misuse or even steal public resources outright.

In economics, “rent” generally means an excess return over and above what a market equilibrium would yield. In this report, “rent,” as in “rent-seeking,” is used more specifically to mean excess profits from preferential arrangements, including illicit deals.

By reducing the elite group’s privileged access to economic opportunities and protecting the ability of everyone to benefit from their economic efforts, countries with inclusive institutions encourage innovation and investment, thereby raising productivity, which ultimately determines the level of incomes. By contrast, where the elite group can earn large economic rents by using their monopolistic power or other ways of limiting competition, the entrepreneurial energy tends to be directed toward rent seeking.

In the companion report (Ohashi 2022), I showed this conceptual framework is strongly supported by the experiences of many East Asian economies since the mid-20th century. The contrast between the spectacular economic achievements of Japan, Taiwan, South Korea, and Singapore on one hand, and the poor record of the Philippines and the partial success of Thailand on the other hand is instructive. The countries that effectively limited rent-seeking opportunities for the elite class have been able to build an inclusive political economy system; they staged sustained and rapid growth, and joined the ranks of high-income countries within a matter of a generation or two. On the other hand, the countries like Thailand (and Malaysia, as another good example) that made partial progress but left many rent-seeking opportunities for the elite group suffer from the “middle-income trap.” The Philippines and other countries that have allowed the elite dominance to continue have lagged farther behind in economic development. The comparisons between these countries support the idea that the character of the political economy system is the decisive determinant of a country's long-term success in economic development.

3.2 The implications for development aid

This perspective on the driver of economic growth has important implications for the effectiveness of aid. I pointed out (Ohashi 2022) that, because of fungibility of aid resources, development aid is likely to be wasted in an environment of poor governance. A development partner typically thinks that if it provides, say, $1 million for a specific project, it will have a considerable positive impact. Because the project is usually designed to address a specific and apparent need of the recipient country, such as rural roads, safe drinking water, or better healthcare, this seems intuitively obvious. However, "fungibility" of aid means that the net effect of giving the $1 million for a health project, for instance, is quite different. Dollar and Pritchel (1998, 68-69) points out that empirically the government spending on the health sector will rise by only a small fraction of $1 million. The rest is spread across all sectors to meet other pressing demands. Therefore, if the quality of overall spending is poor, which is generally the case in a country with poor governance, the net impact of the $1 million in aid is quite limited.

Worse yet, such funding could be perpetuating the elite-favoring political economy system. Even corrupt governments are under social and political pressure these days to maintain a measure of democratic legitimacy. For their own survival, they need to be delivering some public services that benefit the population at large. If a development partner provides good public services in such a country, that can reduce the pressure on the government to do so, and allows it to increase its own spending on things that benefit itself and its supporters, thereby quite likely further entrenching elite dominance. Therefore, the traditional "micro" justification of specific projects is unsatisfactory.

Once development partners accept that the central challenge of most developing countries is to make the transition from an elite-favoring system to an inclusive system, they cannot ignore it as a “domestic issue.” Without overcoming the legacy of the old system, most developing countries would not achieve sustained growth. If development partners were not prepared to help them address this most important obstacle to economic success, what would be their raison d'être?

3.3 A different way to approach aid in a bad governance environment

What should development partners do to help developing countries address their political economy issues then? One obvious approach would be to give aid only to those countries that are making a credible transition to an inclusive system. I pointed out (Ohashi 2022) that, while this approach may appeal to the “purists” who believe in “getting the incentives right,” it is not practical for a number of reasons. More importantly, there is a good reason to continually engage with most developing countries even when the governance environment is far from perfect. (Of course, if the governance situation deteriorates to the point of even the most basic human rights being ignored, there is little basis for continuing aid.)

In this age of democratic awareness worldwide, most people want their political economy system to be inclusive. Their desire for change is the fundamental driving force for the transformation of the political economy system. The way in which such energy becomes a more direct force for political change varies from one situation to another. It is highly contextual, depending on the history, cultural and social traditions, and political situation. Sometimes, it will take a long time for the process to effect the transformation, because the elite group has both the incentives and means to defend the status quo. It often requires some catalytic event, such as a national crisis or a “break in history.” By understanding the country context and identifying the key dynamics for change, development partners can give support to the spontaneous process for political economy transformation. This is the central reason for continual engagement.

The World Bank’s experience in Nepal offers an illustration. In the early 2000s, the World Bank identified communities as the real driving force for transformation of the political economy system in Nepal, and focused much of its assistance on projects that promoted community-based development initiatives. This concept was based on in-depth understanding of Nepal as well as the knowledge of a wide range of aid programs funded by the World Bank and other development partners in the past. It was a long-term strategy to support Nepal in moving to an inclusive system. The idea was to help communities build up their capabilities so that when some critical event happens, they can lead the way in transforming the political economy system at the national level. In the language of Acemoglu and Robinson (2012), it was facilitating an “institutional drift” in anticipation of some “critical juncture” that provides a pivotal point for the evolution of the political economy system.

However, this does not mean “traditional aid” should be abandoned. Investments in infrastructure, education, healthcare, agriculture, and so on are all important building blocks of an inclusive economic system. As long as the recipient country is making credible progress toward the transformation of its political economy system, those traditional aid projects can be expected to be useful. Furthermore, with small tweaking of the design, many projects can become useful instruments to support the endogenous dynamics for systemic transformation, in addition to serving a more immediate purpose. The key is to ensure that every element of the aid program, including “traditional projects,” are furthering the overall strategic goal of helping the recipient country overcome the grip of an elite-captured system and move toward an inclusive one.

3.4 How do transitions to an inclusive system happen?

Most developing countries are trapped in an elite-favoring and rent-centered political economy system. How some countries have escaped that situation and managed to get on a new trajectory varies from one case to another. Nevertheless, reviewing “common” patterns offers some hints on how it could happen in other countries, including Kenya.

Most of the recent success stories share two key features. First is the role of national crisis, which forces the leadership class of the country to reimagine the fundamental structure of the political economy system. (Or, alternatively, a new leadership group takes over with a fresh vision.) The second feature is the existence or emergence of an autocratic regime that tends to be better able to overcome opposition to reform from entrenched interest groups. (Of course, this does not mean all autocratic regimes are reform-minded. In fact, most autocratic regimes are part and parcel of elite dominance.) I noted that the transitions to an inclusive system in Japan (1945), Taiwan (1949), South Korea (1961), Singapore (1965), and more recently Rwanda (post 1994 genocide, though Rwanda's transition is still a work in progress) are all marked by these two features.

A slightly different model is suggested by the developments in Myanmar during the last decade where a "break in history" has played an essential role, at least until the military coup d'état in early 2021. When the previously reclusive military regime suddenly launched political and economic reforms in 2010, the suddenness of the move in effect suspended all old rules and opened an opportunity for the Thein Sein government to establish a new and more inclusive economic regime. One could argue that Myanmar too was facing an incipient crisis. However, to the extent that a possible transition started more in anticipation of a crisis than after an onset of an existential crisis of the kind that other five countries had faced, it does provide a useful example for countries like Kenya that are not in an acute crisis. A sudden jolt to the system can "loosen" the entrenched rules of the political economy system and allows for new rules to be established.

In the "Western" countries that achieved a high-income status early, elite dominance became gradually moderated and a more inclusive political economy system emerged often alongside the process of the maturation of democracies. In countries like Kenya, a mature form of democracy was transplanted at the time of independence, without a gradual process of developing democratic institutions and culture. Therefore, the experiences of "the West" may not shed much light on how countries like Kenya could overcome elite dominance. Nonetheless, an important hint for them may be found in the significant shift that happened in the US in the early part of the 1900s. Those were the days of "robber barons"; many corporations were gaining monopolistic powers in oil, steel, railways, banking, and so on, often using illegal means.

Municipal administrations in many large cities were notoriously corrupt. In reaction to such excesses by the privileged class, a cohort of outstanding journalists emerged, and wrote a number of powerful investigative reports.[10] Their reports led to a widespread public outcry over the abuse of power by the elite class, which prompted the introduction of anti-trust legislation and reform of municipal governments. Times are of course different, but the basic notion that the media can play a critical role in a country's fight against elite dominance remains relevant to many developing countries of today.

4. Kenya's governance problem in a new light

Let us now look at the reality of slow economic development in Kenya from a political economy perspective described in Section 3. The stifling effect of an elite-favoring and rent-centered system is crystal clear, and explains why the country has been held back. The widespread rent-seeking behavior represses the economic potential of the country in multiple ways. First, it reduces the effectiveness of public investment and economic policies to foster growth. Second, it undermines the normal function of markets and weakens the process of "wealth accumulation" through specialization and trading as Adam Smith had envisioned. Third, economic incentives are such that entrepreneurial energy tends to be directed more toward rent seeking and away from innovation, quality enhancement, and productivity gains. Fourth, related to the third point, the new generations of Kenyans no longer seem to believe that hard work and honesty will help them succeed economically. Such a change in their outlook on life has a lasting impact on Kenya's ability to sustain vigorous economic growth.

The causal relationship between governance and economic development/growth is complex and has been long debated. A broad consensus today is that it runs in both directions and that improvement in certain elements of governance will likely have a material impact on the

[10] These journalists were dubbed "muckrakers" by President Teddy Roosevelt, who appreciated the value of their work but also found their persistence at times irksome. See Doris Kearns Goodwin 2013.

country's ability to grow rapidly. However, what aspects of governance needs to be addressed is highly specific to the country context.[11] When the mechanisms by which key elements of poor governance are hindering Kenya's economic growth are so clear, there is little doubt that Kenya must overcome poor governance in some key areas to succeed in economic growth.

From the perspective of the "good enough governance" discussion,[12] which emphasizes the need to focus on the select aspects of governance that are critical to accelerating economic development (because developing countries cannot possibly improve all aspects at once or in a short period of time), these four channels of governance failures offer a useful guide. Although the approach of this report is not to suggest specific reform measures for each area,[13] the four channels are useful in thinking about how certain reform efforts may be helping Kenya move toward "good enough governance." Let us now examine more closely the four channels through which poor governance hurts Kenya's economic growth.

4.1 Public sector channel

It is impossible to determine how much of the public spending is misused through corruption. However, circumstantial and anecdotal evidence abounds. The Auditor General's report for FY2016/17 noted that 27% of the combined recurrent and development expenditure was not properly accounted for.[14] When the idea of the new Mombasa-Nairobi railway project was mooted (the so-called Standard-Gauge Railway, or "SGR"), General Electric was in discussion with the Kenyan government on this project. Out of the blue, the government

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[11] See Rodrick (2008) and Grindle (2005).
[12] See Grindle (2002 and 2005) and Khan (2008).
[13] Instead, this report focuses on the most powerful "drivers of change" that seem to be addressing the problems in any of the four areas in some significant ways, and suggests ways to support them. While it may not offer a "complete" plan of action to cover all key areas, it does recognize the importance of building on the existing internal dynamics. Experiences clearly show that without an internal driver for change, nothing external can bring about real reform.
[14] *Summary of the Report of the Auditor-General on the Financial Statements for National Government for the Year 2016/17* (2018), Office of the Auditor-General. The categories classified as "adverse" or "disclaimer" are considered to be not accounted for. The figure was 38.5% in FY2013/14, 16.4% in FY2015/16.

announced its decision to single source the project from a Chinese contractor at some $3 billion. A director of the GE office in Kenya said the GE team thought the contract amount was "about 3 times what it should have cost."[15] The return on public investment tends to be low for another reason. The national government simply has too many projects in its books. A study by the World Bank in 2015 found that the National Treasury could not even produce a complete list of all public investment projects.[16] Many projects are added to the public investment program without proper vetting. As a result, many projects receive small amounts of budget each year to keep some preparatory work funded without making meaningful progress. This dilution of the development budget leads to excessively long project implementation periods and cost escalations, which combine to reduce the return on investment. The same study found that the incremental capital-output ratio (ICOR) had risen from 3.3 during 2003-07 to 5.3 during 2008-12.[17] To compound the problem, the actual implementation of the development budget typically falls far short of the targets. The Controller of Budget reported that in FY2018/19 the absorption rate for the development budget for the national government was 79.2% (Controller of Budget 2019a, 14) and that for the county governments (in the aggregate) was 57.8% (——— 2019b, 314). It suggests that even the limited number of high priority projects, for which more generous budget allocations are made, are not implemented at expected rates.[18]

Public policies and regulations, too, are often distorted by the influence of well-connected business people. For instance, "counterfeit imports" have been a serious concern to domestic manufacturers. (In Kenya, "counterfeits" are often used to mean not just illegal imitations of genuine products, but also goods that have been imported without the required duty or quality inspection. Both pose unfair competition to the domestic producers.) In 2018, the Anti-Counterfeit

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[15] Author's interview in May 2015.
[16] Author's interview of a World Bank official who conducted the review of the public investment management system in 2015.
[17] *Public investment management in Kenya: Reflections on current processes, gaps and systemic risks*. (Power Point presentation) November 2015. The World Bank.
[18] The Controller of Budget (2019b, 212) also noted that the county governments (in the aggregate) was overspending on salaries and travel expenses.

Authority mounted a spirited fight against counterfeit imports, which was much appreciated by domestic manufacturers. However, the effort petered out after several weeks. There is little doubt that those who have much to gain from such trade used their influence.

4.2 Market channel

The influence of “cartels”[19] is particularly damaging to the small farmers and SMEs. When small farmers buy fertilizer and seeds, the prices are often unfairly high and the quality uncertain, because the supply chain is manipulated by the cartel. After a season of hard work, when they harvest their crops, farmers are forced to sell them cheap. They are typically unable to wait for the price to rise, or they may even have pre-sold their produce to get financing for inputs. The middlemen make big profits, and actual producers get a pittance. The government actually has a policy of supporting small farmers by buying maize from them for the Strategic Grain Reserve at a preferential price. The National Cereals and Produce Board (NCPB) manages the Reserve and procures maize from farmers. Only registered small farmers who are also vetted at the time of procurement are eligible to supply the maize. In reality, large farmers and traders abuse the system by using fake certificates of vetting. Some traders even smuggle in maize from neighboring countries at a low price and sell it to NCPB. Furthermore, the NCPB at times sets an arbitrary minimum lot requirement that is far in excess of what small farmers could possibly deliver, forcing desperate small farmers to sell their maize to a middleman. All this has turned even a program that is meant to help small farmers into a rent-generating opportunity for the cartels.[20] In effect, the market system has become an instrument of exploitation. Small manufacturers in Kariobangi (light industry area in Nairobi) make a wide range of products, but much of the profits is skimmed by the middlemen who exploit the small producers’ lack of knowledge about the potential buyers. Well-functioning markets are the most powerful driver of

[19] In Kenya, “cartel” is often used to describe a group of actors who collude to manipulate a market, supply chain, public procurement process, etc. to gain illicit profits.
[20] See Ad-Hoc Committee on the Maize Crisis in the Country (2018, 26-30) for some specifics.

“wealth accumulation,” as Adam Smith observed. Yet, in Kenya, it is not working for most of the small producers.

In manufacturing, even technologically-advanced companies suffer from distorted industrial policies that favor traders. For instance, in the 1990s, with the Kenya Dairy Board pushing for the use of proper milk cooling tanks, a domestic industry to manufacture small cooling tanks grew rapidly. It imported refrigeration compressors duty free and fabricated the tank to assemble complete cooling units. In the late 1990s, however, a 25% duty was imposed on the compressors while complete units could be imported duty free. This made local manufacturing of cooling tanks uncompetitive. Previously, no one was importing such units, as the customers were satisfied with the domestic products. Suddenly, some traders began importing complete units; the domestic manufacturers were forced to switch to simply marketing imported cooling tanks. Basically, this was killing domestic manufacturing to promote imports.[21] (This is also a problem of the public sector channel, as it is a case of policy distortion.) Similar biases seem to afflict many industries, thereby weakening Kenya’s manufacturing. It is no wonder the manufacturing share in GDP has declined from a peak of about 13% in 2007 to 7.5% by 2019.

4.3 Innovation channel

Because the well-connected people have easy access to rent, few of them have incentives to invest in coming up with innovative products, better quality, or higher productivity. Allowing importation of “counterfeit goods” is a case in point. It is effectively suppressing domestic production of whatever products, so that those who do not have the engineering capability to make them can just import them and sell them at unfair prices. The case of small milk-cooling tanks cited earlier is another example.

It is not that Kenyans are incapable of innovation and production of high-quality products. M-Pesa, the ubiquitous mobile phone-based money transfer service in Kenya, is probably the

[21] Ohashi 2020b describes it as an “inverse import substitution policy.”

most famous of the country's innovations. But, in manufacturing, too, Kenyans are not lacking in ingenuity. For instance, Numerical Machining Complex (NMC) has demonstrated advanced engineering capabilities and innovativeness. It is a peculiar company, which descended from the ill-fated national car project under President Moi.[22] Although it is a state-owned enterprise (technically owned by Kenya Railways and Nairobi University), with few financial resources, it has managed to pursue its own technology development, while serving mainly as a place where other manufacturers can have broken machine parts reproduced. NMC has developed its own irrigation pumps, basic numerically-controlled machine tools, and other products. It has helped Jomo-Kenyatta University of Agriculture and Technology produce a prototype tractor that is designed to be considerably cheaper than comparable imports. However, because NMC does not have any working capital to speak of, it cannot even advertise its products. For instance, their irrigation pumps seem to offer much better value than imported competitors from China, but new buyers come to NMC only by chance or word of mouth. Even if the government were willing to allow it, it is doubtful that many Kenyan entrepreneurs would be interested in investing in such a venture. There are too many other opportunities for "quick money."

One of the most respected Kenyan industrialists has stayed with certain basic steel products for decades and refused to go into the machinery and other more advanced sectors. He has explained that it is not because there are serious technological barriers, but that most entrepreneurs do not find such investments attractive. Sadly, even someone who is running legitimate manufacturing businesses is unwilling to pursue more advanced or innovative products, because he knows the government is not serious about promoting such industries. He pointed out that the government needs to be investing in training of skilled workers and creating an

[22] In 1986, President Moi mooted an idea of developing a domestic car industry. The Nairobi University took up the challenge of making a prototype passenger car, and in fact produced several "Pioneers." However, Nyayo Car Company never went into commercial production. The company has become NMC of today.

environment for fair competition. Absent such support, he does not see a chance of success in advanced industries.[23]

4.4 Social norms channel

In 2016, the Kenya Youth Survey conducted by the Aga Khan University found "50% believe it does not matter how one makes money as long as one does not end up in jail" and "47% admire those who make money through hook or crook" (The Aga Khan University 2016). Clearly, many young Kenyans see "rent-seeking" as a widely accepted way to succeed financially. They may even feel honesty and industry are not a "smart way" to work in Kenya. They see many prominent Kenyans who have made a fortune by rent-seeking activities, but few visible role models who succeeded by honest efforts. A country in which social capital is eroded so badly would be hard pressed to build a productive and competitive economy. Besides, if the young Kenyans themselves do not believe in an "inclusive system," who would bring about the critical transformation of the elite-favoring and rent-centered system?

Through these four channels, the elite-favoring political economy system saps Kenya of the energies of healthy competition, innovation, and hard work. More than anything else, this is the most compelling explanation for the lackluster and uneven growth record of the country.

5. Rethinking the aid strategy for Kenya

5.1 Understanding the driving forces for transformation in Kenya

Let us now consider Kenya's own historical context. Where can we find the internal driving force for systemic transformation? And, how can development partners support it? Kenyans would often ask whether any country has made the critical transition to an inclusive political economy system within a multiparty democracy, imperfect as it is, and without getting

[23] Author's interview in November 2017.

into an existential crisis of the kind described in Section 3. Indeed, there is no perfect precedent for Kenya to follow. However, the discussion in section 3.4 offers some hints. Myanmar's experience of a break in history is quite pertinent to Kenya; as explained later, devolution under the 2010 Constitution also presents a break in history, though it may not have been quite as dramatic as the political shift that happened in Myanmar in 2010. Another hint from a more distant past is the critical role that the media played in bringing about major governance reforms in the US in the early 1900s (see section 3.4). Kenya does have an active media with some excellent investigative journalists.[24] It may well play a key role in mobilizing public opinion.

5.1.1 Devolution as the central driver of change

Kenya faced a national crisis in 2007/08, when ethnic violence broke out after the disputed presidential election in 2007. It has been estimated that over 1,000 people were killed and up to 500,000 people displaced.[25] It came as a shock to Kenyans, as they had felt ethnic violence was not a serious threat in their country. This was perhaps the deepest national crisis that Kenya had faced since its independence in 1963. It did not lead to any immediate and profound change of the kind seen in Rwanda or some East Asian countries. However, it did create a national agreement that Kenya must introduce meaningful devolution to address long-standing grievances of many regions and groups that had felt they had been neglected by national politics and the majoritarian tendency. This led to the new constitution of 2010 which significantly altered the governance structure of the country. Forty-seven counties were created, with directly-elected governors.[26] Many key state functions were devolved to the counties, including health (except

[24] For instance, John Githongo famously made public the involvement of high-level politicians in the Anglo-Leasing scandal of the early 2000s.
[25] Human Rights Watch 2008.
[26] The county government consists of an elected governor and a deputy governor who runs with the gubernatorial candidate, and an executive committee (or a "cabinet"), consisting of appointed members who head key functional areas. They are supported by county staff. The county government is responsible for executing the functions assigned to the county (as specified in the constitution, and briefly described in the main text). Each county has a unicameral county assembly, consisting of one elected member from each ward and a certain number of appointed members to ensure gender and ethnic minority representation. The county assembly is responsible for legislations necessary for the execution of the county government functions, including in particular the budget, and for the oversight of the executive branch. There is no county court system as such.

national-level health facilities and functions), agriculture, water/sanitation, rural roads, and some aspects of education (e.g., early childhood development (ECD) and the lower levels of the technical and vocational education and training (TVET) system). With this, a large portion of the overall government budget has been given to the counties.

The logic of devolution was to make the county executives and assembly members more accountable to the people, as they were much closer to the electorate than the national-level political actors had been. Many were concerned that devolution might simply "devolve corruption" to the local levels. By all accounts, this has happened to varying degrees. Still, many counties that had scarcely benefited from the national government spending in the past have seen rural roads and other infrastructure being constructed and the local economies being stimulated. Furthermore, some governors have recognized the need for a real change in the way politics was practiced. Rather than providing "private goods" to secure their popularity, they focused on providing "public goods," in a transparent and accountable manner. Such a radical change was possible, because the governors were able to start with more or less a clean slate.[27] Knowingly or unknowingly, Kenya managed to create a "break in history" in which new rules could be written.

Not many governors have been able to seize the moment. The people were accustomed to the old ways of politics in which politicians were the sources of personal largesse, and many members of county assemblies (MCAs) too expected the familiar money-driven politics to be replicated in the new county environment. Nonetheless, some governors have clearly succeeded in breaking from the past. Governor Kibwana of Makueni has emerged as the most visible example of a clean and effective governor who has delivered important benefits to the county citizens. He has taken participatory decision making seriously, and responded to the priority wishes of the residents with carefully-thought-out programs. He has introduced a county-run universal healthcare system. He has also built the county's own mango processing plant to assure

[27] The observations about devolution are based on author's extensive conversations with several governors, national government officials, academics, and others. On the misuse of funds at the county level, see also Controller of Budget (2019b).

farmers get a decent price for their mangos and a milk processing plant to help dairy farmers sell the processed "Makueni Fresh" milk in the local market.

In Makueni, the people seem to have understood the value of the new governance environment. During Governor Kibwana's first term (2012-17), the MCAs insisted that a large part of the development budget be given to them so they could allocate the money to their own pet projects. Met by the Governor's refusal, they even tried to impeach him. In the 2017 elections, all the MCAs except for one were voted out. The Makueni residents overwhelmingly sided with Prof. Kibwana. They also organized, spontaneously, community oversight groups to ensure contractors for civil works do the work properly and honestly. It is likely that when reforms bring tangible benefits to the residents and the governor establishes a reputation for his or her integrity, citizens will become strong supporters of the "new politics."

When one applies the perspective of the four channels through which the governance problem undermines Kenya's development process (as noted in section 4), it becomes clear why Makueni has been successful. First, it brought transparency and accountability to the public policy and procurement process, to address issues of the public sector channel. Second, the county helped to make at least some important markets work well for the small farmers, to address the issues of the market channel. Third, shielded from "private goods-centered" politics, the county administration has shown much innovativeness in solving problems in healthcare as well as in the institutionalization of the participatory budgeting process.[28] In the private sector, too, unlike many other counties, more young people seem to remain in the county. It is likely that they see many new business opportunities. This augurs well for the innovation channel. Fourth, a new and more inclusive political culture is taking hold, to address the issues of the social norms channel.

[28] In Makueni, the participatory budgeting process starts from "communities" (consisting of about 50 households), but the budget is allocated only down to the level of 30 wards, each of which is given Ksh 32 million (as of 2019) in development funds. They are encouraged to collaborate with neighboring wards to consider joint investment projects. The residents now take this process seriously, and the investment decisions have impressed the county officials. (Based on author's interview of an official from the County's Directorate of Public Participation in 2019.)

However, Makueni is not a unique success story. For instance, the governors of Vihiga, Laikipia, and Elgeyo-Marakwet have also built reputations as committed and effective reformers, just among the counties I have been able to visit or hear much about. What they seem to have in common is a combination of a genuine desire to change the traditional money-driven politics so that the government becomes an instrument to uplift every citizen, and strong managerial capabilities. There are governors who seem to have good intentions, but have been out-maneuvered by the "cartels." For instance, one governor, learning from the success of the milk-processing plant in Makueni, wanted to purchase the same equipment from the reputable Kenyan manufacturer or something comparable. However, the procurement process was evidently manipulated so that this manufacturer could not even submit a bid. The on-line bid submission portal was down during the tender period, despite repeated complaints from the manufacturer. As soon as the deadline passed, the portal was back up again.[29] Some trader won the tender and supplied an imported machine which promptly broke down and could not be serviced. It is almost certain that a local cartel had taken advantage of the governor's well-meaning initiative and turned it into an opportunity for a corrupt deal. By contrast, when Makueni built the mango processing plant, it sole-sourced the contract with Jomo Kenyatta University of Agriculture and Technology (JKUAT). JKUAT being a public entity, the county could negotiate a contract directly with it.[30] Governor Kibwana was able to preempt the risk of cartel interference in the procurement process. All this shows that although it takes a rare combination of personal character and managerial skills to be an effective governor who can create a new governance environment, it is indeed happening.

This gives hope for devolution creating a self-sustaining dynamic for better governance. When a few counties show such a change is possible, it is likely that Kenyans in other counties will be ready to suspend their cynicism about the well-established "reality" of corrupt politics,

[29] Interview of the manufacturer by the author, 2019.

[30] JKUAT appointed a professor who had actually managed a similar project before to manage the Makueni project. He in turn assembled an impressive team of experts to prepare a thorough project plan, complete with a market analysis, environmental mitigation plans, and even HR management policies.

and support the "new politics." In fact, it is perhaps more appropriate to view the process as citizen-led, rather than governor-led. Devolution has given Kenyan citizens a much more effective political channel through which to press for a genuine democratization of the country. Some governors have quickly responded to their wishes; others will be forced to respond to the popular will sooner or later. It appears that the recent Covid-19 pandemic and the national government's inability to mitigate the plight of the "common people" is raising the level of their anger, and heightening the demand for "new politics."

These success stories from counties stand in sharp contrast to the lack of meaningful progress in improving governance at the national level. The need for better expenditure management (especially the public investment program) has been recognized for decades, but the system has not improved in any meaningful way. Restructuring of the sugar sector and the maize sector has been proposed repeatedly, but no decisive actions have been taken. "Fight against corruption" goes back many decades as well, including the notorious cases like the Goldenberg scandal in the 1990s and the Anglo-Leasing scandal in the early 2000s. Many have been accused of wrongdoing in these and many other corruption cases, but no major figures have been convicted. In all these areas, powerful national-level cartels are deeply entrenched and block any reform or prosecution that threaten their interests.

Many Kenyans and external observers believe that devolution is finally bringing about real governance reform, albeit on a smaller scale. When local level success stories begin to accumulate, it will likely create a self-sustaining social and political dynamic of its own. Residents of other counties will take note of such developments and demand similar actions. Their governors, too, will recognize the importance of such reforms, if only out of their own political self-interest. Reform-minded governors will eagerly learn from good examples and embrace the ideas. Even though each initiative may be modest in scope and the number of beneficiaries, when many of the 47 counties begin to implement similar reforms, the overall impact will not be small. Such reforms not only add up, but also multiply as they tend to stimulate other initiatives. In a larger historical sense, this may be the only realistic path for Kenya to eventually effect a meaningful reform of the governance system at the national level. That will be a true victory for those who believed in devolution. This is why devolution is the most important driving force that is likely to be moving Kenya in the direction of an inclusive political economy system.

5.1.2 Addressing poor governance issue as a problem of cartels

A second important factor that deserves close attention is the emerging evidence that freeing the economy from the grip of cartels may be far more effective in addressing the poor governance problem than "fighting corruption." Some of the major success stories that have appeared from counties are essentially county government interventions to give farmers more direct access to broader or higher-value markets and raise the price they get for their products. Makueni's mango processing plant and milk processing plant both help farmers with value addition and link them to the higher end of the value chain. Murang'a County's support for dairy cooperatives and Kitui County's support for honey producers' cooperatives do the same. In each of these cases, the other side of the story is that the county has helped farmers get around the exploitative practices of the local cartels. For instance, in Makueni, mango farmers used to get only about Ksh 2 per kg, as they had no way of storing ripe mangos, but the county's mango processing plant pays Ksh 15 per kg and breaks even.[31] The county did not bring any legal action against exploitative middlemen. Yet, the economic impact of overcoming the local cartels was immediate and substantial. Even if it does not punish anyone for corrupt deeds they committed in the past, neutralizing cartels will curtail the scope of rent seeking in the future. For Kenya, this is likely to be more important than dealing with the past. In essence, it restores the fundamental function of market, which is to allow small producers to "accumulate wealth" by a simple act of producing and selling products in which they have a comparative advantage. This addresses the issue of the "market channel" and moves the Kenyan economy toward an "inclusive system" in which honest labor, not rent seeking, is rewarded.

[31] The author's discussion with Governor Kibwana in September 2018.

Makueni and other counties have also brought transparency and accountability to the public procurement process. For instance, in Vihiga, where many contracts were awarded without a proper bidding process previously, the new governor has made it a rigorous competitive process. As already mentioned above, citizens in Makueni have spontaneously organized community oversight groups to prevent shoddy works by contractors. These actions limit rent-extraction opportunities by cartels. It is cleaning up the "public sector channel."

These tangible results contrast with the disappointing outcomes of President Kenyatta's "fight against corruption." Since the beginning of his 2nd term, his administration has stepped up the efforts to prosecute those suspected of corruption. Many government officials have been charged with corruption, including many cabinet secretaries (formerly ministers) and principal secretaries (formerly permanent secretaries), but few cases have been decided. Most Kenyans believe the court system is corrupted, especially at the lower levels, and it is extremely slow. This has allowed many who have been accused of serious crimes to delay the court proceedings long enough so that key witnesses will become no longer available, and thus have their cases dismissed. Poor coordination among the Ethics and Anti-Corruption Commission (EACC), the Directorate of Criminal Investigations (DCI), and the Director of Public Prosecutions (DPP) has also contributed to the ineffectiveness of the government's fight against corruption.

It is important to note that President Kenyatta's governance reform measures were not limited to the prosecution of the corrupt officials. Under his leadership, in 2018 the Anti-Counterfeit Authority launched a concerted effort to stop illegal importation of goods (both those imported without paying a proper customs duty and without meeting quality standards). The goal was in part to fight corruption, but importantly it was also to protect domestic manufacturers. He also decreed in 2018 that starting on July 1, 2018, the results of all public procurement would be made public. The Standard newspaper reported on June 14, 2018, "The disclosure of tender and awards details, State House said, will allow for public scrutiny and prevent any collusion between

Government officials and 'tenderpreneurs.'" This was an important and promising reform to make manipulation of the public tender process much harder.

Unfortunately, these measures have had only limited success. The stepped-up efforts by the Anti-Counterfeit Authority were widely lauded by both domestic manufacturers, which had long suffered from the unfair competition, and the general public. Some domestic manufacturers even saw a jump in orders.[32] However, the drive petered out after a short while. The transparency measure that the President had announced for the public procurement process was weakened in the implementation phase. The Public Procurement Regulatory Authority (PPRA) has published only the information on the winning bids. This makes it far less obvious whether there were better bids that should have been selected. It is reasonable to assume that the reason why these efforts are not effective, sustained, or implemented properly is because cartels have such a strong influence on government policy decisions and implementation, particularly at the national level where "big players" are involved. Even a popular president has difficulty coping with it.

At the same time, it is clear that the reformers were onto something that seriously threatened cartel interests. The tougher actions by the Anti-Counterfeit Authority quickly boosted the demand for some domestic manufacturers. Kenya Private Sector Alliance (KEPSA) noted that full publication of all public tender bids would be the top priority action it would recommend to improve the business environment for domestic manufacturers.[33] The idea of "decartelization" may be gaining ground among the policymakers in the national government.[34] Those who pushed for stronger actions by the Anti-Counterfeit Authority or full disclosure of public procurement results were thinking along the lines of "decartelization," even if they may not have put is so succinctly. Even though the resistance to "decartelization" will be fierce at the national level, it is

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[32] The author's interview of a senior officer of the Kenya Investment Authority in August 2018.

[33] Interview of the KEPSA secretariat by the author, February 2020.

[34] In fact, the term "decartelization" was coined by an advisor in the Office of the Deputy President during a meeting in which several advisors and I were discussing how "cartels" are distorting the markets and rendering government policies and programs ineffective. He noted what we should focus on is "decartelization." Everyone agreed it was the right way to think about the solution.

still likely to be a more effective approach to governance reform than a prosecutorial approach to it.

From the political economy point of view, subduing cartel behavior at the local level is far easier than at the national level. For the most part, local cartels involve relatively small players. A forceful governor has a good chance of overriding them. Besides, when the benefits are apparent and immediate, the governor can expect strong public support from the county residents. In fact, in Makueni, local citizen groups have become so active in monitoring the civil works projects funded by the county that the contractors are compelled to deliver good quality work on time. At the national level, cartels that operate in sectors like sugar, maize, and fertilizer involve far more powerful players with political connections to high levels of the national government.[35] It is of course important to dismantle such powerful cartels, but the current situation in Kenya clearly gives county-level reforms a far greater chance of success.

5.2 Possible assistance approaches for development partners

The discussion in the previous section suggests a few strategic elements for development partners who wish to support the process of transformation in Kenya's political economy system.

First and foremost, it is important for them to place a clear focus on supporting genuine reforms at the county level. There may be broadly two types of initiatives. One concentrates on improving the provision of public goods, like universal healthcare or well-planned and properly-constructed rural roads. This is important not only for what they provide immediately, but also in shifting the focus of politics from the provision of "private goods" to the provision of public goods (the public sector channel).[36] If the public service is designed to benefit the poorer and more vulnerable segments of the population, that will be even better, as it will reinforce the notion that

[35] A confidential study commissioned by Gatsby Africa recently documented in detail how highly-placed people are involved in cartels in many key segments of agriculture sector, which explains why reforms have been difficult. To many Kenya observers, it was simply a confirmation of what they have long suspected.
[36] Development partners often support implementation of such projects by local bodies. The suggestion here is slightly different in that the aid will be given selectively to the local governments that are trying to establish a transparent and inclusive exercise of political power.

a key function of the state is just that. It shifts the political understanding toward inclusion (the social norms channel). The second type is designed (even if not explicitly) to neutralize cartel behavior and make the market work for the small players (the market channel). Again, such interventions also bring a broader benefit of weakening the rent-seeking culture, an antithesis of an inclusive economic system (the social norms and the innovation channels).

Supporting reform-minded governors is not a simple task for several reasons. Governors' terms are limited to two, so it is not certain how sustained an effort a particular county will be able to make.[37] Often a governor may have a good idea, but that is not enough. As noted above (Section 5.1.1), a good idea can easily become another opportunity for rent seeking if the governor does not have a strong managerial capability to get the plan implemented properly. It is also possible that some governors will propose eye-catching initiatives mainly to attract aid money. All these pitfalls notwithstanding, it is a strategic direction that development partners should consider supporting. That is where most encouraging reforms have been happening.

Second, development partners should pay particular attention to the reform initiatives that aim to "decartelize" the economic system, both in the market sphere and the public sector sphere. Most of the recent success stories emerge from counties. Therefore, this strategic element strongly overlaps with the first element.

However, some policy thinkers at the national level are beginning to pursue reform ideas along the same line. Section 5.1.2 noted two initiatives at the national level, President Kenyatta's decree in 2018 on full disclosure of all the bids for public procurement and the stepped-up efforts by the Anti-Counterfeit Authority also in 2018 to crack down on illicit imports. The initiative on public procurement was particularly promising, because once the system of online disclosure is installed, it is not easy to tamper with the information. In fact, this initiative had a good chance of success. It was one of the main actions for a policy reform program that the World Bank was

[37] Some observers note that the "regional bloc" of counties, which has been suggested to promote better-coordinated development projects across neighboring counties, may also provide a more lasting framework for reform efforts.

negotiating at the time, with an unprecedented $750 million budget support loan on the table.[38] The work by the Anti-Counterfeit Authority was more complicated, as it involved many inspectors and other agents who are constantly exposed to pressures, bribes, or even threats. Nevertheless, when credible opportunities arise, development partners should support innovative "decartelization" policies at the national level, because the impact can be sweeping. Support could be given in the form of ideas and technical assistance (e.g., in technologies for inspection of imports), or even in the form of physical infrastructure (e.g., improving the laboratories of Kenya Bureau of Standards) if the commitment to reform is clear. However, in supporting national-level reforms, development partners will have to think through the design of the reform measure carefully. The "cartels" are extremely clever and well-resourced; they will try to subvert the intent of the reform measure in every possible way to protect their interests.

Third, development partners should also consider supporting the media to disseminate information about such success stories. Kenyan media is quite active, but it is not well resourced. This is particularly a serious problem for the traditional media houses, because people are increasingly relying on free internet sites for news. The financial pressure on the media houses has reduced their ability to produce quality reports, which in turn makes their products less attractive. They seem to be trapped in a vicious circle.[39] This seems to be also making some journalists willing to be "bought" by politicians and spread falsehoods. This situation adds to the importance of strengthening responsible journalism. For about 5 years starting in 2010, DFID, DANIDA, and CIDA jointly funded the Kenya Media Program, precisely to address this problem. The program, which was executed by Hivos, a Dutch NGO, funded training of journalists and development of "content," especially through investigative journalism. Perhaps because of its

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[38] It is unclear why the World Bank accepted a much softer measure. It is unlikely that its experts could not see the implications of such a limited measure.

[39] A senior faculty member of Aga Khan University's Graduate School for Journalism and Communications felt there was a latent demand for high-quality reports, because many Kenyans were increasingly concerned about big issues like governance, but were not getting fresh ideas on them. However, media houses needed help in breaking out of the vicious circle. (Author's interview in 2019.)

success in generating critical analyses of social and economic issues and government policies, these development partners apparently incurred the displeasure of the government, and they were unwilling to fund the next phase. However, it is important that success stories emerging in different counties be shared widely. Kenya's development partners should consider reviving a similar program to assist the media. The example of the "muckrakers" in the US in the early part of the 20th century demonstrates that good journalistic work can move public opinion and change national politics.

Fourth, development partners can also support cross learning among counties. There are some truly innovative initiatives. For instance, Vihiga's Governor Otichilo has established an advanced Geographic Information System (GIS) lab to build an extensive database on the state of development in his county.[40] (He is a GIS expert himself, having managed the United Nations Economic Commission for Africa (UNECA)'s Regional Centre for Mapping Resources for Development.) What is impressive is the effective use of the data for policy making and participatory decision process. He firmly believes in participatory decision making, but he is also convinced that without pertinent information, such a process would become simply a place for mediating between competing local demands. As an example, he has a map of the county with every health center shown, with a circle with a 2-km radius drawn around it. It is obvious that much of the county is covered by one or more circles, but there are areas that are conspicuously blank. When the citizens from different villages gather to discuss where the next health center should be built, the discussion becomes much more constructive and civic minded. He believes that other counties can also benefit from this technology, and some are already in discussion with his team. Since it requires considerable technical training as well as investment in the equipment and software, cross-learning will not be cheap. This is an area where development partners could

[40] More generally, he thinks policy decisions must be data based. His team has also developed a system to measure its own performance with objective data.

step in and offer assistance. They might also bring good examples of GIS-based policy formulation and monitoring of economic and social development from other countries.

Of course, development partners' efforts to support Kenya in a new way will be far more effective, if they can achieve a common understanding of the problem and develop a shared strategy for addressing the deeper governance issues in a coordinated manner. At the moment, development partners in Kenya do not seem well aligned with a common approach. In the days of the Economic Governance Group in the 1990s, there was a significant measure of agreement among the development partners in Kenya at least on the need to address governance issues. This forced the Moi Government to respond, with the creation of the "Dream Team." Although the development partners (mainly the World Bank) failed to build on that opening (see Section 2), it does show that a coordinated approach carries more weight.

5.3 Re-engineering "traditional aid"

Does the above argument mean more traditional aid, such as investment in infrastructure, agricultural technology, education, and healthcare, are meaningless? In the companion report (Ohashi 2022), I noted this is not at all the case. Those are important building blocks of a well-functioning inclusive economic system. However, development partners need to assure themselves that Kenya is making credible progress toward the critical transition to an inclusive political economy system, because only then can Kenyan citizens expect to get significant benefits from such investments.

I also emphasized the importance of building into "traditional projects" components to strengthen the shift toward an inclusive system. An excellent example may be the Smallholder Horticulture Empowerment and Promotion (SHEP) projects which JICA has implemented in a number of countries, including Kenya.[41] It rightly emphasizes the importance of encouraging horticulture that is driven by market demand. There is already a focus on what will command a

[41] See *Introduction to the SHEP approach* (2014), JICA.

good price in the market. If the programs can help farmers become more organized in addressing the challenge of low prices arising from cartel behavior, the interventions will be a step closer to dealing with the deeper issue. Such additional assistance may take the form of something akin to the mango processing plant of Makueni. It will not be a big stretch from a more traditional approach, but it will be addressing the problem of the market channel squarely, a key element of a strategy to help Kenya transition to a more inclusive system.

What “inclusion elements” a development partner can build into more familiar interventions will vary from one project to another. They should not be artificial add-ons to dress up traditional projects as inclusion-conscious programs. By keeping an eye on the strategic goals of helping reform dynamics at the county level and finding every possible way to “decartelize” the economy, development partners can expect to spot meaningful ways of using the familiar projects to serve a higher objective. In fact, many government counterparts will tend to expect aid to take the form of tangible investments in infrastructure, basic public services, industrial promotion, etc. Those traditional programs serve to motivate engagement from the government, which then open opportunities to broaden the scope of the programs. Along with the efforts to understand the spontaneous drive for change in Kenya, this is where creativity in program design will bring high returns in terms of the relevance of aid programs.

6. Conclusions

In the context of Kenya, this note identifies two key areas of focus for development partners, devolution and “decartelization.” In particular, it seems important to support truly reform-minded counties in their efforts to bring greater transparency and accountability to public service delivery and to bypass or overcome cartel behavior that inhibits proper functioning of markets. This is a powerful way to support the domestic dynamics for change. Helping small farmers, SMEs, and average citizens with initiatives to circumvent cartels brings immediate benefits, thereby confirming to them that an inclusive system indeed works. This in turn will reinforce the demand for reform. Such opportunities may arise in many different ways, including in agriculture, industrial promotion, healthcare, or even infrastructure. This suggests that what is needed is not an entirely new program, but rather a program with a more conscious focus on supporting the important changes that are leading Kenya toward inclusion.

The second priority area is “decartelization.” It overlaps significantly with devolution, but it is also an important strategic direction that national level governance reforms are likely to take. For instance, looking at a market reform idea not from the “liberalization” angle, which development partners have tended to do, but from a more focused angle of “decartelizing” the market may generate more innovative and practical ideas for improving the market functions. Fully liberalized and properly regulated markets is ideal, but a market that is not seriously distorted by cartels may be “good enough” and certainly more achievable.

Looking at Thailand of today, Kenyans would often say they would be happy to reach that level of prosperity, even if it falls far short of where South Korea and Singapore are. It is unlikely, however, that Kenya can emulate Thailand’s growth path because of the geographic and other differences. Thailand is close to major sources of foreign direct investment (FDI) and is situated in the middle of a fast-growing region. Its civil service, with the backing of the monarchy, has been able to provide some counterweight to the narrow interests of the business community. Kenya’s circumstances are less serendipitous. All the more reason Kenya needs to make a clean break with the old political economy system.

That may seem like a daunting challenge. It is important to remember, however, that Kenya still retains a considerable strength in its industrial capabilities. The only problem is that government policies have tended to favor imports over domestic production and discourage exports. Unlike many of its neighbors, Kenya does not have to “invent” manufacturing industries. It only needs to stop stifling them. If Kenya can revamp its industrial policy regime to make it “inclusive,” there is little doubt that the economy will flourish. But, what really stands in the way is not industrial policy as such, but an elite-favoring political status quo. This is why the Industrial Transformation Programme of 2015, which was promoted with much fanfare, never got very far.

Like most other developing countries, Kenya’s central development challenge is governance. Development partners cannot ignore it and continue with the traditional ways of giving aid. There are ways to help Kenya with this critical issue. I have suggested broad strategic directions that development partners may wish to consider. How to translate them into specific assistance programs will require more detailed analyses of the opportunities and matching of such opportunities with each development partner’s unique strengths. Of course, development partners should make every effort to work jointly, so that the individual programs add up to a coherent whole that is sharply focused on supporting Kenya’s transformation process. All of this will not be an easy task. However, the likely reward in the form of much larger and lasting impact is very high.

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Abstract (in Japanese)

要約

開発パートナーは、ケニアの根本的開発問題は「ガバナンス」であること久しく認識してきた。しかし、それに対処する支援をする効果的なアプローチを策定する事が出来ずにいる。その間も、「伝統的援助」は大規模に続いてきた。これはケニア特定の問題ではない。関連論文（大橋 2022）は、このような状況では援助の効果が低い事を解明する一般的な理論を提示し、援助の焦点は、途上国の資源ギャップを埋めることから、エリート重視・レント志向の政治経済体制から「包括的」体制への転換の支援へ移るべきであると説く。同論文は、途上国には包括的体制確立を推進する社会的ダイナミクスがあり、開発パートナーは援助をその内在的な動きと整合させ、より効果的な支援を出来ると提唱する。本稿は、この一般論をケニアに適用し、エリート寡占体制が複数の経路を通じて経済成長を妨げていることを解説する。また、2010 年憲法に基づく地方分権化が、ケニアの社会的ダイナミクスの重要な転換点と捉える。それは市民に改革を求める有効な政治経路を与えた。47 の郡の中の数郡は、包括的な政治経済体制を確立する運動の先駆者として浮上している。さらに、成功例は、カルテル行為を排除する改革が、司法で「腐敗と戦う」よりも有効であることを示唆している。この 2 つの要素に基づき、本稿は、ケニアの包括的体制への移行を支援することに焦点を当てた援助の戦略的アイデアを提示している。