

## **Strengthening the Incentives for Pro-Poor Policy Change:**

### **An analysis of drivers of change in Kenya**

#### **Summary report**

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## ***Drivers of Change in Kenya – Summary Report***

# **Acknowledgements**

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## Summary

This report is a summary of a study commissioned by DFID Kenya on the drivers of pro-poor change. It considers the processes, institutional changes and actors that may drive or block pro-poor change in Kenya. It argues that the critical obstacles to bringing about change lie in the realm of political economy and governance. The fundamental problem in Kenya is that the political elite have been able to capture public institutions and resources to serve their private interests. In this context there is little sense of public accountability, corruption has flourished, public institutions have declined, growth has faltered and poverty has worsened. The types of policy reforms that are required to reverse this decline are fairly well understood. Yet, the political elite, who benefit from the status quo, have generally opposed desirable patterns of change.

This report argues that pro-poor change will require a shift in the nature of incentives and restraints facing the political elite, and supporting changes in donor behaviour. There are several types of processes that are critical to bringing about such a transformation:

**1) Creating demand for change.** In the past, reforms have usually occurred when the elite has come under sustained pressure from interest groups. A key challenge will be to strengthen the voice and organisation of all citizens, the poor in particular, to exert pressure on the elite. A wide range of processes are relevant in this respect, including globalisation, urbanisation and education, the actions of pressure groups and coalitions between different types of change agent. An important source of demand will be to encourage expectations surrounding access to services (e.g. universal primary education)

**2) Strengthening response to demand.** Even where there is a strong demand for change, the political system and government bureaucracy may not be able to respond. Key blockages in Kenya include the nature of political parties, the centralisation of power and the weak performance of the civil service.

**3) Creating broader public accountability.** At present accountability is based on patronage and clientelism rather than a sense of responsibility to society at large. Important priorities will be to restore democratic checks and balances, strengthen institutions of accountability, improve access to information, broaden the tax base and tackle corruption.

**4) Changing elite perceptions.** The elite have generally opposed pro-poor change where this threatens their interests and sources of patronage. However, elite perceptions of poverty can change under certain conditions making pro-poor change more likely

**5) Strengthening external sources of influence,** such as regional organisations and donor engagement.

The report identifies a large number of operational implications for donor programmes. Certain actions are highlighted as immediate priorities where there is already an opportunity for donor engagement and where domestic political support is relatively strong. These include: (i) support to parliament, (ii) restoring other democratic checks and balances, (iii) universal primary education, (iv) tax reform, (v) land reform, (vi) regional integration, and (vii) supporting private sector organisations.

A number of other areas for donor support are identified as having potential to bring about change, but preparatory work must first be undertaken and political ownership established. These include devolution, civil service reform, security sector reform, broadening access to independent media and support to universities and research institutes.

A general lesson emerging from the study is that donors have limited direct influence on government. Conditionality should be avoided. However, there are opportunities to respond to and work with domestic pressures for change in civil society and the private sector.

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## ***Drivers of Change in Kenya – Summary Report***

### **1. Introduction**

This report is a summary of a study commissioned by DFID Kenya on the drivers of pro-poor change. It considers the processes, institutional changes and actors that may drive or block pro-poor change in Kenya. It argues that the critical obstacles to bringing about change lie in the realm of political economy and governance. The fundamental problem in Kenya is that the political elite have been able to capture public institutions and resources to serve their private interests. In this context corruption has flourished, public institutions have declined, growth has faltered and poverty has worsened. The types of policy reforms that are required to reverse this decline are fairly well understood. Yet, the political elite, who benefit from the status quo, have generally opposed desirable patterns of change.

The election of the NARC government in late 2002 has created better prospects for pro-poor change. Most notably, it is the first time in Kenya's post independence history that elections have resulted in a change of government. There are important reform processes underway that could lead to improved governance and renewed development. However, although the change of government is a very significant event, it may not be sufficient to bring about fundamental change to Kenya's deep seated governance problems. There is a clear risk that the fragile gains that have already been made may not be sustained in the context of unstable coalition politics. The political elite could revert to previous behaviour with adverse consequences for growth and poverty reduction.

This study follows the 'Drivers of Change' approach, which is increasingly being adopted by DFID as an analytical tool to understand processes of change at the country level.<sup>1</sup> The focus is on long-term, incremental changes to interrelated social, economic, political and institutional processes that alter the context for policy making over the next few decades. These processes transform the nature of incentives and restraints facing the political leadership, and may create conditions where pro-poor change is more likely.

This study considers three types of drivers of pro-poor change: (i) long-term processes of social and economic change (referred to in this study as contextual factors), (ii) changes in the workings of institutions, and (iii) reform minded organisations and individuals (referred to as agents of change). There are important linkages between these processes. For example, the nature of institutions affects Kenya's ability to gain advantage or minimise the costs of long-term processes of social and economic change, such as globalisation or urbanisation. The incentives and restraints operating within institutions govern the behaviour of organisations and individuals. Yet these agents can also bring about change in the workings of institutions.

The structure of this report follows the framework presented on the next page. The three core chapters discuss each of the drivers of change under three headings: contextual factors, institutions and agents of change. Further explanations of each of the drivers of change and the linkages between them, as well as operational implications for donors can be found in the tables annexed to this report.

This Drivers of Change approach lends the study a necessarily broad focus. In this summary report it is only possible to sketch out the crucial issues and to provide general policy recommendations. However, it is hoped that this report will provide useful insights on how change processes occur within the constraints of political economy, and will provoke fresh thinking on how donors can work with a broad range of actors to promote pro-poor change.

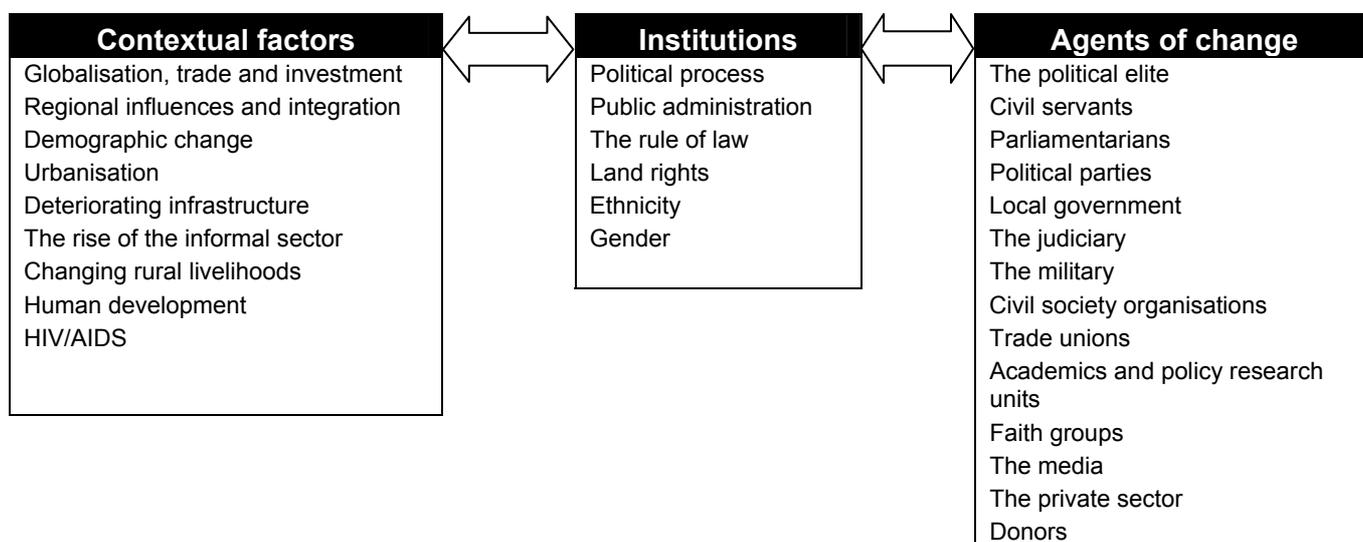
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<sup>1</sup> See for example Duncan *et al.* (2002) on Bangladesh; Duncan *et al.* (2003a) on India; Duncan *et al.* (2003b) on Zambia and OPM (2003) on Nigeria. Reviews of the Drivers of Change approach can be found in DFID (2003a), Duncan (2003c) and Silkin (2003).

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**The relationship between drivers of change considered in this study**



## 2. Poverty and pro-poor change in Kenya

### Poverty profile

Kenya witnessed significant growth and improvements in living standards during the first two decades of independence. However, much of these gains have been erased over the past twenty years of stagnant or negative growth. Per capita incomes declined during the 1990s resulting in an increase in poverty. It is difficult to provide precise figures on poverty rates during the 1990s because the quality of data is poor, and relates to a single household survey conducted in 1997. Recently revised estimates provided by the World Bank point to an increase in the incidence of poverty from 48.8% in 1990 to 55.4% in 2001.<sup>2</sup>

The lack of disaggregated and up-to-date poverty statistics makes it difficult to provide a detailed profile of poverty in Kenya. However, some general observations can be made. Poverty is highest in rural areas, but urban poverty is also very significant. The revised World Bank figures indicate that the incidence of poverty in rural areas was 52.8% in 1997, compared to 43.1% in urban areas. The majority of the poor live in the densely settled medium and high potential agricultural areas, in particular in western Kenya and the Central Highlands. The percentage of the population that is poor is greatest in the Arid and Semi-Arid Lands (ASAL areas), but the absolute numbers of people living in these areas is relatively low.<sup>3</sup>

Poverty appears to be associated with large households and female headed households. The educational status of the household head and spouse is another important determinant of poverty. Households relying on agriculture and informal sector occupations for their livelihoods tend to be poorer than households engaged formal sector work.<sup>4</sup>

<sup>2</sup> World Bank (2003)

<sup>3</sup> See Central Bureau of Statistics (2003) for detailed maps of the distribution of poverty in Kenya.

<sup>4</sup> World Bank (2003)

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Kenya has also witnessed a worsening in human development indicators over the 1990s. Most notably, life expectancy has fallen from 57.1 in 1990 to 47.0 in 2001, mainly as a result of HIV/AIDS. Infant mortality rates have also risen over the past decade. Although, educational indicators are high by African standards, there has been a decline in school enrolment rates since 1990.<sup>5</sup>

Against this unpromising background, Kenya will probably fail to achieve most of the Millennium Development Goals by 2015. A recent assessment of progress in meeting the MDGs carried out by UNDP found that Kenya is unlikely to achieve the key goal of halving the incidence of extreme poverty by 2015. All of the other goals were rated 'unlikely' or only 'potentially' achievable.<sup>6</sup>

### **What constitutes pro-poor change?**

This paper is concerned with change processes that will drive Kenya's development over the next few decades. The main requirement is that change will be pro-poor, meaning that it will deliver substantial benefits to poorer sections of society, often more than proportionally to the non-poor. This paper adopts a broad, multi-dimensional understanding of poverty in line with the 2000 World Development Report and DFID's Target Strategy Paper entitled 'Halving World Poverty by 2015'. These frameworks point to five dimensions where progress needs to be made to ensure sustainable reductions in poverty:

- I) **Broad-based economic growth.** Over the past decade growth has been negative in per capita terms, and per capita incomes are now below the level of 1990.<sup>7</sup> The decline in growth rates has affected all sectors, but has been most severe in agriculture. Uganda and Tanzania have achieved much stronger growth performance and are rapidly catching up with Kenya. Kenya's recent growth performance has been adversely affected by a number of exogenous shocks, including HIV/AIDS, the droughts in 1997 and 2000, the El Nino floods of 1998, declining commodity prices and the drop in tourist arrivals. However, the principal causes relate to internal policy and governance failures, including economic mismanagement, massive corruption, deteriorating infrastructure and services, declining investment and falling export competitiveness. The main requirement for poverty reduction in Kenya will be to restore sustained positive growth in per capita incomes.<sup>8</sup> However, in view of the relatively high income inequality in Kenya (Gini coefficient of 0.44 in 1994), it will be important to consider the distributional impact of growth in order to ensure that benefits reach lower income groups.<sup>9</sup>
- II) **Political and social empowerment.** Empowerment across all groups in society, and disadvantaged groups in particular, will be essential to hold political elites to account, to improve policies and institutions, and to strengthen civil society to demand better government.
- III) **Access to markets, services and assets.** The livelihoods of the poor depend on their ability to secure access to markets, services and assets. Some of the most important issues include market liberalisation, employment generation, access to land and water, the availability of financial services and the development of human capital through improved health and education services.

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<sup>5</sup> This decline has recently been reversed as a result of the free primary education policy.

<sup>6</sup> UNDP (2003a)

<sup>7</sup> During the 1980s GDP growth averaged 4.3%, but only 0.7% in per capita terms. Between 1990 and 2001 average annual growth had slowed to 2.2%, or -0.5% per capita (World Bank, 2003).

<sup>8</sup> Using estimates of poverty elasticities OPM (2001) calculate that Kenya will need to sustain a 6% per capita growth rate in order to reduce the incidence of poverty by half by 2015.

<sup>9</sup> See OPM (2001) for an analysis of growth, poverty reduction and inequality in Kenya.

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- IV) Social protection.** The poor in Kenya are exposed to numerous risks including HIV/AIDS, malaria, droughts and floods, insecurity and violence. Various forms of insecurity have affected most parts of the country: violent crime in urban centres, ethnic riots in Nairobi slums, cattle rustling and violent disputes over land and water resources in the north and northeast. The poor have limited coping options, lack access to the formal social security system, and are the least able to protect themselves from violence and crime.
- V) Environmental sustainability.** Environmental resources (forests, wildlife, water, minerals, soils, air) underpin progress towards sustainable growth and poverty reduction. Poor governance has enabled politicians to use environmental resources to fuel patronage relationships. It has enabled illegal off take and led to widespread abuse, thus triggering land degradation, deforestation, people/wildlife conflicts, and air and water pollution in urban areas. The poor are disproportionately affected by these problems and are more vulnerable to associated natural disasters. The root causes are weak and uncoordinated policy and legal frameworks, centralisation of power, absence of public scrutiny and accountability mechanisms in the environment sector, and a lack of enforcement of environmental laws.

This report analyses how drivers of change affect each of these five elements of pro-poor change. In this summary report it is only possible to highlight the key linkages, but a more complete and systematic presentation is provided in the matrices in the annex.

### **Government response to poverty challenges**

Most of these problems are well recognised in Kenya and are discussed in government policy papers. The previous government drafted a Poverty Reduction Strategy Paper in 2001. The NARC government has since launched its own document entitled 'Economic Recovery Strategy for Wealth and Employment Creation 2003-2007'. This provides a broad overview of Kenya's development and poverty challenges, and presents a strategy based on four pillars: (i) macroeconomic stability and public sector reforms, (ii) good governance, (iii) rehabilitation and expansion of infrastructure, and (iv) human capital. In addition, the strategy focuses on investment in the productive sectors, social protection and development in the Arid and Semi-Arid Lands (ASALs). DFID has welcomed the objectives and broad thrust of the strategy, but has suggested that there remain a number of key challenges that will need to be addressed in the implementation of the Economic Recovery Strategy (DFID, 2004). These include:

- Strengthening the poverty focus of the ERS;
- Ensuring that implementation of the ERS drives policy-making, including the setting of budget allocations;
- Financing the ERS;
- Ensuring an effective response to the HIV/AIDS epidemic; and
- Addressing the patronage culture and increasing domestic accountability for delivery of the ERS.

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### **3. Contextual factors: Social and economic trends**

This section analyses the long-term social and economic trends that have an important bearing on pro-poor change in Kenya. It aims to highlight how these processes affect the environment for policy making, and are in turn affected by policies, institutions and change agents.

#### **3.1 Globalisation, trade and investment.**

Global trade and investment play an important role in Kenya's development, but have fallen well short of their potential as drivers for pro-poor change. Export performance has been disappointing. Kenya's share of world trade has halved to just 0.02% over the past 20 years.<sup>10</sup> Kenya continues to rely heavily on a few primary commodity exports, in particular tea, coffee and horticulture. Manufactured goods make up only about a sixth of merchandise. Although tourism is still an important export earner, the sector has suffered a steep decline over the past decade.<sup>11</sup>

Kenya has a disappointing record in attracting and retaining foreign investment. FDI inflows are currently well below the average for Sub-Saharan Africa.<sup>12</sup> Foreign investors have been deterred by concerns over insecurity, terrorism, corruption, decaying infrastructure, taxation and the weakness of the judiciary and legal processes.

Against this negative background, there have been some positive developments in Kenya's trade performance. There has been substantial trade liberalisation over the 1990s that has exposed Kenyan firms to greater competition. There are some examples of dynamic export sectors. The export horticulture industry, in particular cut flowers, has grown rapidly in recent years. The export garment sector has also performed well over the past few years mainly as a result of trade preferences granted under the US African Growth and Opportunity Act (AGOA).<sup>13</sup>

There is significant potential for stronger export-led growth in areas where Kenya possesses a comparative advantage, such as higher value added crops, livestock production, labour intensive manufacturing and tourism. Kenya possesses certain advantages over other African business locations, because of its central geographical location, good air connections, relatively well-educated and trained workforce, political stability and its existing industrial and service sector base. Kenya's ability to take advantage of export opportunities will depend for a large part on the government's performance in providing essential public goods, such as infrastructure and security.

Globalisation has exposed the lack of competitiveness of many Kenyan firms and the problems of the business and investment environment, many of which are rooted in poor policies and institutions. The pressures arising from globalisation will increasingly influence the policy process. While some elements of the private sector (uncompetitive and import substituting industries) may urge greater trade protection, other groups including exporters and foreign investors will lobby for reforms to support competitiveness and to open Kenya's markets further. The policy response is likely to be mixed, but in general globalisation is likely to create strong pressures for improved policy and institutional performance.

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<sup>10</sup> World Bank (2003)

<sup>11</sup> Ikiara (2001). The Kenyan tourist industry has suffered from a combination of problems including security and terrorist threats, recent travel advisories issued by the UK and US, deteriorating infrastructure, heavy taxation and a lack of competitiveness in relation to alternative destinations.

<sup>12</sup> World Bank (2003). In 2001 FDI inflows amounted to only 0.5% of GDP, well below the Sub-Saharan Average of 4.4. %

<sup>13</sup> Ikiara and Ndirangu (2003). There are concerns that the growth of the garments industry may not be sustained beyond September 2004 when certain trade preferences are scheduled to be removed.

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Globalisation brings greater exposure to new ideas and international best practices. While the impact of outside ideas may be rather intangible, they are likely to have significant impacts on all types of change agents across government, the private sector and civil society.

## **3.2 Regional influences and integration**

Kenya participates in several regional trade and political cooperation mechanisms, including the East African Community (EAC – covering Kenya, Uganda and Tanzania) and the Common Market for Eastern and Southern Africa (COMESA) and the Inter-Governmental Authority on Development (IGAD). In addition, Kenya has agreed to host the sub-regional secretariat of NEPAD.

Of these institutions the recently revived East African Community holds the greatest ambitions for regional integration. In March 2004 east African leaders signed a Protocol on the East African Customs Union, which establishes a common external tariff and free trade within the EAC following a five year transition period.<sup>14</sup> In addition to its trade function, the EAC aims to foster cooperation on a wide range of economic, social, environmental and political issues. A number of EAC institutions are being established to facilitate policy making and ensure the implementation of the treaty.<sup>15</sup>

The EAC is the furthest advanced of the regional integration mechanisms. However, a complicating factor is that COMESA also has ambitions to establish a customs union in 2004. This would not easily be compatible with the EAC customs union because Kenya and Uganda are members of COMESA, whereas Tanzania is a member of SADC.

Regional integration holds great promise a driver of pro-poor change in Kenya. If managed successfully, regional integration could generate significant trade and growth by enhancing factor mobility, promoting specialisation and economies of scale, increasing competition, encouraging investments and fostering regional solutions to cross-border infrastructure, environmental and security problems. Improved market access to EAC and COMESA countries will be important for Kenya's manufacturing and service industry whose regional exports have become increasingly important. Regional infrastructure projects in the transport and energy sectors should help to stimulate the economies of all countries in the region.

Regional integration is likely to have a significant impact on the policy process in Kenya. The EAC Treaty's emphasis on market-led, private sector-driven development creates an important set of obligations for Kenya's government, and may make policy reforms more binding. Both EAC and NEPAD provide for increased ministerial contacts and peer review processes, which may act as an important source of external pressure on Kenya's political leadership to improve policy making and governance. However, the EAC and NEPAD institutions have not yet been tested, and there are doubts as to whether they will have real influence over national governments. If given adequate capacity and powers, they could prove useful in creating additional accountability mechanisms, and checks and balances on government.

There is considerable political and popular support for the East African Community in Kenya. The prospect of free movement of goods, labour, services and capital holds great appeal in a region whose peoples are held together by a common culture, language and history.<sup>16</sup> Closer regional ties

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<sup>14</sup> The common external tariff has been set at 25% for finished goods, 10% for intermediate goods and 0% for raw materials.

<sup>15</sup> These include the EAC Summit, Council of Ministers, Secretariat, Coordination Committee, East African Court of Justice and East African Legislative Assembly.

<sup>16</sup> Ng'eno *et al.* (2003)

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are likely to have a positive influence on the development of civil society and private sector organisations.

Although Kenya could potentially derive great benefit from regional integration, there are a number of major risks. The history of regional integration in Africa has been marked by poor performance, and rhetoric that has not been followed by implementation. Tariff cuts proposed under the EAC are likely to be vigorously opposed by protectionist producer lobbies, and will have a negative effect on government revenue.<sup>17</sup> Complications relating to Kenya's dual membership of EAC and COMESA must also be resolved.

### **3.3 Demographic change**

Kenya has been one of the first countries in Africa to enter demographic transition. There has been a remarkable decline in fertility rates from 7.9 in 1979 to about 4.4 today. There are several explanations of this decline, including greater contraceptive use, women's education and urbanisation.<sup>18</sup> As a result of fertility decline, population growth rates have slowed from 3.8% in 1980 to about 1.6% at present. The present population of 32 million is projected to increase to 37 million by 2015 and 41 million by 2030.<sup>19</sup>

Rapid population has hindered Kenya's economic performance in the past because it resulted in high dependency ratios, overstretched service provision and intense pressure on the natural resource base.<sup>20</sup> In future, slower population growth and lower dependency ratios may result in a growth dividend. However, this may be cancelled out by the impact of HIV/AIDS, which is increasing mortality rates and dependency ratios. Smaller family sizes are likely to contribute to women's empowerment by increasing their choices and reducing domestic workloads.

### **3.4 Urbanisation**

Kenya is experiencing rapid urbanisation driven by rural to urban migration. About 12 million people, or 38 % of the population live in towns. Although urbanisation rates have slowed since the 1980s, urban populations are growing at 4% per annum, and are projected to exceed the rural population by 2020.<sup>21</sup>

Rapid urbanisation has placed immense pressure on services and infrastructure, and has led to significant increases in land and water pollution. Air quality has also deteriorated with serious impacts on human health. Around 60-70% of Nairobi's population live in slum settlements that are characterised by overcrowding, lack of infrastructure, poor sanitation and inadequate services. Infant mortality rates in Nairobi's slums are significantly higher than in rural areas, and school enrolment rates are well below the national average. The lack of legal recognition of slum settlements and insecure land tenure has been a key obstacle to slum upgrading and the provision of services.

Another undesirable impact of urbanisation has been the scourge of urban-based crime and civil unrest. The limited effectiveness of the police has created a reliance on private security services at great costs to households and businesses. The urban poor are least able to protect themselves and are disproportionately affected by crime.

Although there are many negative impacts of urbanisation, it has also been an essential driving force in Kenya's development. Urban areas have been the centre of the growth of service and

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<sup>17</sup> *ibid*

<sup>18</sup> Blacker (2002)

<sup>19</sup> UN Population Division Database

<sup>20</sup> Cross-country econometric analyses carried out by O'Connell and Ndulu (2000) show that demographic factors explain much of Kenya's growth shortfall relative to high performing Asian countries.

<sup>21</sup> UN Population Division Database

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manufacturing industries. Urbanisation has greatly facilitated the development of civil society, private sector and political organisations. While ethnic groupings have proven to be quite resilient in urban areas, it is probable that the influence of ethnicity will eventually start to weaken with the spread of urban values.

### **3.5 Deterioration of infrastructure**

The poor state of infrastructure in Kenya is a major constraint to business and a significant cause of poverty. High transport and communications costs limit access to markets and services, and make political organisation more difficult. The road network has deteriorated markedly over the past decade resulting in high transportation costs, reduced market access and alarming road accident statistics. Other infrastructure sectors, including rail, ports, power, water and fixed line telephone services have also performed poorly. The only bright spot has been the spectacular growth of mobile telephone usage. There are now more than 1.8 million mobile subscribers, more than six times the number of fixed line customers.

A key issue for the poor is lack of access and connectivity to water and power services. The urban poor generally rely on charcoal as a source of energy. There is increasing concern about the rising price and lack of sustainability of charcoal production.

Most of Kenya's infrastructure problems are rooted in institutional and governance failures. The Ministry of Public Works and Kenya Ports Authority are particularly known for their corruption. Parastatal companies, such as Telekom Kenya and Kenya Railways, are extremely inefficient and overstaffed. However, there is little political appetite for the required reforms that would entail considerable job losses, and would threaten sources of patronage.

Tackling the enormous mismanagement, waste and corruption in Kenya's infrastructure provision could prove to be a powerful driver for development. Not only would this reduce business costs, raise industry competitiveness and enhance access to markets and services, but it would also save huge amounts of public resources that are currently lost through corruption or wasted on bloated public payrolls.

### **3.6 The rise of the informal sector**

A clear trend in employment patterns in Kenya has been the rapid growth of the informal (*juakali*) sector in both urban and rural areas.<sup>22</sup> The World Bank estimates that informal sector employment has been growing at 12% per annum in recent years, in comparison to just 2% for the formal sector. Around 70% of Kenya's non-agricultural workforce are employed in the informal sector.<sup>23</sup>

The informal sector has played a very important role in absorbing the rapidly growing urban population and limiting the rise of urban poverty. Yet, the rise of the informal sector is also an indication of economic distress, failed development and the lack of formal sector job creation. Research evidence suggests that informal sector enterprises are less productive, pay lower wages and are more precarious than formal sector firms.<sup>24</sup> It is very difficult for informal enterprises to expand because they have limited access to credit and weak business networks. Consequently, the Kenyan private sector is characterised by a "missing middle" between the myriads of informal sector microenterprises and the much smaller number of large, formal sector firms. This distinction also reflects a clear ethnic divide. While formal sector enterprises are predominantly Asian-Kenyan owned, the informal sector is overwhelmingly African.

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<sup>22</sup> Although there are some difficulties with the definition of the informal sector, there are three characteristics that set it apart from the formal sector: (i) the small size of informal enterprises, (ii) their exclusion from regulatory and taxation systems, and (iii) their low level of capitalisation (Bigsten *et al.*, 1999; Kimuyu, 2002)

<sup>23</sup> World Bank (2003)

<sup>24</sup> Bigsten *et al.* (1999), World Bank (2003)

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The human resources and skills that are held in the informal sector offer huge development potential, but are massively underutilised at present. The key to unlocking this potential will be to promote business and skills development, improve access to credit, and remove barriers to entry to the formal sector, including onerous taxation and regulatory requirements. While government policy statements on the informal sector have incorporated some of these elements, implementation has been lacking. In practice the informal sector has received more harassment from the authorities than real support. Government commitment has been lacking because the informal sector has not been able to organise itself as an effective lobby to promote its interests.

### **3.7 Changing rural livelihoods**

The majority of the Kenyan population and nearly 70% of the poor live in rural areas. A key constraint to poverty reduction has been the very weak performance of the agricultural sector, which grew at an average of just 1% per annum between 1990 and 2001. As a result of agricultural stagnation and closer links to urban markets, rural livelihoods have diversified considerably. It is reported that 50% of rural incomes are now derived from non-farm sources.<sup>25</sup>

Rural livelihoods are sharply divided between medium and high potential areas and Arid and Semi-Arid Lands (ASALs). Medium and high potential areas cover less than 20% of the land area, but have very high population densities. The principal challenges in these areas are to increase agricultural productivity, address the impact of HIV/AIDS, promote diversification, tackle land issues, reverse land and natural resource degradation, improve access to credit and inputs, and strengthen marketing of cash crops.

The economy of ASAL areas is almost entirely based on pastoralism. There has been little public investment and service provision in ASAL areas in the past because of the high costs of serving remote, scattered and mobile communities, and the perception of low financial returns. State power is limited in ASAL areas in the north and northeast of the country, which are seriously affected by problems of insecurity, banditry, cattle rustling and violent disputes over land and water resources.<sup>26</sup> The marginalisation of pastoralist groups in national politics has ensured that ASAL areas receive little policy priority. There are signs of change in the Kenyan government's new Economic Recovery Strategy, which gives greater prominence to the development priorities of ASAL areas. However, it is not yet certain whether the strong rhetoric will be followed by substantive actions.

Forest and wildlife resources offer prospects for diversified revenue streams, but legislation governing use of these resources has up until now been highly restrictive and exclusive. Such resources are often traded illegally and controlled by unscrupulous interests. Moves to enable devolved management of these resources could increase prospects for more equitable sharing of the benefits arising from these resources, particularly for the poor and landless.

The agricultural sector has been adversely affected by falling commodity prices, declining land productivity and rainfall variability. Yet the main reasons for its poor performance are related to failures of institutions and governance. The state continues to intervene in numerous agricultural markets, and has retained ownership of about 30 parastatals, which together absorb about 75% of public spending in the agricultural sector. Their functions are often unclear, but they provide an important source of political patronage. Cooperative societies are very active in the provision of agricultural processing, marketing and input supply services. However, they have been seriously weakened by mismanagement and corruption. Nominally under the control of farmers, cooperatives

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<sup>25</sup> World Bank, *ibid*

<sup>26</sup> Omiti and Obunde (2002)

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have been weakened by political interference and elite capture. Mismanagement of cooperatives has been one of the main factors behind the decline of the coffee industry.<sup>27</sup>

During the 1980s and 1990s the Kenyan government undertook limited, but incomplete liberalisation measures in some agricultural sub-sectors. The response of the private sector has been uneven and the outcomes for the poor have been mixed. In certain sectors, such as milk marketing, liberalisation has resulted in the emergence of a vibrant private sector. However, in other sectors the private sector has not adequately filled the gap following the withdrawal of public services. Notable examples are the cotton and coffee industries, veterinary services and artificial insemination.<sup>28</sup> In many cases liberalisation reforms have been too rapid and poorly sequenced. The state has generally failed to provide public goods, such as infrastructure, security, quality assurance and regulation, that are essential for the efficient functioning of liberalised markets.

There are numerous community organisations active in rural areas that are an important agent of change. There is significant potential for the development of rural producer associations as an alternative to poorly managed cooperatives.

### **3.8 Human development**

Improved health and education is an essential driver for pro-poor change because it raises labour productivity and helps to empower citizens to engage in political processes. Kenya has made remarkable achievements in education. Adult literacy has climbed from about 20% at independence to about 83%, one of the highest rates in Sub-Saharan Africa.<sup>29</sup> Net primary enrolment rates were 74% in 2000, and have since increased substantially as a result of the NARC government's policy of free primary education that has brought more than one million children back into school.<sup>30</sup>

In spite of these achievements, there are significant weaknesses in Kenya's education performance. Drop out rates are high, and few children go on to secondary school, where net enrolments are only 23%. Although there is little difference between boys and girls in primary enrolment rates, there is significant gender inequality at secondary and tertiary levels. The quality of education services is also a key concern.<sup>31</sup>

Kenya spends a relatively large share of its budget on education by Sub-Saharan African standards.<sup>32</sup> However, there are major distortions in the education budget that reduce the quality of service provision. Teachers' salaries consume an excessive share of education spending (94% of the recurrent budget) leaving very little for operations and maintenance. Small class sizes and the excessive construction of new schools since independence is another source of budgetary inefficiency. There are clear inequities in the provision of education services that tend to favour wealthier sections of the population.<sup>33</sup> Slum dwellers and pastoralist groups are underserved by education services.

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<sup>27</sup> Mismanagement and corruption within coffee cooperatives has led to a massive increase in their costs. Coffee farmers now receive as little as 30% of sales proceeds. This experience contrasts with the better managed tea sector, where farmers typically receive 70% of sales proceeds. Nyangito (2001a); Nyangito (2001b); World Bank (2003)

<sup>28</sup> Omiti and Obunde (2002)

<sup>29</sup> UNDP (2003b)

<sup>30</sup> UNDP (2003a)

<sup>31</sup> Ministry of Education (2003)

<sup>32</sup> Following the introduction of free primary education in 2002/2003 education expenditure rose to 6.8% of GDP, a far higher ratio than the low income country average of 3.3% (Government of Kenya, 2003a).

<sup>33</sup> See Kremer et al. (2002) for an analysis of the political economy of school financing. In the past school construction was largely financed through local fundraising events (harambees) often supported by political patrons, whereas teachers salaries and operating costs were met from the central government budget. The result was that school construction and government expenditure became concentrated in wealthier parts of the country, and in the ethnic power bases of the local elite.

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It will be difficult for Kenya to build on the educational gains that it has already made without fundamental reform of the sector. Many of the easier and popular measures, such as free primary education, have already been taken. In order to derive greater benefits from its high levels of education spending, Kenya will have to address complex problems of budgetary management and resource allocation, and governance at local and central levels.

Kenya's health indicators have not matched progress in education. Key indicators, including infant and maternal mortality, life expectancy and incidence of preventable diseases, have been deteriorating over the past decade. The main causes have been worsening poverty, the spread of communicable diseases (especially HIV/AIDS, malaria and TB), inadequate public funding, inappropriate policy and budgetary priorities, and poor governance of the sector. Public spending on healthcare is just 2.4% of GDP, which is just below the Sub-Saharan average of 2.5%.<sup>34</sup> About three quarters of healthcare spending is met from private sources of funds. This places a heavy burden on the poor, who are often unable to afford user fees. Public spending on healthcare is inefficiently and inequitably allocated. Salaries absorb an excessive share of expenditure, and there is a strong bias towards urban-based, curative services at the expense of preventative services in rural areas. The management of the health sector is fragmented and resources are inadequately prioritised. There is an urgent need to develop a more coherent and pro-poor policy framework for the health sector that addresses systemic weaknesses, and the critical problem of improving access and affordability of services to the poor. While there are some promising initiatives, such as the National Health Sector Strategic Plan and the National Health Insurance Scheme, these have not yet been adequately resourced or implemented.

### **3.9 HIV/AIDS**

HIV/AIDS has had a devastating impact on health indicators and economic development. Life expectancy has declined from 57 years in 1986 to 47 years in 2000 mainly as a result of HIV/AIDS. National HIV prevalence rates were 10.2% in 2002, significantly higher than in neighbouring countries.<sup>35</sup> HIV prevalence data suggests that the epidemic may have already peaked, but caution should be exercised in interpreting these figures.<sup>36</sup> Prevalence is generally higher amongst women, in urban areas, and in certain hard hit provinces, such as Nyanza in western Kenya.

The effects of HIV/AIDS cut across all parts of the economy. Health and funeral expenditures increase, worker productivity declines, investment falls, skilled workers in public services and the private sector are lost, AIDS orphans drop out of school, knowledge is not passed from one generation to the next, community institutions decline, and demands on the government budget greatly increase. There is very little research evidence on these processes, and their impact on Kenya's development prospects. The World Bank estimates the cost of the HIV/AIDS epidemic and the persistent burden of malaria to be equivalent to a reduction in growth by 0.7 of a percentage point, which would translate into a very significant welfare loss if sustained for a ten to twenty year period.<sup>37</sup> The governance impacts of HIV/AIDS are also under researched. A plausible hypothesis is that HIV/AIDS strengthens incentives towards rent-seeking and corruption because public officials affected by AIDS may have shorter time horizons and greater health care costs.

Kenya has taken a long time to realise the challenge of HIV/AIDS and to mount an effective response. AIDS programmes are almost entirely donor driven and have not been well integrated into

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<sup>34</sup> UNDP (2003b); Government of Kenya (2003)

<sup>35</sup> Latest figures from the Kenya Demographic and Health Survey released in January 2004 suggest a much lower HIV prevalence of 6.7%. It is difficult to interpret these figures at this stage. UNAIDS has expressed doubts as to their accuracy.

<sup>36</sup> National HIV prevalence was 12.4% in 2000. It is unclear whether the slight fall in HIV prevalence since 2000 has been driven by a decline in new infections or an increased death rate. Even if the epidemic has already peaked, its full impact will not be felt for several years due to the time lag between HIV infection and the development of full blown AIDS.

<sup>37</sup> World Bank (2003)

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national health systems. The government has yet to establish an effective coordinating structure, and the Director of the National Aids Control Council (NACC) has recently been sacked amidst allegations of corruption. With the prospect of much greater international financial support for AIDS prevention and treatment, there is an urgent need to integrate AIDS funding within national and local government policy and programmes. The issue of political patronage and corruption in the use of AIDS funds at the central and local level, and the decisions on the allocation of anti-retroviral therapy is likely to prove particularly challenging.

## **4. Institutions and pro-poor change**

This section reviews the main institutions that affect the prospects for pro-poor political, social and economic change in Kenya. In many cases these institutions are used for predatory purposes by powerful interest groups, or lack capacity to carry out their mandated tasks. Collectively the flaws outlined here go a long way to explaining the slow economic growth and rising poverty that have characterised the past 25 years in Kenya.

### **4.1 Political process**

**Patronage politics.** The first two Presidents of Kenya developed and presided over a patrimonial state. In this system the structures of a modern nation state (executive, legislature and judiciary) existed only in the formal sense, and power was heavily concentrated in the hands of the head of state. Power operated through a web of informal, clientelist networks based on personal ties between leaders and supporters at all levels of the political hierarchy. These informal networks permeated public institutions and subverted formal rules and decision making. They undermined systems of public accountability and created conditions where corruption and rent-seeking behaviour could flourish.<sup>38</sup>

Most patronage networks have a strong ethnic and gender element in their composition and operation. President Kenyatta ensured that most of the commanding heights of the economy including parastatals, financial institutions, the provincial administration and governmental departments were manned by members of the Kikuyu ethnic community. With the coming to power of President Moi, power shifted towards the Kalenjin ethnic group. Under the NARC government the media have been quick to point to the influence of a supposed 'Mount Kenya Mafia', a cabal of powerful individuals close to President Kibaki.

A key feature of patronage politics is that the poor are at the bottom end of patron-client networks. There has been little incentive for Kenyan leaders to listen to the voice of the poor. However, at times when Kenyatta or Moi felt threatened or needed to gain electoral support, they occasionally resorted to pro-poor, populist policies.

With the election of the NARC government there are better prospects for reducing the role of patronage in politics. The electoral result is itself an important sign of growing political competition, and a rejection of President Moi's style of government. There are a number of important processes underway that could change the nature of the political process. The constitutional review has proposed measures to limit executive powers and to devolve certain authorities to the local level. Other significant measures include the suspension of corrupt judges, the high profile enquiry into the Goldenberg scandal of the early 1990s, the passing of several public sector ethics and anti-corruption bills, and the appointment of a well respected Permanent Secretary for Governance. Transparency International has noted a significant decrease in reported bribery since the new government came to power.<sup>39</sup> Although these are all positive developments, it is unclear whether the reform momentum will be sustained in the context of fragile coalition politics. The constitutional review, for example, became an arena for intense political struggle and ended inconclusively following a government walkout. It is clear that, while the change in government and the recent

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<sup>38</sup> For a useful discussion of how patronage operates in Kenya through formal and informal power structures see Maina et al. (2003). For a review of the extent of corruption in Kenya see CLARION (2003) and Transparency International (2003).

<sup>39</sup> See Transparency International Kenya Bribery Index 2004 and 2003. The index is derived from a sample survey and mainly relates to incidences of petty corruption encountered by the general public.

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reform initiatives are very significant, they are unlikely to be sufficient to address the underlying governance problems in Kenya and pernicious role of patronage in politics.

**Political parties.** Parties, as they currently function, offer only limited potential as a source of pressure for change. Since multi-party politics was restored in 1992, numerous political parties have been established, and a total of fifty are currently registered. Most are personalised enterprises lacking in an organising vision and coherent policy programme. Political parties have principally been formed along ethnic lines and have served as an instrument for ethnic elites to compete for power. Consequently, most parties only have regional (i.e. ethnic-based) representation, and no party commands a large national following. Because of their ethnic preoccupations political parties are largely absent from policy debates on how to bring about economic growth or pro-poor change. Instead, the agenda of most political parties is simply to gain power in order to allocate public positions to political supporters and distribute public resources amongst ethnic power bases.

Political parties are generally poorly organised, lack a strong membership base, and are dependent on a single or few patrons for their funding and survival. Internal democracy and governance is typically very weak, and power is concentrated in the hands of party leaders. Political parties have commonly resorted to intimidation and violence in their struggle for power.

Intense ethnic competition for a long time hindered opposition parties from uniting behind a common candidate. The situation briefly changed in 2002 when a broad coalition of political parties defeated the ruling KANU party. However, now that the common purpose of removing President Moi from power has receded, ethnic rivalries have re-emerged and threaten the survival of the NARC coalition.

The proposed Political Parties Bill tabled in parliament in 2002 begins to tackle some of the problems of political parties. It addresses the key issue of public funding, which may provide a means to reduce the influence of patronage in party financing.<sup>40</sup> There are several issues that need to be more fully addressed by the bill, including requirements on financial accountability and internal democracy within parties. Making public funds for parties conditional on cross-province membership could help to weaken the influence of ethnicity in politics.

**Electoral processes.** Although Kenya has maintained civilian rule throughout independence and has held elections every five years, there are major flaws with electoral processes. Political violence and intimidation has marred recent campaigns. There are huge variations in the size of electoral constituencies – an imbalance that has been manipulated by past leaders in order to bolster their support.<sup>41</sup> In the past there has been open interference by the presidency in electoral processes.<sup>42</sup> The use of public resources to fund election campaigns has also been common.

One means to curb electoral abuses is to empower the Electoral Commission. Although this commission has been vested with strong powers, in practice its authority has been compromised by executive interference.<sup>43</sup> With perennial crises during both voter registration and voting, the weakness of the Electoral Commission remains a potential source of electoral abuse unless its capacity, integrity and neutrality are adequately addressed. Physical conflicts were avoided in the 2002 elections, but this was mainly because the opposition had won by a wide margin.

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<sup>40</sup> See the 2001 Political Parties Fund Bill, *A Bill for an Act of Parliament to provide Public Funding of Political Parties*. The bill proposes that public funding for political parties should be determined according to their numerical strength and civic and parliamentary seats.

<sup>41</sup> For example, President Moi created several tiny constituencies in his strongholds, one with just 7,500 voters.

<sup>42</sup> The most blatant example of executive interference in electoral processes occurred during the 1988 elections when President Moi instigated a vote queuing system (Mlolongo) that required voters to openly queue behind their chosen candidate during party nominations.

<sup>43</sup> Between 1966 and 1997 all members of the Electoral Commission were appointed by the President. From 1997 political parties and civil society organisations were permitted to nominate 10 out of the 21 Commissioners.

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Strengthening the Electoral Commission will not directly serve the interests of the poor, but legitimate elections will create an environment in which their interests can be better addressed.

**The legislature.** Kenya's parliament has been seriously weakened by executive control. Section 59 of the Constitution provides the president with the power to recall or dissolve parliament. Various constitutional amendments have strengthened the power of executive, for example by limiting parliament's control over the passage of 'emergency legislation'. President Moi maintained strict control over the ruling party, which effectively removed any sources of dissent within parliament during the single party era, and continued to stifle debate after the restoration of multi-party democracy.

There are signs that parliament is starting to recover its power. Since the establishment of the Parliamentary Services Commission in 1999, Parliament has enjoyed greater autonomy and assertiveness, and has regained control of its budget and members' salaries and allowances. This has sometimes generated controversy. One of the MPs' first acts following the creation of the Commission was to award themselves a large pay increase.

The calibre of legislators appears to have risen over time, and the level of debate is sometimes quite high. However, MPs are divided factionally, and generally pursue local, ethnic and personal interests, rather than national interests. This is a direct consequence of the nature of political competition in Kenya, and the expectations of the electorate towards their elected representatives that relate more to gaining access to short-term, tangible and ad-hoc benefits rather than addressing broader policy issues.

Parliamentary performance has been negatively affected by a lack of facilities and capacity, in particular the lack of research capacity on policy and public expenditure issues.

Parliamentary committees, and in particular the Public Accounts Committee and the Public Investment Committee (which is supposed to oversee parastatals) offer potential for more effective parliamentary oversight. The reality, however, is very disappointing. The Committees' findings are not legally binding, and they are generally ignored by the executive, which routinely protects culprits. As far as the PIC is concerned, many state corporations have been exempted from having their affairs scrutinised.

One of the most powerful ways in which the Parliament could promote growth and pro-poor outcomes could be through its constitutionally-mandated role in budgetary approval. In practice, however, the budget process is dominated by the executive through the Ministry of Finance. Budgetary estimates are debated and finally approved without meaningful debate, partly because of members' lack of technical skills. At present Parliament merely approves a global figure, with ministries thereafter having discretion to spend the money as they deem fit. Ministries in Kenya even have the liberty to spend beyond the approved figures, and need only seek parliamentary approval retroactively.

The deep-seated obstacles to strengthening Parliament's role in promoting growth and poverty reduction should not be underestimated. Improvement will have to come about through a combination of changes over time to the nature of party politics and, in a shorter time-scale through constitutional reforms to strengthen parliamentary powers vis-à-vis the executive, as well as measures to strengthen the technical capacity of parliamentarians.

**Local government.** Although in theory local and regional government in Kenya have a wide range of responsibilities, they lack the power and resources to play an effective role. A series of constitutional amendments has removed most of the powers of regional and local authorities, and placed them under the direct financial control of the Ministry of Local Government Democracy and

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accountability have been further undermined at the local level by the weakness of leadership, rampant corruption and lack of capacity. Local government has also been particularly prone to patronage politics. For example, MPs and local mayors spend considerable resources cultivating support from local councillors, which is often vital to secure election. In view of these weaknesses local authorities have been unable to respond to poverty. They have failed to maintain local infrastructure and services, lack the capacity or authority to collect revenue, and are prone to unaccountable and self-seeking behaviour.

Depending on the outcome of the constitutional review process, local government may take on much greater functions. The draft constitution proposes a four tier structure of government with direct elections at the central, regional, district and locational levels. Resources would be distributed from the centre in the form of equalisation grants and raised locally through taxation. There are many attractions to the idea of devolution in Kenya, including the potential to strengthen democracy at the local level, enhance participation in politics, strengthen accountability, bring government closer to the people and improve the efficiency of service provision. Because ethnicity tends to be more uniform at the local level, it is possible that decentralisation could create a space for local issue based politics that are not driven by inter-ethnic competition.<sup>44</sup> Devolution would have important impacts on national politics, in particular by limiting the dominance of the executive. It could also introduce greater democracy and transparency into the process of regional resource allocation, which has been a major source of patronage and ethnic bias.

In spite of these attractions, lessons from other countries suggest that devolution is not a development panacea and that it carries inherent dangers. The proposals in the draft constitution are extremely ambitious considering the weakened state of local government and local democracy in Kenya. There are huge challenges ahead in terms of building local capacity and institutions, strengthening local democratic and political processes, raising awareness of democratic rights, tackling local corruption and patronage, defining relationships between central and local government, and ensuring an equitable sharing of resources. There is likely to be considerable reluctance by the centre to cede power to local government, which may increasingly be viewed as a threat by the political elite. The prospects for devolution therefore appear rather uncertain, and the benefits may only emerge in the long-term. However, if handled well, devolution could prove to be an important means to strengthen democratic accountability and service provision.

## **4.2 Public administration**

Kenyan public administration is characterised by widespread ineffectiveness, incapacity and corruption. The causes are deeply rooted in the types of political processes discussed above. Although Kenya has well defined systems of public administration at least on paper, the reality is that implementation is in almost all cases subject to abuse and political interference. The relationships between the political sphere, the civil service, and the private sector are often opaque. As a result public administration has often been diverted away from its stated purposes and has been used to serve private aims.

**The civil service.** While there are some competent and honest individuals within the civil service, in general the level of capacity is low, and corruption is rife at all levels of public administration. The independence of the civil service has been compromised by executive interference and political patronage. The distinction between Ministers as political actors and Permanent Secretaries as civil servants, while clear in theory, has not survived in practice. During the KANU regime, the civil service was frequently reorganised and restructured according to the wishes of the President,

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<sup>44</sup> However, as a result of internal migration within Kenya there are many multiethnic districts where the rights of ethnic minorities would require protection.

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causing confusion, lack of continuity and inefficiency. An authoritarian atmosphere led to an unwillingness to take decisions, even among Ministers and senior officials.

A principal instrument of patronage has been public employment. Recruitments and promotions have usually been carried out according to criteria other than merit, such as kinship, bribery or political patronage. This has eroded institutional competence, and has led to overstaffing (particularly amongst lower cadres) and the high recurrent budget.<sup>45</sup>

Some observers argue that the root of the crisis of institutional capacity can be traced to the 1971 Ndegwa Commission, which recommended that senior civil servants should be allowed to engage in personal business in addition their normal responsibilities. The result has been the neglect of official duties in pursuit of personal business interests.

Since the 1990s there have been repeated donor sponsored attempts to reform the civil service. Although there has been limited retrenchment, the implementation of reforms has been half hearted, and the structural problems within the civil service have not been addressed. Reform has generally been obstructed because systems of patronage make it very hard to sack civil servants and to introduce a working culture based on merit and performance. The NARC government has recently taken some positive steps aimed at reducing corruption in the civil service, most notably the 2003 Public Officer Ethics Act that requires civil servants to declare their assets. However, the broader issues of civil service reform remain to be addressed, in particular the need to rationalise staffing, introduce meritocratic recruitment and promotion, develop the required skill base and establish performance incentives.

**Parastatals.** The parastatal sector has long been a major drain on public resources, and fewer than 10 out of the 139 state corporations operate at a profit. As a key instrument of patronage, parastatals have often been subjected to ‘presidential management’ and have proven to be very resistant to reform. There is still a strong body of opinion in government in favour of retaining parastatals, and progress towards privatisation has been limited. However, there is some sign of progress in reforming and improving the performance of some parastatals, for example Kenya Railways.

**The budget.** While Kenya has in place clearly defined formal budget processes, including an MTEF and PRSP, public expenditure contributes much less than it should to poverty reduction. Weaknesses include:

- Discrepancies between departmental budget allocations and actual expenditures, with the powerful Office of the President and Defence being among the worst over spenders.
- The high recurrent budget (85% of total spending) that is clearly related to overstaffing in the civil service.
- A low and declining share of the budget allocated to capital expenditure. In most years there is a considerable underspend on the capital budget with actual allocations bearing little relationship to approvals.
- The poor quality of public expenditure management, with low completion rates for investment projects, suggesting that accountability mechanisms are weak.
- Very low allocations for local government (around 3% of the national budget).

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<sup>45</sup> Salaries and allowances currently account for around 30% of government spending or 9% of GDP. (Government of Kenya, 2003)

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- Weak or absent budget controls and limited parliamentary oversight.<sup>46</sup>

**Procurement.** The Kenya Government has elaborate procurement rules and procedures in place. Yet, in practice public procurement is one of the main sources of corruption and patronage. The most common abuses include the award of contracts without competitive bidding, the overvaluing of goods sold to government and parastatals, and payments for goods that were never delivered or constructed. They have taken place on such a scale as to waste a substantial proportion of public resources. The rules are often flouted because of the substantial rewards and limited risks involved. Ministerial tender boards are often dominated by a single person or group of individuals with political influence. One of the main culprits in contravening procurement rules has been the Office of the President, a factor that constrains action from other government departments. There is a lack of effective checks and balances in the government machinery and limited capacity to block existing loopholes in procurement rules.<sup>47</sup> For example, Kenya has elaborate accounting and auditing systems to help safeguard procurement rules and detect abuses. However, the Auditor-General has documented numerous cases in which rules have been flouted, but little or no action has been taken.

When it came to power the NARC government took some steps to address corruption in public procurement. Key measures in this regard are the 2003 Anti-Corruption and Economic Crimes Act and the Public Officer Ethics Act, as well as additional legislation on government financial management, public audit and public procurement passed in May 2003.<sup>48</sup> However, press allegations of fresh scandals suggests that the abuse of procurement rules may be very difficult to eradicate.

**Taxation.** Developing an efficient and equitable taxation system is generally considered central to the emergence of a durable relationship between state and citizen. However, in Kenya there is little sense of a social contract between government and citizens over the use of tax revenue. Some key features of Kenya's taxation system include:

- Taxes in Kenya amount to around 22% of GDP, a level that is substantial by the standards of low-income countries, and that supplemented by aid should be adequate to make a large contribution to poverty reduction.<sup>49</sup>
- The tax base is narrow in Kenya, and most of the burden of taxation falls on middle income earners. This is the group that pays income tax, customs and excise duty and Value Added Tax due to their wide and varied consumption patterns.<sup>50</sup> The poor are largely sheltered from taxation because they benefit from tax exemptions on unprocessed foodstuffs and basic fuels.<sup>51</sup>
- Taxation policy and exemptions has been used for political or corrupt purposes in distribution of rewards, benefits and incentives, often favouring the powerful. The Kenya Revenue Authority was rated the fifth most corrupt public institution in the Kenya Bribery Index 2003.<sup>52</sup>
- Companies have been very successful in tax evasion and tax avoidance through corrupt means and lobbying for specific exemptions.

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<sup>46</sup> According to the Centre for Governance and Democracy (CGD) analysis in 1998, of the 1995-96 Controller and Auditor General's report, non-adherence to budgetary controls cost the economy Ksh. 107 billion during the 1995/96 financial year (around 17% of GDP). Almost half of these losses arose from the procurement system.

<sup>47</sup> Ikiara (1999a)

<sup>48</sup> World Bank (2003)

<sup>49</sup> World Bank, *ibid*

<sup>50</sup> Customs and excise taxes, income tax and VAT each make up about 30% of Kenya's total tax revenue.

<sup>51</sup> OPM (2001)

<sup>52</sup> Transparency International Kenya (2004)

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- The state has limited capacity to enforce the rules, and clamp down on tax evasion.
- The decline in donor aid during the 1990s led to a renewed emphasis on domestic taxation.

These points suggest that there is considerable scope for tax reform in Kenya. There is a clear need to improve the efficiency of revenue collection and to reduce the scope for tax evasion and avoidance. Measures to broaden the tax base could help to generate greater public scrutiny and more accountability regarding the use of public funds. For example, if companies could no longer evade or avoid taxes it is likely that they would take a greater interest in how tax money was spent.

Tax issues in Kenya are of great importance, yet are an under researched area. In particular, there is a need for further study of questions such as who is paying and who is avoiding taxes, what are the links between taxation and public accountability, and why there is relatively little public debate on taxation and public expenditure.

### **4.3 The Rule of law**

Over the past few decades Kenya has witnessed the decline of key public institutions, such as the police, the judiciary, the Office of the Attorney General and the Prison Department, that are essential to ensure the rule of law, to uphold contracts, and to ensure security. High levels of insecurity, violence and crime in society have undermined economic growth, social justice and human rights. Where this situation prevails, people resort to extra-judicial means, vigilante behaviour and private security firms. The breakdown in the rule of law has particularly disadvantaged the poor, who are the least able to protect themselves.

**The security situation.** Security is an essential public good, and its absence deters investment and imposes severe costs on businesses. The Kenya Private Sector Alliance estimates that Kenyan firms spend 4% of their operating income on security measures.<sup>53</sup> Some of the key features of insecurity in Kenyan include:

- Politically motivated inter-ethnic violence has plagued the country since 1992, especially during elections.
- In urban centres, many estates are controlled by thugs, and organised mafia-like groups. Burglary and carjackings are also very common in urban areas. In 2001 tensions over a rental dispute led to serious ethnic clashes in Nairobi's Kibera slum.
- Various parts of northern and north-eastern Kenya are effectively beyond state control and the rule of law. There are frequent reports of banditry, cattle rustling and inter-ethnic clashes, and some evidence of involvement by the security forces.<sup>54</sup> Disputes over access to land and water, as well as the proliferation of small arms have fuelled these conflicts.
- Kenya is highly exposed in the war on terrorism by virtue of its association with the West, weaknesses within its security systems, lawlessness in several parts of the country, proximity to failed states, and political, social and economic marginalisation of certain communities.

**The police.** Kenyans are not adequately protected by the police. The police are not only thin on the ground, but also lack the institutional capacity, resources and equipment to address very high crime

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<sup>53</sup> DFID (2004)

<sup>54</sup> See Daily Nation: State officials blamed for insecurity in Northeastern. on June 24<sup>th</sup> 2002 p3

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rates. The Kenyan police are notoriously corrupt, frequently engage in predatory behaviour towards the public, and have often been accused of complicity in crime. The police were rated the most corrupt public institution in the Kenya Bribery Index 2003.<sup>55</sup> Low levels of police pay and inadequate housing provision have undermined police motivation, and make it difficult to address corruption.

Reforms to the police will be essential to improving security in Kenya. An important starting point could be the establishment of an independent police complaints commission.

**The judiciary.** The current state of the judiciary makes it almost impossible for ordinary Kenyans to access justice. Three key explanations have been given for the weakness of the judiciary: (i) the relationship between the judiciary and the executive, (ii) corruption and (iii) inadequate capacity.

The Kenyan constitution provides the president with extensive powers in judicial appointments, and promotions. Executive influence extends from the highest levels, which are directly appointed by the President, to the magistrates' courts, which are controlled by Judicial Service Commission, itself comprised of presidential appointees. Several reports such as the 1999 Kwach Report and the 2002 Report by Commonwealth Judges, point to the dubious nature of appointment processes, political and ethnic bias in appointments. Appointed judges have often been unable to resist executive pressures to intervene in the legal process. Executive powers have been used to lean on non-compliant judges and force resignations. Consequently, the judiciary has been transformed into an institution serving the interests of the executive. Manipulation of the judiciary has often been used to settle political scores, to formalise unconstitutional behaviour by the executive and to expand the scope of executive powers.

Corruption in the Judiciary and its effects on access to justice are well documented in the press and several formal commission of enquiry. The then Attorney-General, Amos Wako noted in 1999 that "the cancer of corruption has invaded the institutions in the administration of justice ...".<sup>56</sup> Bribery is common throughout the judiciary, and is used routinely to purchase a whole range of favours and to manipulate judgements. The poor, who are unable to pay the required bribes, are effectively denied justice.

The efficient operation of the courts has also been hampered by the limited capacity of the judiciary, in particular insufficient resources, staff shortages, lack of skills, inadequate legal records and poor facilities. The result has been that there is a huge backlog of cases in the courts, and the waiting time to bring a case to conclusion typically exceeds three years. The inadequacy of the court reporting system has also undermined the principle of legal precedence, which is the basis of the case law system in Kenya.

The parlous state of the judiciary has become a focus of media criticism and civil society activism. President Kibaki has taken a tough line on combating corruption. Following the damning 2003 Ringera Report, 32 judges have been suspended for corruption and misconduct. There are now much better prospects for establishing a cleaner and more independent judiciary. However, the reform process needs to be taken further than simply replacing individual judges. Judicial appointments should be subject to far greater public scrutiny, in particular the posts of Chief Justice and the Attorney General. Public and parliamentary hearings could become a condition for top level appointments. In order to improve the access of the poor to justice, there is a need to distribute judges more widely around the country, to make access to legal services more affordable, to take greater account of traditional systems of justice, and to engage with issues of particular concern to the poor, for example women's land rights.

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<sup>55</sup> Transparency International Kenya (2004)

<sup>56</sup> See Daily Nation, 10 March 1999. 'Justice dogged by graft says CJ'

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**The informal justice system.** Many Kenyan communities still rely on traditional or informal systems of justice for arbitration on matters such as inheritance, marriage, divorce, grazing and watering rights, and land disputes. The informal justice system is particularly important in rural areas, notably in parts of northern Kenya where the formal system is largely absent. Long delays in the courts and the failings of the police are other reasons why people resort to informal justice. For many poor people, the informal system, flawed as it is (e.g. in relation to women's land rights), constitutes the only real avenue for conflict resolution and management, and protection of property. However, the system is itself coming under stress as traditional social control mechanisms weaken.

**The military.** Kenya has a relatively small, but professional military. One of its most constructive roles has been to stay out of politics, a factor that has contributed considerably to Kenya's post-independence stability. Arguably the military has been overly concerned with tackling limited external security threats. It could play a stronger role in addressing internal insecurity within parts of Kenya affected by lawlessness and banditry. However, this would require changes to the Armed Forces Act. There may also be scope to enhance the developmental and humanitarian role of the military, for example in infrastructure construction and maintenance and disaster response. A refocusing of the military appears justified given that the Ministry of Defence consumes nearly 8% of total government spending.<sup>57</sup>

## **4.4 Land rights**

Land issues have an important bearing on poverty reduction and growth in Kenya. In both urban and rural areas there are huge inequalities in landholdings and the poor often lack secure access to land. The absence of secure property rights has also hampered bank lending and investment with negative consequences for growth.

Addressing land issues in Kenya could prove to be a powerful driver of pro-poor change. However, there are numerous challenges that need to be addressed.<sup>58</sup> In densely settled agricultural areas productivity has declined as a result of the sub-division of holdings into small, fragmented and uneconomic units. Land disputes have become increasingly common as a result of increasing land scarcity coupled with the absence of clear titles and confusion of tenure regimes. In ASAL areas the management of common property resources has come under increasing strain, and land disputes have led to serious inter-ethnic clashes. The subdivision of group ranches is leading to the displacement of pastoralist communities and posing new challenges around access to grazing. Some communities in ASAL areas have also lost access to land within protected areas (national parks). In urban areas the majority of the poor live in illegal slum settlements. Insecure tenure exposes slum dwellers to a risk of eviction, and poses a major constraint to slum upgrading and service provision. Women are particularly disadvantaged in gaining secure access to land. Although women have use rights over the land, very few women hold legal titles. Under traditional customs women cannot usually inherit land. Consequently, they often lose control of land following the death of their husband, an outcome that has become increasingly common as a result of the HIV/AIDS epidemic.<sup>59</sup>

Land issues in Kenya are closely related to broader problems of governance. Land has been central to the system of political patronage as evidenced by the widespread practice of land grabbing and the corrupt disposal of publicly owned land by officials and politicians. Land administration has been characterised by political interference, corruption, incompetence and weak capacity. The legal framework governing land rights is often unclear and enforcement has been weak. Land registration

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<sup>57</sup> Government of Kenya (2003) - Figure refers to 2002/3

<sup>58</sup> See DFID (2003b) for a more in-depth discussion of land issues.

<sup>59</sup> Aliber *et al.*, 2003

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and titling procedures are inadequate, and dispute resolution processes have not functioned effectively and equitably.

Land issues have become more prominent on the political agenda in recent years. In 1999 President Moi appointed the 'Njonjo' Commission of Enquiry into the Land Law System of Kenya. Its recommendations have since been taken up by the Constitutional Review Commission and include the simplification of tenure systems and the creation of new institutions for land administration (e.g. National and District Land Authorities) and dispute resolution (e.g. local dispute tribunals). The NARC government has established a Commission of Enquiry into the Irregular Allocation of Public and Private Land. At the same time it has taken direct action to remove illegally held property. High profile demolitions of illegal properties held by wealthy individuals have attracted popular support. However, recent slum clearances have raised human rights and security concerns. The government is currently undertaking a land policy formulation process, for which it has requested donor support and invited civil society participation.

Land issues have clearly become a more important political issue, and this is reflected in the Economic Recovery Strategy. Yet, it is still unclear whether there is a commitment to introduce far-reaching and pro-poor reforms. The government is likely to face continued pressure on land issues as a result of strong media interest and active lobbying from civil society groups, in particular the Kenya Land Alliance and the Law Society of Kenya.

## **4.5 Ethnicity**

Ethnicity has a much stronger influence on socio-economic and political processes than other categories of social differentiation, such as clan, class, ideology, and religion. There is a close connection between ethnicity and access to political power and economic resources. This is detectable in terms of ethnic variations in income levels, access to markets, goods and services, availability of infrastructure, and even the state of security and general safety.

It is possible to identify around 40 ethnic groups in Kenya, most of which are associated with a particular geographical area. The five largest groups account for over 50% of the Kenyan population, and dominate Kenya's politics and economy.<sup>60</sup> Ethnic identities are rather fluid and have been manipulated by colonial and post-independence administrations for political ends. For instance, President Moi formed new ethnic coalitions to replace the previous GEMA-based Kenyatta regime.<sup>61</sup>

Elites within ethnic groups regard electoral representation, including party formation and subsequent voting, as a means of accessing state resources for onward transmission to 'their own people'. The actual distribution of these resources is demonstrated in appointments to the cabinet, key strategic posts in the bureaucracy, allocation of public budgets for development of socio-economic infrastructure, allocation of opportunities for education and training, and access to financial credit for investment. The presidency, as the chief source of patronage, is the most coveted public office and the focus of intense political struggle. Thus the ethnic group that occupies the position of president expects to gain disproportionately from state resources. The electoral process is a main arena for this competition.

There are strong, although complex, linkages between ethnicity and development patterns in Kenya. Overall an argument can be made that poverty enhances ethnicity and vice versa. Poverty enhances ethnicity in the sense that poor or vulnerable individuals seek assistance from their kin and/or ethnic group, who are socially obliged to respond positively. On the other hand, ethnicity enhances poverty

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<sup>60</sup> The 'big five' ethnic groups are the Kikuyu, Luhya, Luo, Kalenjin and Kamba.

<sup>61</sup> Throup (1987). GEMA refers to an essentially Kikuyu ethnic grouping (Gikuyu, Embu and Mera Association)

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when (a) the ethnic patronage that the state applies creates socio-economic inequality, and (b) ethnicity undermines the efficient functioning of the public service.

The private sector is strongly segregated along ethnic lines. Asian-Kenyans dominate the formal sector, whereas African-Kenyans are most active in the informal sector. Some ethnic groups are particularly associated with certain sectors, a pattern that reflects the ethnic power base of previous regimes. For example the Kikuyu and Kalenjin are well represented in finance and banking. Ethnic patterns may also be observed in the composition and geographical focus of many civil society organisations.

In the very long term, urbanisation may be expected to weaken ethnicity. However, most urban dwellers continue to vote along ethnic lines, and ethnic segregation is still clearly apparent in urban settlement patterns. Education and intermarriage may also have a gradual effect in reducing the influence of ethnicity.

For the foreseeable future ethnicity will continue to be a fundamental factor in Kenyan politics, but there may be ways of promoting its more positive influences. Smaller ethnic groups stand to benefit from the search for alliances from the larger groups, which need their support in the struggle for power. In time these alliances could take an issue-based dimension. Ethnicity may become associated primarily with regions, and thereby some of the negative and emotive feelings that arise from ethnic chauvinism may be downplayed. Because ethnic divisions are not so apparent at the local and regional level, the devolution of political power could help to create the space for more issue-based rather than ethnically-driven politics. Reforms to party funding to ensure national representation could also help to weaken the influence of ethnicity on the political process.

## **4.6 Gender**

Gender inequalities are very evident in Kenya at the family and societal levels in the distribution of roles, access and control over resources, employment patterns and participation in politics. Violence against women is common. Women are more likely than men to be poor, and female headed households are particularly vulnerable. Women also are disadvantaged by inheritance and divorce practices. Although women can legally inherit land in rural areas, traditional customs essentially support a patrilineal mode of inheritance and property distribution. If a married woman is divorced most of the assets, which were initially jointly owned, revert to the husband's possession.

Gender inequalities are also substantial in formal business, although women are very active in the informal sector. Surveys have shown that nearly half of Kenya's micro and small entrepreneurs are women. However, women tend to be concentrated in traditional activities, such as brewing, knitting, dressmaking, basketry and retail trading, for which returns are low. Women microentrepreneurs tend to have lower levels of education and lower incomes than their male counterparts.<sup>62</sup>

In Kenya, as elsewhere, education is essential for improving women's living standards and enabling them to exercise greater voice in decision making in the family, the community, the workplace, and the political arena. Currently, however, levels of education differ widely by gender. Although the number of boys and girls at primary school is roughly equal, boys substantially outnumber girls in secondary and higher education.

Although women remain grossly under-represented in national politics, there are signs of some improvement in women's political empowerment. There are still only six female MPs, but this is a record number. The NARC government has appointed three female cabinet ministers, a better performance than the previous regime. There are a number of explanations for women's new, albeit still modest, visibility in the political arena. Since the restoration of multi-party politics in December

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<sup>62</sup> A 1995 survey conducted by GEMINI in Kenya showed that at least 45% of Micro and Small Enterprises (MSE) entrepreneurs are women. 33% of female owners of MSEs have no education, compared to 10% for men.

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1991, political parties and various interest groups have enjoyed greater political freedom, and a number of women's pressure groups have emerged that have lobbied hard for gender equity and social justice, especially in political representation.<sup>63</sup> There have been significant advances in women's membership of political parties. At the same time there has been a maturing of women's experience in creating and sustaining associations, having been long involved in church related activities, savings clubs, income-generating groups, self-help associations, community improvement groups and many other informal and local organisations and networks. Finally, increased educational opportunities for girls and women have resulted in a larger pool of capable women, who are now in a position to engage in politics.

Despite its growing strength, the women's movement has been criticised on several grounds. The movement comprises mainly of urban-based organisations representing middle class interests, and poor women in rural areas still do not have sufficient voice. In the past some women's organisations have been weakened by political interference and the co-option of women's leaders.<sup>64</sup>

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<sup>63</sup> Perhaps the most remarkable civil society contribution in the late nineties was by the short-lived Kenya Women Political Caucus (KWPC), which was formed with the aim of unifying and strengthening the organisational and delivery capacity of existing women's organisations.

<sup>64</sup> For example, the affiliation of Maendeleo Ya Wanawake to KANU.

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### **5. Agents of Change**

There are many types of agents, who may be able to make a difference to pro-poor growth and political change in Kenya. Their behaviour is to a large extent governed by incentives created by institutions (see chapter 4) and contextual factors (see chapter 3). But in some cases agents, sometimes acting in coalition, can transform these structures. This chapter reviews the nature of the different types of agents and their varying degree of influence on the policy process.

#### **5.1 The State Realm**

There are many types of agents within the state realm that have the potential to bring about change, including the political elite, civil servants, parliamentarians, political parties, local government officials, the judiciary and the military (see the tables in the annex for a complete presentation). Although these actors have generally opposed change, it is possible to identify reformist elements. The role of the political elite is crucial. While Kenya's post independence history presents a very gloomy picture of the self-interested and predatory behaviour of the political elite, the recent change in government demonstrates that individual leaders can bring about decisive change, especially when systems are not strongly institutionalised, as in Kenya. Other actors within the state realm can also support change. For example, within the generally dysfunctional civil service, there are many reform minded officials whose influence appears to be strengthening under the new government. Reform-minded lawyers, and concerned organisations, such as the Law Society of Kenya, have recently shown their activism in the fight against corruption in the judiciary. With the strengthening of Kenya's parliament, MPs are also starting to become important advocates of political change.

#### **5.2 The Civil Society Realm**

**Civil society organisations.** Kenyan civil society is vibrant, well organised, and has demonstrated considerable capacity in performing a variety of service provision and advocacy roles. The main concerns amongst civil society organisations at the national level have been human rights, environmental issues, land issues, gender issues, and anti-corruption and community development.<sup>65</sup> A common feature of civil society organisations in the past has been their common hostility towards government. In many cases they have highlighted human rights abuses and corruption, and have succeeded in applying real pressure on government. A significant shift in relations between civil society and government occurred with the coming to power of the NARC coalition. Some former leaders of civil society organisations have since joined the new government. While this may raise the quality of public administration, many have questioned whether civil society has come too close to power. There is a danger that as key figures move into government, civil society may lose its independence, drive and capacity. However, this risk has probably been exaggerated because the number of individuals taking government jobs has been quite small, and they are likely to be rapidly replaced by a new crop of leadership.

While civil society is a very important agent of change in Kenya, it exhibits several imbalances:

- The most influential civil society organisations are predominantly Nairobi-based with middle class leadership, and limited outreach to the poor and rural areas. While there are numerous organisations operating at the grassroots level in rural areas, they are not well resourced, lack capacity and are not well connected to national organisations. Local particularities and ethnic

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<sup>65</sup> Examples include the Kenya Human Rights Commission, Kituo Cha Sheria (which has campaigned on slum settlement issues), the Citizens Coalition for Constitutional Change, People Against Torture, Release Political Prisoners, Mazingira and the Green Belt Movement (in the forefront of opposition to land grabbing), the League of Kenya Women Voters, the National Commission on the Status of Women, the Education Centre for Women and Democracy, the Federation of Women Lawyers, the Collaborative Centre on Gender and Development, Transparency International Kenya and numerous other international NGOs

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divisions have prevented the emergence of large scale social movements on issues of concern to the poor.

- Civil society organisations, in particular NGOs, have received substantial donor support. While this has helped to develop the civil society movement, there are signs that some CSOs have become more accountable to donors than their grassroots membership, and that their agendas are heavily influenced by donor funding priorities.
- Many civil society organisations are overly dependent on strong leaders, and lack lower level organisational and management capacities. Internal democracy in some civil society organisations is lacking.
- Ethnicity clearly influences the staffing, composition and geographical focus of many civil society organisations, as well as their political influence. There is a need to develop more multi-ethnic organisations with greater national coverage.
- There are not many examples of strong alliances between civil society organisations, and their interests are often opposed. For example, religious groups, human rights NGOs, women's groups and community based organisations briefly joined forces within the constitutional reform debate. However, schisms rapidly emerged, particularly on the issue of reproductive rights and affirmative action.<sup>66</sup>
- There is also a need for closer relationships between civil society organisations, government and the private sector. In the new political climate there is a need to shift away from the previously antagonistic relationship with government towards more constructive partnership. Alliances between the private sector and civil society on issues of common concern, perhaps motivated by a desire for greater corporate social responsibility, could be very fruitful, but existing examples are lacking.
- Links between Kenyan civil society organisations and similar organisations at the regional and global level are generally quite weak.

These points suggest that civil society has great potential as a means to exert pressure on policy makers to bring about pro-poor change. However, the difficulties of organising and representing the poor in order to strengthen their voice should not be underestimated. The key challenge is to encourage the formation of stronger coalitions between civil society organisations and to foster the development of national movements on issues of concern to the poor.

**Trade unions.** Trade unions were seriously weakened during the Kenyatta and Moi era as a result of legislative changes, executive interference in trade union leadership and dispute resolution processes, and the creation of the Central Organisation of Trade Unions (COTU) that has proven to be ineffective and subject to heavy political control. Consequently, trade unions have a limited influence on government and have engaged little in key policy debates.

There are some signs of change in the trade union movement. Under new leadership COTU appears to be more active in engaging with government. Several unions are displaying greater activism, for example the University Academic Staff Union and the Kenya National Union of Teachers. As well as addressing pay concerns, these organisations could potentially have an important influence on education sector reforms more generally. Similarly, trade unions in the sugar belt have great potential to influence government policy towards this troubled sector.

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<sup>66</sup> Maina *et al.* (2003)

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Trade unions have some potential as agents of change because they tend to have a multi-ethnic membership and could become strong negotiating partners with government. However, it should be recognised that trade union membership is quite low and restricted to the formal sector. In order to meet their potential, trade unions need stronger leadership and to develop the capacity to articulate interests, form coalitions, analyse legislation and engage in policy dialogue.

**Academic and policy research units.** Universities and other tertiary institutions have a crucial role to play in creating a well educated and enlightened elite espousing universal and democratic values. They are essential for the training of professions to fulfil public service and private sector roles. Research and teaching on development issues also contributes to the quality of the policy process.

During the 1970s Kenyan universities played a progressive role in spearheading debate on democracy, ethnic parochialism and national identity. Unfortunately, over the past twenty years public universities and polytechnics have degenerated as a result of political interference (particularly in high level university appointments), poor staff remuneration and inadequate funding. During the 1980s the universities played an important role in standing up against the entrenchment of the one-party state. However, this activism came to an abrupt end following a sustained period of repression that saw the detention and exile of many lecturers and the co-option of others.

Kenyan universities have not fulfilled their potential as centres of research and innovation. A particular gap is research on poverty issues, where universities could play a much more important role in informing the policy debate. There are relatively few Kenyan academics working in these fields, and research and teaching is mainly restricted to the Institute of Development Studies at the University of Nairobi.

Outside of the universities, there are a number of institutions with stronger research capacity in poverty issues. These include the Kenya Institute of Public Policy Research and Analysis (KIPPRA), the Institute of Policy Analysis and Research (IPAR) and older science based institutes, such as KARI, KEMRI, KEFRI, KIRDI and ICIPE.

The tertiary education sector appears chronically underfunded and in long-term decline. The recent lecturers strike has drawn attention to the very low levels of pay and staff morale within universities. However, it will be very difficult to find the resources to strengthen the tertiary sector, especially at a time when resources have been stretched by the free primary education policy.

**Faith groups.** The main potential of faith groups as an agent of change is that they have enormous outreach in areas where other civil society organisations are not present. Faith groups have traditionally been concerned with the welfare of the poor and have sometimes spoken out on policy issues. However, they have not acted as a unified force because of ethnic, sectarian and political divisions. As a result of historical factors different religious groups are present in different parts of the country, and are closely associated with particular ethnic groups. Depending on their ethnic affiliations, religious groups have often become caught up in pro-government or pro-opposition politics.<sup>67</sup>

At certain times in Kenya's recent history faith groups have played an important role in mobilising support for political reform. For example, they were active in pushing for multi party democracy and the present constitutional review. At the local level faith groups have been active in promoting civic education and community participation in local issues.

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<sup>67</sup> For example, during the Moi regime Catholics and Anglicans were viewed as hostile to the government because they represented Kikuyu, Luo and Luhya groups. On the other hand the African Inland Church and the African Gospel Church representing Ukambani and Kalenjin areas were much more supportive of the regime.

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Religious organisations have been heavily engaged in the provision of health and education services. In many cases they acted as a substitute for services that were not provided by the state. Consequently the religious sector has suffered from the perception that it has simply moved in to fill a gap without mobilising local communities to demand that the state should meet its responsibilities in providing basic services.

**The media.** Some sections of the Kenyan media have acted as agents of change because of their role in exposing corruption and poor governance, and galvanising public opposition to the previous government. The media plays an important role in disseminating information that is vital to ensure public accountability.<sup>68</sup> The relative freedom of the press and its role in disseminating information is a positive factor that should help Kenya's long-term prospects for political change.

The media in Kenya can be divided into four groups: (i) government owned, nationwide broadcasting (Kenya Broadcasting Corporation), (ii) the mainly foreign owned Nation and Standard groups, which together control much of the print media and TV market, (iii) independent newspapers, magazines and TV stations, and (iv) the so-called 'gutter press'. The degree of independence and quality of reporting varies between these different groups. Small independent magazines and newspapers as well as the 'gutter press' have been the most critical of government. However, the Nation and Standard groups have also been willing to publish stories on corruption once these have entered the public domain.

The Kenyan media has been subject to considerable official harassment and attempts at control. Journalists and media owners have been arrested and attacked, and their offices raided. The Moi regime imposed severe legal restrictions on the press including harsh laws on sedition and libel, as well as onerous licensing, taxation and duty requirements. There have also been worrying instances of press harassment under the NARC government.

There are a number of important internal weaknesses in the Kenyan media. There is often a tendency for amateurish and sensationalist reporting, and few journalists are equipped with adequate skills in investigative journalism. The ethnic orientations of some newspapers sometimes blur objectivity. Media coverage in Kiswahili and other Kenyan languages is much weaker than in the English language, mainly because Kenyan language papers have a weak financial position and cannot afford libel costs. In rural areas the majority of the population only have access to KBC radio broadcasts, and there is a lack of independent alternatives.

### **5.3 The Private Sector**

The Kenyan private sector has great dynamism and could act as an important source of pressure on government. However, it has not met its potential in influencing public policy and public expenditure. There are numerous issues of common concern to Kenyan businesses where effective lobbying could make a difference to pro-poor change, for example corruption, HIV/AIDS, insecurity, service delivery and infrastructure. However, the private sector has rarely spoken out on these key issues.

The private sector in Kenya has not been able to form an effective and organised lobby group because it is highly fragmented and pursues different interests. There are clear ethnic divisions in private sector activities that reflect historical factors. For example, the majority of medium and large scale enterprises are owned by Asian-Kenyans or foreign companies. Africans, who during the

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<sup>68</sup> For example, court proceedings are often reported in the newspapers verbatim. During the 2002 elections, citizen radio relayed the results from each polling station, pre-empting any possibilities of vote rigging.

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colonial period were excluded from manufacturing and distribution activities, are now mainly present in the informal sector. However, since independence African political elites have been able to acquire important business interests. Ethnic divisions have defined the membership of various business associations. For example, the Chamber of Commerce principally represents African business interests, whereas the membership of the Kenya Association of Manufacturers is dominated by Asian-Kenyan and foreign companies.

Although there are numerous business associations within the formal sector in Kenya, cooperation between them has been limited.<sup>69</sup> Their lobbying effort has mainly been directed at securing sectoral interests, such as trade protection for final products, tariff reductions on raw materials, and specific infrastructure investments. Such influence is not always in the wider public interest, and has resulted in a plethora of confused policies and tax concessions. In some cases conflicts of interests have arisen between business associations. For example, the Kenya Association of Manufacturers has often argued for protectionist trade policies, while the Eastern Africa Association has lobbied for open trade policies. There have recently been attempts to establish more coherent structures to represent interests across all sections of the private sector. Recently, the Kenya Private Sector Alliance (KEPSA) has been formed as an apex body incorporating 30 business associations with the aim of creating a platform for dialogue with government. While this is a promising initiative, it is proving to be very challenging to resolve conflicts of interest and agree on a common agenda.

One of the main limitations of the private sector in Kenya as a driver of change is that business has become too close to politics. A large section of Kenya's business community could be described as a 'comprador class' that benefits from rents secured through seeking influence over the way the state operates. This relationship was formalised by the Ndegwa Commission Act that allowed politicians to establish private companies. Consequently, private sector influence has often been used to secure individual advantages, such as tax exemptions, the award of government contracts, or the ability to evade regulatory constraints. In many cases this influence has been achieved through the payment of bribes or funding of political parties.

Under these conditions there is little incentive for Kenyan businesses to challenge the status quo. For example, there is little reason for Kenyan businesses to challenge the nature of taxation system and the poor quality of public services because they have been so successful at evading taxes. Similarly, private sector criticism of the deteriorating state of infrastructure is likely to be muted because the private sector has benefited so much from corrupt public infrastructure contracts. Such contradictions are a major inhibitor of reform, and point to the need to reconfigure incentives, so that it becomes in the interest of businesses to demand a more enabling environment for private sector growth.

So far only the formal private sector has achieved significant political influence. The informal micro-enterprise sector is for the most part unorganised. Although there are some informal sector associations, their membership and operational capacity are limited.<sup>70</sup> This is a consequence of the great diversity of the sector, the transient and precarious nature of many informal enterprises and collective action problems inherent in organising large numbers of small-scale entities. The cooperative movement is another important element of the private sector. However, its influence has considerably weakened over the past thirty years as a result of incompetent and corrupt management, heavy political interference and inappropriate donor-funded programmes.

In spite of the current weakness of the informal sector and cooperatives, it is important to recognise their potential as agents of change. Cooperatives in particular could become an important source of political pressure by virtue of their huge membership that exceeds six million. There are numerous

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<sup>69</sup> For example, the Kenya Association of Manufacturers, the Kenya National Chamber of Commerce, the Kenya Bankers Association, the Employers Federation and the Eastern Africa Association (representing foreign investors).

<sup>70</sup> Kimenyi (2001)

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other institutions outside of the formal private sector, whose role needs to be more fully recognised, such as juakali associations, savings and credit associations and harambees.

## **5.4 Donors**

Net inflows of ODA fell sharply from over \$1 billion per year in the late 1980s to \$311 million in 1999, but have since begun to increase slowly.<sup>71</sup> Kenya is much less dependent on foreign aid than neighbouring countries. The ratio of net ODA to GNP was just 4.4% in Kenya in 2001, compared to 13.6% in Tanzania, 13.7% in Ethiopia and 17.1% in Uganda. Kenya's dependence on donors is limited because it has a relatively high revenue ratio, with government able to raise revenues of around 22% of GDP from domestic sources excluding aid. Only a small portion of aid flows through the government budget, and the majority of aid is channelled through donor managed projects or NGOs.

The decline in the level of aid spending in Kenya might suggest that donor influence is rather limited. However, it is overly simplistic to consider donor influence purely in terms of aid ratios. Many donors emphasise their role in making policy knowledge and international best practice available in developing countries. The new government is probably more receptive to donor influence, not least because there is the prospect of much higher aid levels if Kenya can transform itself into a well performing aid recipient.

Donors have achieved varying degrees of influence using different aid instruments. Attempts to 'buy reform' through conditional loans have been particularly ineffective. In discussing the structural adjustment experience of the 1980s and 1990s, the World Bank report 'Assessing Aid' notes that the Kenyan government was particularly skilful in manipulating donors. Its strategy was to accept conditional loans, backtrack on reform, and then to offer limited concessions to allow a new round of lending.<sup>72</sup> While these programmes probably did achieve some results in Kenya, for example, in promoting trade and agricultural liberalisation during the 1990s, their impact was far more limited than the IFIs had hoped. In some cases the availability of donor funds may have slowed down reform in certain key areas, for example by providing the resources to sustain inefficient parastatals and civil service overstaffing.<sup>73</sup>

Project aid has delivered some visible results in Kenya, and has allowed donors to continue operating in an adverse policy and institutional environment. However, donors achieved limited influence through the project approach, which could not address broader policy issues and often created parallel structures outside of normal government institutions.

Technical assistance has had very mixed results in Kenya. Success is only likely when TA is implanted in institutions that are receptive to external ideas. In many cases TA has been deployed in dysfunctional institutional settings and highly politicised environments where individual experts can make little difference.<sup>74</sup>

In response to the deteriorating policy environment in Kenya in the 1990s, many donors shifted away from providing support to government to funding Civil Society Organisations (CSOs). While there were some achievements, large-scale donor funding has created a number of distortions that are

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<sup>71</sup> OECD DAC database

<sup>72</sup> World Bank (1998). The 'Assessing Aid' report states that the World Bank provided aid to purchase the same set of agricultural reforms on five separate occasions.

<sup>73</sup> O'Brien and Ryan (1999)

<sup>74</sup> A well-known example of this problem is the 'so-called' dream team - a short-lived initiative on the part of government in 1999-2000. A number of high level government positions were filled by reform-minded individuals, who were mainly drawn from the private sector. Despite high donor expectations, very little was achieved because members of the team were rapidly alienated or became part of the dysfunctional institution themselves.

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discussed above. Some donors express concern that civil society has been over funded, leading to the proliferation of NGOs with little purpose other than to gain access to donor funds. Despite this there are numerous examples of highly effective partnerships between donors and CSOs that have strengthened pro-poor service provision and policy advocacy.

The main explanation for the varying effectiveness of aid and strength of donor influence lies in the nature of incentives created by the aid environment and how they interact with incentives facing policy makers. Structural Adjustment Credits were intended to 'buy reform', but did not provide sufficient incentives to counter strong vested interests in maintaining policies and institutions that facilitated rent seeking. The funding of civil society organisations generated incentives for CSOs to focus their energies on attracting donor grants rather than responding to grassroots demands. The project approach has failed to create any incentives for government to address policy and institutional reforms, and instead may have had the counterproductive effect of allowing government to ignore its responsibilities. Technical assistance has tended to be driven by donors without adequate consideration of actual demand for TA and the incentive structures within institutions that block change.

The incentives operating within aid organisations also partly explain the limitations of donor influence. Many of the weaknesses of aid programmes can be linked to internal incentives, including the pressure to disburse funds, to achieve short-term wins, to gain visibility, to avoid risk and to maintain control over resources. These factors militate against the ability of donors to take a long-term view of institutional and governance problems. They are also an obstacle to strengthening coordination with other donors, and developing deeper partnerships with government, which could help to strengthen donors' collective influence.

An important lesson for donors is that the objectives and instruments of donor support need to be compatible with the incentives operating within government and civil society in Kenya. This will require a better understanding of institutions and governance, and the incentives that impel agents to act in certain ways. It is important to recognise that incentive structures are not fixed, and may evolve rapidly. The rules of the game in donor-government relations that held during the Moi era may not apply to the NARC government, and there may be opportunities to try new approaches. In this context several donors are considering introducing budget support as a means to strengthen government ownership, integrate aid resources into national budgets and enhance donor coordination.

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# **6. Synthesis**

The main explanation for Kenya's disappointing development performance is its deep rooted problems of governance. The political elite have been able to capture public institutions and resources to serve their private interests. Power is heavily concentrated, highly personalised, and is maintained through a complex web of patron-client relationships based on interpersonal, kinship and ethnic ties. In these conditions corruption has flourished and the capacity of public institutions to deliver public goods and pro-poor services has been substantially eroded. There is little sense of public accountability, and the rights of citizens to demand better performance from their leaders.

It is important to recognise that Kenya is by no means the only country to suffer the governance failures and predatory behaviour described here. In many countries, however, corruption appears able to coexist (at least for a time) with moderate or even successful economic performance. What is striking in Kenya is how far the abuse of power over public institutions has proved to be incompatible with, and has undermined, economic growth and poverty reduction.

Improving governance in Kenya will require changes to the nature of the incentives and restraints facing the political elite. In general, the incentives facing Kenyan leaders have been to enrich themselves and to bolster their support bases by building relations of patronage. Restraints against predatory behaviour have been largely absent. The fundamental challenge will be to shift incentives and restraints so that pro-poor policy change becomes in the interest of the elite. There are numerous processes that can contribute to such a transformation. Broadly, they can be grouped into five areas:

### **Creating demand for change.**

In the past, reforms have usually occurred when the elite has come under sustained pressure from interest groups. A key challenge will be to strengthen the voice and organisation of all citizens, the poor in particular, to exert pressure on the elite. Such pressure can come from a number of sources:

- **Changing expectations.** The expectations that people have of government and elected officials relate more to getting access to short-term, tangible and ad-hoc benefits on a personal, local or ethnic basis, rather than improvements in policies and public service provision. There is a need to change people's expectations of government. Civic education programmes play an important role in this regard. Universal Primary Education could also prove to be a powerful entry point for creating awareness of rights and raising expectations of government.
- **Social and economic trends.** The social and economic trends discussed in chapter three affect the environment for policy making in fundamental ways. For example, the pressures of competition arising from globalisation and regional integration create new interest groups, and increase the economic and political costs of bad policy. The trend towards a more urbanised and better educated population is likely to lead to a more politically aware and active electorate that can apply greater pressure on the political leadership. Most of these processes are gradual and long-term, but can create powerful new political forces.
- **Change agents.** The potential of different types of change agency to apply pressure on government has been analysed in chapter 5. Certain types of change agents have already achieved significant influence, such as some civil society organisations, faith groups and the media. However, there are also areas of unrealised potential, such as private sector organisations, political parties, trade unions and academia.
- **Building coalitions.** The formation of alliances between interests groups can greatly increase their political influence. However, in most cases change agents in Kenya have acted independently of each other, and there are few examples of active coalitions and broad social movements.

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### **Strengthening response to demand.**

Even where there is a strong demand for change, the political system and government bureaucracy may not be able to respond. It is important to work on the following areas:

- **Reforms to the party political system.** At present political parties respond mainly to ethnic demands rather than concerns about policy issues. New rules on party funding and geographical representation could help to bring about a change from ethnically-driven to issue-based politics.
- **Political devolution.** Notwithstanding the potential pitfalls of devolution, there are real opportunities to strengthen local democracy and government. This could bring government closer to the people, enhance local participation and accountability, and create a political space where ethnic competition will be a less prominent issue.
- **Public sector reform.** At present there is an enormous gap between the demands of citizens and the capacity of government institutions to deliver public services. Public sector reform and institutional strengthening will be essential to tackle poor performance.

### **Creating broader public accountability.**

At present accountability is based on patronage and clientelism rather than a sense of responsibility to society at large. A key challenge will be to create accountability to all citizens. The following are key requirements:

- **Access to information.** Public accountability requires access to good quality, objective information on government policies and performance. There is a need to ensure greater transparency in government, to publish detailed public accounts, to support watchdog organisations and to maintain press freedom.
- **Restoring democratic checks and balances.** Executive interference has undermined the independence and capacity of the civil service, parliament and judiciary, thereby removing the checks and balances that are essential to prevent the abuse of power. It will be essential to redefine these relationships and rebuild key institutions of government. A number of priorities have been highlighted by this report, most urgently to cleanse the judiciary, to rebuild the capacity of the parliament, and to restore the independence, integrity and competence of the civil service.
- **Strengthening other institutions of accountability.** There are many other key institutions that are vital for public accountability and require strengthening, such as the Auditor-General, anti-corruption bodies, the Electoral Commission and a possible police complaints commission.
- **Tackling corruption.** The institutional and policy framework has created particular opportunities for rent seeking and corruption. In order to reduce the 'patronage pie' there are a number of key institutional and policy reform priorities, including (i) clarifying the role of government and privatising non-core functions, (ii) civil service reform and retrenchment, (iii) regulatory reforms to reduce opportunities for rent seeking and individual discretion, (iv) improved procurement procedures, (v) clearer rules on political and civil service appointments, and (vi) repealing the Ndegwa Commission Act.
- **Broadening the tax base.** The sources of government revenue and the nature of taxation systems influence the strength of public accountability. A widening of the tax base in Kenya may help to develop a sense of 'social contract' over the use of tax resources.

### **Changing elite perceptions**

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The elite have generally opposed pro-poor change where this threatens their interests and sources of patronage. However, elite perceptions of poverty can change under certain conditions making pro-poor change more likely. In Kenya, for example, the elite's fear of crime could bring greater attention to social causes of crime and the need to tackle inequality and poverty. Business leaders may increasingly draw attention to problems of HIV/AIDS and worker's skills out of a concern for productivity. More generally it is important that the elite come to perceive their fortunes as being linked to Kenya's growth performance rather than opportunities for rent-seeking.

### **External sources of influence**

While political elites primarily respond to domestic pressures, external actors also exert influence. Some important agencies include:

- The East African Community will have an important influence on Kenyan politics by creating new institutions above the national level, bringing closer ties between leaders, governments and citizens, and by drawing attention to Kenya's development performance in relation to that of its neighbours.
- NEPAD will expose Kenya's leaders to peer review, and could become a significant source of pressure.
- Peer pressure is also applied through the Commonwealth.
- As a result of competition for foreign investment foreign investors are starting to have an influence on government policy.
- Since the change of government, donors are regaining influence.

## 7. Implications for donors

This chapter discusses the implications for donors that arise from the analysis of drivers of change. It is divided into two parts. The first considers specific priorities for donor programmes that relate to particular drivers of change. The second presents more general lessons on how donors should manage their aid programmes to achieve maximum influence.

### 7.1 Priorities for donor support

The tables in the annex provide specific recommendations for donors relating to each of the drivers of change discussed in this paper. The large number of recommendations points to a broad agenda for donor support. It will be important to be selective in defining donor priorities, in order to identify which of the many suggested actions are most likely to promote pro-poor change. In identifying these priorities it is important to consider several criteria, in particular: (i) the potential impact of donor support on the policy process, (ii) political feasibility, and (iii) whether immediate donor support is possible, or whether substantial preparatory work is required. According to these criteria the following priorities are suggested:

#### Immediate priorities

The following actions are considered to be immediate priorities where there is already an opportunity for donor engagement, and where domestic political support is relatively strong.

- **Support to parliament.** There appears to be a major opportunity to support Kenya's parliament, which has regained its authority and assertiveness in recent years. Donor support could usefully be provided to build capacity, in particular by strengthening research capabilities, providing documentation facilities, and by promoting networks and exchanges between Kenyan MPs and parliamentarians in other countries. A major priority will be to build the capacity of parliamentary committees to perform vital functions, in particular the oversight of public expenditure.
- **Restoring other democratic checks and balances.** Following recent actions to cleanse the judiciary donors need to continue to support reforms and capacity building in the justice sector. An important priority will be to improve access to justice for the poor, and in relation to key issues, such as land and natural resource disputes. There are other important institutions that provide checks and balances where donor support could usefully be provided, for example the Auditor-General, Electoral Commission and civil society organisations providing a watchdog function.
- **Tax reform.** There is a need to broaden the tax base in Kenya and to clamp down on tax evasion and tax avoidance. This would be more equitable and could help to generate greater public scrutiny and more accountability regarding the use of public funds. There are signs of growing political interest in tax reform, suggesting that there is an opportunity for donors to support such issues.
- **Universal primary education.** The government's policy of free primary education has made the goal of universal primary education feasible, and has attracted considerable donor support. Universal primary education is likely to have a significant impact on poverty in its own right. It will also strengthen demand for change by creating greater awareness of democratic rights and raising people's expectations of politicians and government.
- **Land reform.** The government's recently launched land policy formulation process presents an opportunity for donor support. If handled correctly, land reform could make a significant contribution to growth and poverty reduction. Priorities for donors include:

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- (i) Supporting land policy formulation process through policy analysis, technical assistance and making international best practice available.
  - (ii) Continuing to support civil society organisations concerned with land issues.
  - (iii) Advocating more secure land rights for disadvantaged groups, in particular slum dwellers, women and pastoralists.
  - (iv) Strengthening land governance at national and local levels.
- **Regional integration.** Recent progress in the development of regional organisations, such as EAC, COMESA and NEPAD, have important implications for Kenya's trade, growth and development. In addition, Kenyan leaders will be exposed to increasing intergovernmental contacts and peer review. They are likely to be increasingly concerned about the country's reputation abroad, and Kenya's competitive position as a regional hub and gateway to East Africa. All of these factors are likely to have a positive impact on policy making. There are considerable capacity building and institutional development needs related to regional integration that donors can support.
  - **Supporting private sector organisations.** There is significant potential for private sector organisations to play a stronger role in advocating policy change. There are several policy areas where the interests of the private sector are likely to coincide with the poor, including anti-corruption, improved security, combating HIV/AIDS, education and improving infrastructure and service delivery. Priorities for donor support include:
    - (i) Selective support to business associations to promote advocacy work. Core funding should generally be avoided.
    - (ii) Promoting research on specific issues affecting the private sector by industry associations and research institutes.
    - (iii) Encouraging private sector organisations to campaign on big issues of common interest by supporting capacity for joint action, networking and evidence based advocacy.
    - (iv) Exploring options to support the development of informal sector organisations and cooperatives.
    - (v) Recognising the potential for coalitions to emerge between business, civil society and the poor on specific issues. There is particular scope to encourage such alliances at the local level.
    - (vi) Advocating institutional and regulatory reforms to ensure a greater separation between business and politics.
    - (vii) Promoting improved corporate governance and business ethics as a means to reduce corruption and patronage.

### **Other priorities**

The following actions are particularly relevant to promoting pro-poor change in Kenya. However, immediate action may not be possible because of the need for preparatory work and to build political ownership.

- **Devolution.** The constitutional review has proposed an ambitious plan for political devolution and administrative decentralisation that could help to strengthen democratic accountability and pro-poor service provision. Depending on whether the proposals are accepted by government, there may be opportunities for donor engagement, for example by supporting capacity building and institutional development, civic education and electoral processes. It will be important to apply lessons learned in other countries and to recognise the potential pitfalls of devolution.

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- **Civil service reform.** The low level of capacity and competence of Kenya's civil service is a major constraint to pro-poor growth. This has largely arisen as a result of the influence of patronage and executive interference on recruitment processes and administrative procedures. Public sector reform, including rationalisation, is urgently required, but is politically unpopular because of its employment implications. However, public sector reform will be essential to restore the ability of government to deliver public goods and pro-poor services. Donors should continue to explore possibilities to support civil service reform, by promoting improved performance management in the near term, and continuing to advocate rationalisation in the longer term. Retrenchment could become more politically acceptable if carried out in a well sequenced and transparent manner, free of ethnic bias, and accompanied by an adequate compensation package.
- **Security sector reform.** Serious problems of crime and insecurity in many parts of Kenya point to the need for comprehensive security sector reform to improve the performance of the police and the army. Stronger government commitment to addressing key blockages, such as corruption in the police force, will be required before donors can step up their engagement in this sector.
- **Political parties.** The nature of political parties is a major obstacle preventing the emergence of issues based politics in Kenya. Donors have been rather reluctant to engage with political parties in the past. However, there may be scope to support the development of national, issue-based political parties, for example through capacity building and twinning programmes with political foundations in other countries. This support should be provided in an equitable and cross party manner in order to avoid the impression of donors taking a partisan position.
- **Media.** Although the English language press probably does not require donor support, there is a need to improve access to independent media (in particular radio) in rural areas.
- **Universities and research institutes.** Underfunding of universities and research institutes may be undermining local research capacity and Kenya's ability to create a well educated and enlightened elite. Donors need to more fully acknowledge the role of tertiary education and research in strengthening the policy process.

### **Research needs**

This study has provided a broad assessment of the main features of drivers of change in Kenya, but has also left many questions unanswered. Some issues raised by this report that merit further research include:

- The political dimensions on the HIV/AIDS crisis.
- Political economy issues in the agricultural sector.
- The nature of revenue mobilisation and its links to public accountability.
- Politics of the budget process.
- Prospects for civil service reform.
- The connections between insecurity and weak governance.
- Prospects and pitfalls in strengthening local government and local democracy.
- The links between good governance and improved environmental and natural resource management.
- How the private sector can play a more positive role in promoting policy change.

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### **7.2 General lessons for aid management arising from drivers of change analysis**

The following paragraphs present some general lessons emerging from the study that have broad implications for the management of aid programmes in Kenya. Recommendations are provided in the form of bullet points.

1. The key to achieving pro-poor change will be to alter the nature of incentives to encourage those in power to act in more developmental ways. The incentives operating within government should be a major focus of attention. However, it is also essential to analyse how these incentives respond to pressures arising from the broad configuration of actors in the private sector, civil society and development agencies.
  - Consider the incentive environment in the design of all policies and programmes. An analysis of political incentives and risk should be carried as a matter course for all interventions.
  - Focus on supporting change processes within government, but enhance pressure for change by further developing partnerships with actors in the private sector and civil society.
2. A long-term view needs to be taken of the processes of political, economic and social change in Kenya, and in particular the underlying structural and institutional factors:
  - Recognise the time scales for different types of reform and change processes. While some reforms may deliver benefits in the short term, many types of change process demand long time perspectives, stretching well beyond the donor programming periods, and even beyond the 2015 target date for the MDGs.
  - Consider the appropriate time scale and sequencing of reforms. Be realistic about the immediate goals for better governance within donor programmes.
  - Ensure that the incentives operating in donor organisations, and the design, implementation and monitoring of donor programmes are consistent with the long time scale required for pro-poor development.
3. Politicians respond primarily to domestic political and economic pressures, and development agencies have rather limited direct leverage on government.
  - Be realistic about the degree of direct influence exercised by donors. Limit the number of policy areas where donors expects to achieve influence to a few key areas where there are good prospects for change.
  - Focus support on the government's own stated priorities where these are consistent with poverty reduction goals.
4. In the past reforms to the state have largely come about in response to pressure. Change mainly occurs when interest groups can articulate strong demand for reform. This demand arises through initiatives and lobbying by citizens and private businesses (formal and informal) working individually and through associations.

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- Recognise that indirect means for donors to influence government by supporting civil society and private sector groups may be more effective in the long-term than attempts by donors to apply direct leverage on government.
  - Be prepared, as far as is consistent with respecting Kenya's sovereignty, to provide support to elements of Kenya's society that are able and willing to sustain pressure on the government for improved performance.
5. Pro-poor change may occur through interventions directly targeted at poor people. However, the focus of intervention should not be exclusively on the poor. A broad range of actors may be instrumental to create pressures for pro-poor change. In Kenya pressure for change has often emerged from the urbanised, well-educated, middle classes.
- Take a broad view of pro-poor change, continuing to recognise the importance of institutions that are necessary for the wider public good and not only for poor people.
  - DFID's focus on poverty reduction should not preclude working with non-poor groups where these groups exert pressure for political change that is broadly supportive of pro-poor development.
  - Where their interests coincide encourage the development of coalitions between poor and non-poor groups in order to enhance the pressure for change.
  - Take a holistic view of education systems, recognising the vital role of primary education in creating an empowered citizenry, but also acknowledging the contribution of tertiary education and research to creating a well informed elite and strengthening the policy process.
6. An important strategic priority is the development of a civic culture and empowered citizenry that is able to engage actively in social, economic and political processes.
- Target interventions to empower vulnerable groups including women, the urban and rural poor, the disabled, pastoralists etc.
  - Continue to support civic education initiatives to build awareness of rights and responsibilities.
7. Donors should continue to work with a diverse range of actors in government, the private sector and civil society, and might perhaps even widen their support to include, for instance, political parties, trade unions and the media. Given the diversity of all these categories (ranging from excellent to corrupt or ineffective), there is a need to ensure that donor agencies are well informed on the strengths and weaknesses of potential partners.
- On a sustained basis ensure that the necessary understanding of the range of local partners is kept up to date.
  - Maintain an awareness of the possibilities for coalitions for change, and seek them out as part of the design of individual programmes.
  - Ensure that donor staff are given the space and incentives to get out of the office and to engage on a sustained basis with a wider cross-section of Kenyan society.
8. Aid management has been very problematic in Kenya for some 25 years. Generous aid in the 1970s and 1980s arguably enabled necessary reforms to be avoided, and conditionality was largely ineffective. There are many lessons relevant to the current context now that aid levels are again increasing. While aid effectiveness will depend principally on the nature and performance of the new government, there is much that development agencies, individually

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and especially collectively, can do to manage the inevitable trade-offs between the demands of responsible aid management (which requires pressure for change) and being perceived to interfere in Kenya's policy process.

- Sustain the effort to support local ownership and accountability of reforms, minimising as far as possible the risk of reform agendas being seen as donor-imposed. Perhaps develop a communications strategy around the policy dialogue, taking professional PR advice as necessary.
  - Continue to emphasise ex-post rather than ex-ante conditionality, rewarding broad government performance rather than the narrow meeting of specific conditions.
  - Recognise that in the case of past administrations conditionality failed for several reasons including: the government's correct assessment that donors were most unwilling (primarily for geo-political reasons during the Cold War) drastically to reduce aid; and differences among the donors which allowed them to be played off against each other. Be prepared therefore to establish principles of cooperation with the new government based inter alia on (a) a recognition that earlier practices of routinely breaking agreements is not compatible with partnership, (b) close donor collaboration, and (c) a greater willingness to reduce aid flows if this is warranted by considerations of aid effectiveness.
  - Be alert to the risk that engagement in the war on terror leads again (as occurred during the Cold War) to sustaining financial flows to Kenya which could undermine pressure for reform.
  - Engaging with governance issues will require close coordination between donors. This is regarded as good practice in aid management, but is cumbersome and time-consuming. Find ways of weakening the negative incentives, principally within donor agencies, that hinder aid co-ordination and joint action.
  - Seek to influence other development partners in order to strengthen common understanding on the causes of underdevelopment in Kenya. Involve other donors in evolving thinking on Drivers of Change, both through dissemination and perhaps through joint research.
9. Donors are themselves subject to constraints and incentives that may adversely affect their ability to engage with the governance agenda. Issues include:
- In the context of increasing aid spending in Kenya, incentives to disburse increasing sums of money may overload local institutions through providing funds on a scale that exceeds their management capacity.
  - Some of the interventions implied by the Drivers of Change agenda involve an intensive use of staff time, and may disburse modest amounts. There may be ways of achieving economies in the use of staff by aggregating small activities within a larger programme.
  - Ensuring that staff management is compatible with the development of in-depth understanding of the Kenyan political economy. Issues will include keeping staff turnover to reasonable levels, ensuring an appropriate balance between expatriate and Kenyan staff members, and having access to necessary political and historical knowledge.
10. DFID Kenya is proposing to move towards general budget support. While this may allow stronger engagement in a number of cross cutting governance issues, and should help to strengthen mechanisms of public accountability, there are significant policy and fiduciary risks.

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- Given the political-economy context, introduce general budget support gradually alongside other aid instruments, and increase levels of support according to agreed performance measures and trigger events.
11. The drivers of change approach is useful for identifying types of actions and behaviour that donors should avoid. A "don't do" list for donors in Kenya would include:
- Don't undermine incentives for change by providing resources to delay reform.
  - Don't inadvertently undermine public accountability by imposing excessive conditionality.
  - Don't support interest groups representing narrow constituencies.
  - Don't support institutions that are thoroughly dysfunctional or oppressive, and where there is no evidence of domestic momentum behind reform.

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## Annex – Summary of the main drivers of change in Kenya

A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	Globalisation, trade and investment	<p>Disappointing export performance, and continued dependence on a few primary commodities.</p> <p>Gradual loss of competitiveness in most sectors.</p> <p>Low level of FDI inflows. Discouraging environment for foreign investors.</p> <p>Gradual opening of the economy over the past two decades.</p> <p>Strong performance in a few export sectors, notably garments and horticulture.</p>	<p><b>Growth</b> Intensified competition resulting in the concentration of growth in sectors of comparative advantage.</p> <p>Decline of uncompetitive producers.</p> <p><b>Empowerment</b> Spread of ideas across borders.</p> <p><b>Access to markets, assets and services</b> Improved access to global markets and capital.</p> <p><b>Security</b> Vulnerability to world market fluctuations.</p> <p>Improved access to food.</p> <p>International terrorism</p> <p><b>Environment</b> Some negative environmental impacts of horticultural industry, and challenges of meeting international standards.</p>	<p><b>Contextual factors</b> <b>Regional integration</b> can contribute to the process of integrating into global markets. International competitiveness undermined by poor <b>infrastructure</b> and <b>HIV/AIDS</b>. <b>Human development</b> essential to shift comparative advantage into higher value-added activities.</p> <p><b>Institutions</b> International competitiveness undermined by insecurity and the weakness of the <b>rule of law</b>. Competitive pressures arising from globalisation influence <b>political process</b>.</p> <p><b>Agents of change</b> Strong interest groups for and against globalisation within the <b>private sector</b>. Foreign investors and exporters likely to lobby for further trade opening and supply-side measures while uncompetitive industries will urge greater protection.</p> <p>Globalisation will expose <b>political elite, civil society</b> and <b>private sector</b> to new ideas and international best practice.</p>	<p>Recognise the role of globalisation in creating pressures on the political elite to improve the policy and regulatory environment.</p> <p>Advocate continued trade and investment liberalisation, while putting in place measures to support losers of reform.</p> <p>Supply side measures to enhance response to opportunities of globalisation, including investment in infrastructure, improved security, health and education.</p> <p>Address market access issues for Kenyan goods in EU markets.</p>

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A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	Regional influences and integration	<p>The East African Community will create a customs union and foster cooperation on a wide range of economic, social, environmental and political issues.</p> <p>The establishment of a number of EAC institutions will provide the community with political and legal powers above the national level.</p> <p>Kenya is also a member of the Common Market for Eastern and Southern Africa (COMESA) and the Intergovernmental Authority on Development (IGAD)</p> <p>Kenya is an enthusiastic participant of NEPAD and will host the sub-regional secretariat. NEPAD may develop into an important peer review mechanism.</p>	<p><b>Growth</b> Regional integration generates trade and growth by enhancing factor mobility, promoting specialisation and economies of scale, increasing competition, encouraging investments and fostering regional solutions to cross-border infrastructure, environmental and security problems.</p> <p><b>Empowerment</b> Spread of ideas across borders. Free movement of goods, labour, services and capital.</p> <p><b>Access to markets, assets and services</b> Improved market access to EAC and COMESA countries.</p> <p><b>Security</b></p> <p><b>Environment</b> Ability to address cross-border environmental problems</p>	<p><b>Contextual factors</b> Regional integration hampered by inadequate <b>infrastructure</b></p> <p><b>Institutions</b> EAC institutions will affect national <b>political processes and the rule of law.</b></p> <p><b>Agents of change</b> Peer review could create an important source of external pressure on the <b>political leadership.</b></p> <p>Ties between <b>civil society</b> and <b>private sector</b> organisations across the region are likely to increase</p>	Engage more fully in supporting regional integration initiatives, including EAC and COMESA, as well as NEPAD. Consider the need for capacity building and support for institutional development.

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<b>A. CONTEXTUAL FACTORS</b>	<b>Driver of Change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
	Demographic Change	<p>Kenya is one of the first African countries to enter demographic transition.</p> <p>Total Fertility Rate has declined from 7.9 in 1980 to 4.4 at present.</p> <p>Population growth has slowed from 3.8% in 1980 to 1.6% per annum at present.</p> <p>The present population of 32 million is expected to increase to 37 million by 2015 and 41 million by 2040.</p>	<p><b>Growth</b> Rapid population increase had been a serious impediment to economic growth. In future slower population growth and lower dependency ratios may result in improved economic performance, but the impact of HIV/AIDS could cancel out the demographic dividend.</p> <p><b>Empowerment</b> Smaller family sizes contribute to women’s empowerment and choice</p> <p><b>Access to markets, assets and services</b> Service provision overstretched and outpaced by rapid population growth.</p> <p><b>Security</b></p> <p><b>Environment</b> Environmental resources under increasing pressure, with elites capturing majority of remaining benefits and the poor suffering increasingly restricted access.</p>	<p><b>Contextual factors</b></p> <p><b>Human Development.</b> Women’s education and access to contraception is closely connected to fertility decline.</p> <p>Impact of <b>HIV/AIDS.</b> Dependency ratios are increasing again cancelling out some of the effects of fertility decline. Impact of HIV/AIDS on fertility not well understood.</p> <p><b>Institutions</b> Linkages between <b>gender relations</b> and fertility decisions</p> <p><b>Agents of change</b> Public reproductive health services, NGOs etc.</p>	<p>Closely monitor demographic change, and impact of HIV/AIDS.</p> <p>Continue to support reproductive health services.</p> <p>Better understanding required of the impacts of demographic change on poor people’s access to natural resources and sustainability of environmental services.</p>

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A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	Urbanisation	<p>Kenya is experiencing rapid urbanisation and rural to urban migration.</p> <p>About 12 million people or 38% of the population currently live in towns or cities.</p>	<p><b>Growth</b> Urbanisation has been essential for the development of manufacturing and service industries, which have been the main growth sectors in the economy.</p>	<p><b>Contextual factors</b> Pressures on <b>rural livelihoods</b> are a major driving force behind urbanisation.</p>	<p>Consider working with city councils to support their institutional development and address urban problems.</p>
		<p>Urbanisation was most rapid during the 1980s when urban growth rates were 7-8% per annum. Urban growth rates have since slowed to 4%.</p> <p>The urban population is growing much faster than the rural population, which is forecast to begin declining between 2005 and 2010. By 2020 the urban population is projected to exceed the rural population.</p>	<p><b>Empowerment</b> Urbanisation has greatly facilitated the development of civil society and political organisations.</p>	<p><b>Institutions</b> Weakness of <b>urban institutions</b> (city councils, law enforcement agencies etc.) contribute to growing urban problems.</p> <p>Inadequate <b>property rights</b> and security of tenure are an obstacle to slum upgrading.</p> <p>In the long-term urbanisation may weaken <b>ethnic divisions</b>, but change is slow.</p>	<p>Give special attention to the challenge of slum upgrading and service provision in the slums.</p>
		<p>Rapid urbanisation has placed immense pressure on infrastructure and services.</p> <p>60-70% of Nairobi's population lives in slum settlements characterised by overcrowding, lack of infrastructure, poor sanitation and inadequate services.</p>	<p><b>Access to markets, assets and services</b> Access to markets and services is generally better in urban areas than in rural areas. However, service provision in slum settlements is very poor.</p>	<p><b>Agents of change</b> The <b>political elite, civil service, civil society</b> and <b>private sector organisations</b> are predominantly urban (Nairobi) based.</p>	
		<p><b>Security</b> Urban crime is a major threat to personal security, and hurts the poor more than other groups.</p>			

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			<b>Environment</b> Growing urban environmental problems, including air and water pollution.		
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<b>A. CONTEXTUAL FACTORS</b>	<b>Driver of Change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
	Deteriorating infrastructure	<p>Kenya has a dense road network, at least in highly populated areas, but the quality of the road network has deteriorated markedly over the past decade.</p> <p>Rail, ports, power, water and fixed line telephone services also perform poorly.</p> <p>In contrast, there has been spectacular growth in the use of mobile telephones.</p>	<p><b>Growth</b></p> <p>The poor state of infrastructure is a major business constraint.</p> <p>Waste and corruption in infrastructure expenditure diverts resources from more productive and pro-poor uses.</p> <p><b>Empowerment</b></p> <p>Political and economic activity hampered by the poor state of transport and communications infrastructure. However, growing mobile phone usage will greatly ease communication.</p> <p><b>Access to markets, assets &amp; services</b></p> <p>Deteriorating transport infrastructure raises marketing costs and reduces market access.</p> <p>Access to services depends on provision of basic infrastructure.</p> <p><b>Security</b></p> <p>High road accident statistics</p>	<p><b>Contextual factors</b></p> <p><b>Regional integration</b> may be an important driver for improved regional infrastructure (e.g. Mombasa-Busia road, joint concession on Kenya and Uganda Railways).</p> <p><b>Institutions</b></p> <p>Endemic corruption in <b>public administration</b> is the major cause of infrastructure problems.</p> <p>Reluctance to reform poorly performing <b>parastatals</b> in the infrastructure sector (e.g. Telekom Kenya and Kenya Railways) where this would entail large job losses.</p> <p><b>Agents of change</b></p> <p><b>Political leadership</b> and <b>civil servants</b> are heavily involved in infrastructure related corruption. <b>Private contractors</b> also benefit</p>	<p>Although DFID is not planning extensive work on infrastructure, it should remain aware of the pro-poor, and environmental impacts of basic infrastructure.</p> <p>The impact of the growth of mobile communications on economic and political activity needs to be studied and reflected in the design of development programmes.</p> <p>Improvements in public procurement for infrastructure should be a major focus of the anti-corruption drive.</p> <p>Parastatal reform and</p>

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			<p><b>Environment</b></p> <p>Localised environmental effects (e.g. urban traffic pollution) and fallback on unsustainable use of biomass energy as other power forms remain inaccessible to poor</p>	<p>from corrupt contracts.</p> <p><b>Private sector</b> organisations relatively weak in lobbying for improved infrastructure.</p> <p><b>Civil society organisations</b> and the <b>media</b> play an important watchdog role in exposing corrupt contracts.</p>	<p>privatisation should be advocated in the infrastructure sector.</p>
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A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	<p>The rise of the informal sector</p>	<p>There are an estimated 4.6 million workers in the informal sector, or 70% of Kenya’s non-agricultural workforce.</p> <p>The informal sector has been growing far more rapidly than the formal sector. The World Bank estimates that informal sector employment has been growing at 12% per annum, in comparison to just 2% for the formal sector.</p> <p>Informal sector employment has played a positive role in absorbing the rapidly growing urban workforce. However, the rise of the informal sector is also a sign of economic distress, failed development and the lack of formal sector job opportunities.</p> <p>Informal sector enterprises are less productive, use less technology, pay lower wages and are more precarious than formal sector firms. They have great difficulty expanding because of their limited access to credit and weak business networks.</p>	<p><b>Growth</b> The shift in employment to the informal sector may impose a growth cost because of the lower productivity of informal enterprises in comparison to formal sector firms.</p> <p><b>Empowerment</b> The informal sector is disorganised politically and has little policy influence. Many informal sector workers are subject to official harassment.</p> <p><b>Access to markets, assets and services</b> The rapid growth of microenterprises has facilitated access to markets and services in both urban and rural areas.</p> <p><b>Security</b> Informal enterprises are highly precarious and are excluded from formal social security schemes.</p> <p><b>Environment</b> The harvesting of many restricted environmental resources falls into informal sector</p>	<p><b>Contextual factors</b> Rapid <b>urbanisation</b> and the inability of the formal sector to absorb the growing urban workforce has driven the growth of the informal sector.</p> <p><b>Institutions</b> Government institutions and policies generally unsupportive of the informal sector.  Regulatory and taxation policies discourage informal enterprises from becoming formal.</p> <p><b>Agents of change</b> Industry associations representing the informal sector are very weak.</p>	<p>Pay greater attention to the informal sector in private sector development strategies.</p> <p>Consider supporting industry associations representing the informal sector.</p> <p>Advocate improved policies towards the informal sector (e.g. re-examine business regulation and taxation requirements).</p> <p>Consider supporting business development programmes for the informal sector focussing on skills development and technology transfer.</p>

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A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	Changing rural livelihoods	<p>Rural areas are home to 64% of the Kenyan population, and nearly 70% of the poor.</p> <p>The agricultural sector grew at an average of just 1% per annum between 1990 and 2001.</p> <p>Agriculture’s share of the economy has dwindled to just 25% of GDP, but still accounts for over 60% of employment and 75% of merchandise exports.</p> <p>It is estimated that 50% of rural incomes are now derived from non-farm sources.</p> <p>There are very different problems in high potential areas and Arid and Semi-Arid Lands (ASAL).</p> <p>Liberalisation policies have led to an uneven response from the private sector.</p>	<p><b>Growth</b> Agriculture could make a much greater contribution to growth, but has performed poorly due to failures of institutions and governance.</p> <p><b>Empowerment</b> Cooperatives have been captured by elite interests and have developed into dysfunctional and self-serving institutions.</p> <p><b>Access to markets, assets and services</b> Access to markets and services has been constrained by the poor performance of parastatals and cooperatives, and the uneven response of the private sector to liberalisation.</p> <p><b>Security</b> Rural communities highly exposed to weather, environmental and price risks.</p>	<p><b>Contextual factors</b> Export opportunities in the agricultural sector created by <b>globalisation</b> and <b>regional integration</b>. Poor <b>infrastructure</b> limits potential for agricultural and rural development in remote areas. <b>Demographic change</b>. Population pressure starting to ease in rural areas. <b>Rapid urbanisation</b> creating new markets for rural products. Impact of <b>HIV/AIDS</b> on labour productivity.</p> <p><b>Institutions</b> Very weak performance of <b>parastatals</b> and <b>cooperatives</b>. Incomplete and imperfect <b>markets</b> in remote areas. Insecurity of <b>land tenure</b> hinders investment and generates conflict.</p> <p><b>Agents of change</b> <b>Cooperative</b> movement seriously weakened, but could be an important</p>	<p>A fuller understanding of rural institutions, governance and political economy issues is required. This points to a substantial research agenda.</p> <p>Monitor and support implementation of government policy commitments in regard to ASAL areas.</p> <p>Advocate continued agricultural liberalisation in a careful and sequenced manner. Restrict government intervention to the provision of key public goods (infrastructure, quality control, research etc.)</p> <p>Support reforms to parastatal and</p>

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		<p>The state continues to intervene in numerous agricultural markets and operates many parastatals. Cooperatives have been seriously weakened by mismanagement and corruption.</p>	<p><b>Environment</b>          Land degradation reduces agricultural productivity. Increasingly restricted access to forest and wildlife resources undermines potential for off farm diversification.</p>	<p>agent for change if governance issues addressed.   <b>Community based and producer associations</b> are growing in importance in rural areas.</p>	<p>cooperative institutions to increase accountability and control by farmers.</p>
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A. CONTEXTUAL FACTORS	Driver of Change	Key features	Impact on poverty	Linkages with other drivers	Operational implications
	Human development	<p>Education indicators have improved markedly since independence. For example, adult literacy has increased from 20% to 83% over the past 40 years. Net primary enrolment rates fell during the 1990s, but have since increased as a result of the NARC government’s policy of free primary education.</p> <p>Few children go on to secondary school, where enrolment rates are only 23%. Girls have particularly low enrolment rates at secondary level.</p> <p>Kenya spends a comparatively large share of its budget on its education, but education spending raises equity and efficiency concerns.</p> <p>Health indicators have not matched progress in education. Key indicators, including infant and</p>	<p><b>Growth</b> Improved health and education is essential for raising labour productivity.</p>	<p><b>Contextual factors</b> Health and education service provision hampered by poor <b>infrastructure</b> in remote areas</p>	<p>Continue to prioritise investments in health and education sectors.</p>
			<p><b>Empowerment</b> Improved education and health helps to empower citizens to engage in political processes.</p>	<p><b>Institutions</b> Weaknesses in <b>public expenditure management</b> result in inefficient and inequitable resource allocation and excessive spending on salaries.</p>	<p>Pay greater attention to the politics of resource allocation in the health and education sectors.</p>
			<p><b>Access to markets, assets and services</b> Problems of resource allocation and budgetary management limit access to quality services. Service provision particularly poor in the north of the country and in urban slums. Affordability is a key constraint for post-primary education and health services.</p>	<p><b>Political processes</b> also bias expenditure and service provision in favour of the non-poor.</p> <p>Organisational weaknesses hamper service delivery (e.g. fragmentation of health programmes)</p>	<p>Engage in dialogue on policy reforms taking a sector-wide perspective. Continue to advocate a more pro-poor pattern of spending.</p>
<p><b>Security</b> Health problems are a major risk for the poor.</p>			<p><b>Agents of change</b> <b>Government</b> is the main actor in the education sector, but parents groups, <b>NGOs, faith-based organisations</b> are also</p>	<p>Support mechanisms to improve access and affordability of services to the poor (e.g. National Health Insurance Fund).</p>	

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	maternal mortality rates and life expectancy have been deteriorating over the past decade.  Public spending on health is relatively low, and the majority of healthcare needs are met from private sources of funds. Public spending on health is inequitably and inefficiently allocated.	<b>Environment</b> Poor environmental management driver of many health problems (e.g. respiratory and infectious diseases through indoor air pollution and poor ecosystem management)	significant agents of change.  <b>Private sector operators, NGOs and faith-based organisations</b> are major providers of health services.	
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	<b>Driver of Change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>A. CONTEXTUAL FACTORS</b>	HIV/AIDS	<p>Around 2.2 million Kenyans are living with HIV, and 700 people die every day of AID. By 2002 there were around 1.2 million AIDS orphans.</p> <p>Life expectancy has declined from 57 years in 1986 to 47 years in 2000.</p> <p>There is some evidence that the epidemic may have</p>	<p><b>Growth</b> HIV/AIDS reduces growth in numerous ways through its effects on worker productivity, health expenditure, fiscal costs, investment, school enrolment, loss of skills and institutional decline. Growth estimated to be reduced by 0.7% per year as a result of HIV/AIDS.</p>	<p><b>Contextual Factors</b> <b>Infrastructure and regional integration.</b> Role of transport workers in spreading infection. <b>Demographic change.</b> HIV/AIDS increases mortality, dependency ratios, and reduces fertility.</p>	<p>Study links between HIV/AIDS and political economy, including the politics of resource allocation and the effect of HIV/AIDS on incentives faced by public officials.</p> <p>Engage vigorously in dialogue on future arrangements for the</p>
			<p><b>Empowerment</b> Weakening of community institutions as a result of HIV/AIDS.</p>	<p><b>Institutions</b> <b>Political process.</b> Political struggle over the control of HIV/AIDS resources (e.g. recent scrapping of National AIDS Control Council).</p>	

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	<p>already peaked. National HIV prevalence rates were 13.4% in 2000 and 10.2% in 2002. Infection rates in the key 15-24 age group are also declining.</p> <p>Prevalence rates in Kenya are significantly higher than in neighbouring countries.</p> <p>There are significant regional variations in HIV prevalence rates within Kenya with the highest rates recorded in Nyanza province (22%).</p>	<p><b>Access to markets, assets and services</b> Limited effectiveness of AIDS programmes due to slow government response and insufficient commitment.</p>	<p><b>Public administration</b> Effects of AIDS deaths and illness on institutional capacity and quality of service delivery. Possible impact of HIV/AIDS on rent seeking and corruption. AIDS programmes mainly donor driven and not well integrated in national health systems.</p>	<p>management of AIDS programmes and resources.</p> <p>Support greater funding for AIDS prevention and treatment programmes, but be aware of opportunities for rent seeking and corruption.</p>
		<p><b>Security</b> HIV/AIDS is the most significant health risk facing households in terms of its prevalence and impact.</p>	<p><b>Agents of change</b> Lack of clear agency within government responsible for HIV/AIDS. Numerous agents vying for power and control of resources. Leading role of <b>donors</b> in funding AIDS programmes. Role of <b>civil society organisations</b> in service delivery. <b>Private sector</b> voicing growing concern about the impact of HIV/AIDS on the workforce.</p>	
		<p><b>Environment</b> HIV/AIDS undermines potential for sustainable management of environment and natural resources</p>		

	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>B. INSTITUTIONS</b>	Political Process	<p>Patronage politics leading to endemic corruption, wasted resources, and loss of institutional competence.</p> <p>Strong ethnic element in composition of patronage networks.</p> <p>Proliferation of political</p>	<p><b>Growth</b> Political elites motivated by personal, factional and ethnic interests rather than promoting broad-based growth.</p> <p>Considerable waste of public resources through corruption.</p> <p>Inability of government to provide basic public goods required for growth.</p>	<p><b>Contextual factors</b> <b>Globalisation</b> may increase pressure for policy reforms that reduce scope for rent seeking, patronage and corruption. The deterioration of <b>infrastructure</b> is largely by rampant corruption. <b>Health and education</b> expenditure distorted by political processes and biased in favour of the non-poor. Political struggle over control of resources to combat <b>HIV/AIDS</b></p>	<p>Identify interventions that strengthen demand for political change, for example support to civil society and private sector organisations and civic education. Encourage the development of coalitions between poor and non-poor groups in order to enhance pressure for change.</p>

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	<p>parties, mainly pursuing personal and ethnic agendas.</p> <p>Flawed electoral processes.</p> <p>Parliament subject to strong executive interference. Tendency of MPs to pursue factional, ethnic or personal interests.</p> <p>Absence of strong parliamentary oversight over budget process and weakness of parliamentary committees.</p> <p>Loss of power by local government. Weakness of leadership, rampant corruption and lack of capacity at the local level.</p>	<p><b>Empowerment</b> Limited voice of the poor due to their exclusion from patronage networks. Weakness of democracy and accountability at national and local level. Absence of political party pursuing a pro-poor and non-ethnic agenda.</p>	<p><b>Institutions</b> Patronage and corruption have undermined the effectiveness of <b>public administration</b>. The ability of key public institutions to enforce the <b>rule of law</b> has been eroded by corruption and patronage. Strong influence of <b>ethnicity</b> on patronage networks. <b>Gender</b>. Limited participation of women in political processes.</p>	<p>Support the strengthening of agencies of public accountability that provide checks and balances in the political system. Key institutions include the Parliament, parliamentary committees, local government, the Auditor-General, the Electoral Commission, and NGOs providing a watchdog function.</p> <p>Support emerging proposals for political devolution and administrative decentralisation through capacity building and institutional development, civic education, support to electoral processes, and by applying lessons learned in other countries.</p>
		<p><b>Access to markets, assets and services</b> Access to markets, assets and services strongly determined by ethnicity and patronage networks.</p>		
		<p><b>Security</b> Corruption has eroded the ability of key public institutions to maintain security and the rule of law.</p>	<p><b>Agents of change</b> Numerous agents of change can challenge the nature of patronage politics including <b>reform minded elements of the elite, civil service, parliament and judiciary</b>, as well as pressure groups amongst <b>civil society</b> and <b>private sector</b> organisations.</p>	
		<p><b>Environment</b> Environmental resources have become the locus of extensive corruption, illegal off-take, conflicts and political patronage.</p>		

<b>B. INSTITUTIONS</b>	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
	Public Administration	<p>The civil service is characterised by ineffectiveness, incapacity and corruption. Its independence has been compromised by executive interference.</p> <p>Recruitment and promotion</p>	<p><b>Growth</b> Massive waste and misallocation of public resources.</p> <p>Inability to provide public goods required for growth.</p>	<p><b>Contextual factors</b> <b>Globalisation</b>. Bureaucratic inefficiency and inadequate provision of public goods undermines Kenya's international competitiveness. <b>Rise of informal sector</b> in part explained by inappropriate tax system and regulatory</p>	<p>Broaden the understanding of institutions and take account of their political dimensions. Ensure that the selection, design and implementation of institutional capacity building programmes are fully informed by an understanding of how those with power use institutions for their own</p>

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		<p>within the civil service reflects relations of patronage rather than merit. This has eroded institutional competence and led to overstaffing.</p> <p>The parastatal sector is a key instrument of patronage and has been a major drain on public resources.</p> <p>Weak public expenditure management and controls. The recurrent budget consumes an excessive share of public resources</p> <p>Systematic abuse of procurement rules.</p> <p>Inequitable tax burden that is heavily dependent on middle income earners and corporations. Frequent use of tax exemptions for political or corrupt purposes. General absence of accountability in the use of tax revenues.</p>	<p><b>Empowerment</b> Very little accountability in the use of public resources.</p> <p><b>Access to markets, assets and services</b> Mismanagement and corruption limit access and quality of public services.</p> <p>Market access limited in some areas due to poor quality of infrastructure.</p> <p><b>Security</b> Inability of key public institutions to maintain security and the rule of law.</p> <p><b>Environment</b> Environmental agencies lack capacity to enforce environmental laws and have been compromised by political interference, corruption and serious lack of capacity</p>	<p>environment.</p> <p>Impact of <b>HIV/AIDS</b> on capacity of public administration and behaviour of officials.</p> <p><b>Institutions</b> Failings of public administration are deeply rooted in <b>political processes</b>. Inability of key public institutions to uphold the <b>rule of law</b>. <b>Ethnic</b> bias evident in civil service appointments. <b>Gender</b> imbalance in civil service appointments, particularly at senior level.</p> <p><b>Agents of change</b> <b>Reform minded politicians and civil servants</b> do exist, but have not yet had a decisive impact. Key role of <b>media</b> and concerned <b>civil society organisations</b> in exposing corruption in public office. <b>Private sector</b> organisations increasingly lobbying on issues of corruption, insecurity, poor infrastructure etc. Failure of <b>donor</b> programmes to promote civil service reform.</p>	<p>ends.</p> <p>Revisit the issue of civil service reform as opportunities arise.</p> <p>Encourage processes to promote improved performance and accountability within the civil service.</p> <p>Recognise that institutions are not monolithic. There may be pro-reform elements that can be strengthened through selective donor interventions.</p> <p>Continue to press for parastatal reforms and privatisation.</p> <p>Explore possibilities to support tax reforms that broaden the tax base without adversely affecting the incidence of taxation on the poor.</p> <p>Support initiatives to publish public accounts, track expenditure, and encourage greater public and parliamentary scrutiny of expenditure issues.</p>
<b>B. INSTITUTIONS</b>	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
	Rule of law	<p>Inability of key public institutions to ensure the rule of law, uphold contracts and ensure security.</p> <p>Politically motivated violence.</p>	<p><b>Growth</b> Security and the rule of law is an essential public good, and its absence has seriously weakened economic growth in Kenya.</p>	<p><b>Contextual factors</b> <b>Globalisation</b>. Kenya's international competitiveness and attractiveness to investors has been undermined by widespread insecurity and the absence of the rule of law. Globalisation may have increased Kenya's vulnerability to</p>	<p>Continue to support processes of judicial reform and institution building in the justice sector.</p> <p>Consider options for supporting other institutions</p>

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	<p>High levels of urban crime.</p> <p>Limited state control in parts of north and northeast Kenya affected by banditry, cattle rustling and interethnic violence.</p> <p>Kenya highly exposed in war on terrorism.</p> <p>The effectiveness of the police has been undermined by corruption, poor motivation, inadequate remuneration and understaffing.</p> <p>Independence, competence and integrity of judiciary has been eroded as a result of executive interference, corruption and inadequate capacity.</p> <p>As a result of the failure of formal institutions, many Kenyans rely on the informal justice system.</p>	<p><b>Empowerment</b> The poor have been disempowered through the failings of the police force and judiciary.</p>	<p>terrorism.</p> <p><b>Urbanisation</b> associated with high levels of crime.</p> <p>Possible impact of <b>HIV/AIDS</b> on crime.</p>	<p>vital to upholding the rule of law (e.g. police, prisons, Auditor-General) where these are committed to reform.</p> <p>Continue to support pressure groups in civil society and the private sector on rule of law issues.</p> <p>Improve access to justice for the poor.</p>
		<p><b>Access to markets, assets and services</b> Market efficiency has been undermined by the absence of security and inability to uphold contracts.</p>	<p><b>Institutions</b> <b>Political processes</b>, especially executive interference and patronage, have led to the decline of key public institutions required to uphold the rule of law. Variations in security conditions in different parts of the country reflect the influence of <b>ethnicity</b> on political priorities. <b>Gender</b>. High levels of violence against women.</p>	
		<p><b>Security</b> Crime is one of the main sources of insecurity confronting the poor.</p>	<p><b>Agents of change</b> Strong efforts by <b>political leadership</b> and <b>reform minded lawyers</b> to reform the judiciary. <b>Media</b> and <b>civil society</b> activism on issues related to justice and the rule of law. <b>Private sector</b> organisations lobbying on security and rule of law issues. Increasing <b>donor</b> engagement in the justice sector.</p>	
		<p><b>Environment</b> Weak enforcement of environmental laws and lack of access to justice on environment.</p>		

<b>B. IN</b>	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
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	Land rights	<p>Land grabbing and corrupt sale of public land by officials and politicians.</p> <p>Insecure land tenure as a result of unclear legal framework, weak land administration, inadequate titling and dispute resolution processes.</p> <p>Land fragmentation and declining size of landholdings in densely settled agricultural areas.</p> <p>Disputes over access to common property resources in ASAL areas.</p> <p>Slum dwellers risk eviction. Their lack of legal titles prevents slum upgrading and service provision.</p>	<p><b>Growth</b> Outside of urban areas banks will generally not accept land as collateral. Investment is therefore constrained.</p> <p>Extreme inequalities in land holdings may have an adverse impact on growth.</p> <p><b>Empowerment</b> Certain groups are disempowered as a result of insecure land rights, in particular women, slum dwellers and pastoralists.</p> <p><b>Access to markets, assets and services</b> Absence of secure land rights limits access to credit and interferes with the efficient working of land markets.</p> <p><b>Security</b> Disputes over land are becoming more common in both rural and urban areas, and the poor are particularly vulnerable.</p> <p><b>Environment</b> More secure land tenure arrangements are likely to result in more sustainable land and natural resource management practices, and thus more sustainable and diverse livelihood opportunities.</p>	<p><b>Contextual factors</b> <b>Demographic change.</b> Population pressure resulting in increasing land scarcity, competition for land and pressure on common property resources. <b>Urbanisation.</b> Rapid urban growth characterised by growth of illegal slum settlements. <b>HIV/AIDS.</b> Barriers to female land inheritance particularly disadvantage AIDS widows.</p> <p><b>Institutions</b> <b>Political process.</b> Land allocation processes are central to the system of political patronage. <b>Public administration.</b> Land administration weakened by political interference, corruption, incompetence and limited capacity. <b>Rule of law.</b> Legal framework governing land rights often unclear and weakly enforced. <b>Gender.</b> Women's land rights (in particular inheritance rights) limited.</p> <p><b>Agents of change</b> <b>Political elite.</b> Political leadership has become more concerned with land issues. <b>Local government.</b> Local land management and dispute resolution institutions are essential, but are presently ineffective (e.g. Land Control Boards). <b>The judiciary.</b> Increasingly important role in dispute resolution and redressing previous irregular land transfers. <b>Civil Society Organisations.</b> Emergence of active lobby groups (e.g. Kenya Land Alliance). <b>Media.</b> Strong media interest in land issues. <b>The private sector.</b> Some private sector organisations (e.g. Kenya Bankers Association) lobby on land issues. <b>Donors.</b> Donor support to current land policy formulation process.</p>	<p>There is currently an important opportunity for donors to support land reform processes, which, if handled correctly, could make a significant contribution to growth and poverty reduction.</p> <p>Support land policy formulation process through policy analysis, technical assistance and making international best practice available.</p> <p>Continue to support civil society organisations concerned with land issues.</p> <p>Advocate more secure land rights for disadvantaged groups, in particular slum dwellers, women and pastoralists.</p> <p>Strengthen land governance at national and local levels.</p>
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	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>B. INSTITUTIONS</b>	Ethnicity	Close connections between ethnicity and access to political and economic resources.	<b>Growth</b> Ethnic bias in the allocation of resources is likely to skew the growth process in favour of groups in power.	<b>Contextual factors</b> Quality of <b>infrastructure</b> exhibits strong regional variations that reflect ethnicity. <b>Urbanisation</b> expected to weaken ethnic identities, but only in the long-term. At present urban voting and settlement patterns are strongly determined by ethnicity. <b>Rural livelihoods.</b> Government policies for different agricultural sub-sectors have favoured certain ethnic groups and discriminated against others. Clear ethnic variations in quality of <b>health and education</b> services. Ethnic differences in <b>HIV</b> prevalence rates.	Donors have only a limited influence on ethnicity, which is unlikely to disappear as a primary source of identity for several generations.  Provide support to decentralisation processes and local democracy as a means to create a political space where ethnic competition will be a less prominent issue.
		Ethnic variations are detectable in income levels, access to markets. Goods and services, availability of infrastructure, and even the state of security and general safety.	<b>Empowerment</b> Clear ethnic variations in access to political power.	<b>Institutions</b> Close connections between ethnicity and <b>political processes</b> . <b>Public administration.</b> Ethnicity reflected in civil service appointments. <b>Rule of law.</b> Some ethnic groups enjoy better security conditions. Significant variations in <b>gender relations</b> between different ethnic groups.	If external funding were to be provided to political parties, with donor involvement, promote the adoption of criteria that restricts funding to parties with multi-province representation.
		Ethnicity largely determines party formation and voting behaviour.	<b>Access to markets, assets and services</b> Access to markets, assets and services strongly determined by ethnicity.	<b>Agents of change</b> <b>Political elites, political parties and parliamentarians</b> have sought to use ethnicity as a political tool. <b>Local government</b> may provide an arena for less ethnically-driven politics.	In all relevant programmes (e.g. support for business associations, or civil society) promote approaches that go beyond narrow ethnicity
		Elites within ethnic groups regard electoral representation as the means to access state resources. The ethnic group that occupies the Presidency expects to gain disproportionately from state resources and political appointments.	<b>Security</b> Variations in security conditions in different parts of the country inhabited by different ethnic groups.	<b>Media and civil society organisations</b> frequently expose influence of ethnicity on politics and business. Ethnic fragmentation within the <b>private sector</b> hinders the ability of business to apply pressure for policy change.	Scrutinise allocation of public resources for signs of ethnic bias and promote more equitable resource allocation.
		Private sector and civil society are strongly segregated along ethnic lines.	<b>Environment</b> Inter-ethnic disputes over natural resources in north of country.		

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	<b>Driver of change</b>	<b>Key features</b>	<b>Impact on poverty</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>B. INSTITUTIONS</b>	Gender	Gender inequalities are evident in distribution of roles, access and control over resources, employment patterns and political participation.	<b>Growth</b>	<b>Contextual factors</b> <b>Demographic change</b> and reduced fertility have contributed to and been caused by greater empowerment of women.	Give priority to education of girls, particularly at post primary level, as a key requirement for women’s empowerment.
		Violence against women is common.	<b>Empowerment</b> Women have limited access to the political arena.	<b>Human development.</b> Increased access to education has been a significant factor in women’s empowerment. Higher prevalence of <b>HIV/AIDS</b> amongst women.	Continue to support pressure groups lobbying on gender issues, in particular women’s political representation.
		Women are more likely to be poor than men. Female headed households are particularly vulnerable.	<b>Access to markets, assets and services</b> Inequalities in access to post-primary education.	<b>Institutions</b> Limited participation of women in <b>political processes</b> and <b>public administration</b> .	Support a broadening of the women’s movement, in particular by strengthening rural based women’s organisations.
		Women are disadvantaged by divorce and inheritance practices.	Inequalities in access to labour market.	<b>Rule of law.</b> Neglect of domestic violence issues.  Influence of <b>ethnicity</b> on gender relations.	Consider issues of gender equity in all donor programmes.
		Women are disadvantaged by divorce and inheritance practices.	<b>Security</b> Violence against women is common. Women are vulnerable to loss of assets as a result of divorce and inheritance practices.	<b>Agents of change</b> <b>Female politicians and parliamentarians</b> actively lobby on women’s issues, but are few in number.	
		Women’s employment is concentrated in low skill, low return, microenterprise activities.		Numerous <b>civil society organisations</b> constitute a growing women’s movement.	
		Gender disparities in school enrolment at post-primary level.		Women underrepresented in formal <b>private sector</b> .	
		Women are still grossly underrepresented in politics, although there are small signs of improvement,	<b>Environment</b> Inequalities in access to natural resources and benefits arising therefrom.	<b>Donors</b> increasingly conscious of women’s issues.	

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C. AGENTS OF CHANGE	Driver of change	Key features	Linkages with other drivers	Operational implications
	The political elite	<p>The Kenyan political elite has usually succumbed to self interested and predatory behaviour.</p> <p>The individual qualities of leaders may be very significant in bringing about change.</p> <p>Pro-poor change is most likely to occur when the elite comes under sustained pressure from interest groups</p>	<p><b>Contextual factors</b></p> <p><b>Globalisation</b> and <b>regional influences</b> may expose the Kenyan elite to new ideas.</p> <p><b>Urbanisation</b> and <b>education</b> may result in a more politically aware and active electorate that can apply greater pressure on the political leadership</p> <p><b>Institutions</b></p> <p>Political elite have been able to manipulate <b>political processes</b> and <b>public administration</b> for their own ends.</p> <p><b>Ethnicity.</b> Political elite usually drawn from single or few <b>ethnic groups.</b></p> <p><b>Gender.</b> Few women present in political elite</p> <p><b>Agents of change</b></p> <p>All agents of change described in this paper can potentially influence the behaviour of the elite.</p>	<p>Maintain dialogue with political leadership, but recognise that indirect means for donors to influence government by supporting civil society and private sector groups may be more effective in the long-term.</p> <p>Be prepared, as far as is consistent with respecting Kenya’s sovereignty, to provide support to elements of Kenya’s society that are able and willing to sustain pressure on the government for improved performance.</p> <p>Support international initiatives (e.g. through the Commonwealth or NEPAD) that encourage good governance at the level of individual leadership.</p>
	Civil servants	Although there are some competent and reform minded officials, overall the civil service is characterised by poor	<p><b>Contextual factors</b></p> <p><b>Human Development.</b> Impact of secondary tertiary education on the quality of the civil service.</p> <p><b>HIV/AIDS.</b> Impact on capacity of civil service.</p>	Revisit the issue of civil service reform when opportunities arise. Develop politically acceptable reform packages combining retrenchment with institutional development

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		<p>performance, inefficiency, overstaffing and rampant corruption.</p>	<p><b>Institutions</b>  <b>Political processes.</b> Heavy political interference in civil service and administrative procedures.  <b>Ethnicity</b> reflected in civil service appointments.  <b>Gender.</b> Women underrepresented in civil service, particularly at senior level.</p> <hr/> <p><b>Agents of change</b>          Scrutiny of civil service performance by a range of change agents including <b>parliamentarians, civil society organisations</b> and the <b>media</b>.</p>	<p>initiatives and adequate compensation packages.          Recognise that public sector institutions are not monolithic. There may be pro-reform elements within institutions that can be strengthened through selective donor interventions.</p>
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C. AGENTS OF CHANGE	Driver of change	Key features	Linkages with other drivers	Operational implications
	Parliamentarians	<p>Tendency of MPs to pursue local, ethnic or factional interests rather than advocating pro-poor change,</p> <p>Opposition MPs have often articulated progressive ideas only to become defenders of the status quo when their party comes to power.</p> <p>Strategic alliances between parliamentarians and change agents in civil society and the private sector are relatively weak.</p>	<p><b>Contextual factors</b></p> <p><b>Globalisation and regional influences.</b> Exposure of MPs to international networks.</p> <p><b>Human development.</b> Secondary and tertiary education vital for raising calibre of MPs.</p> <p><b>Institutions</b></p> <p><b>Political process.</b> Executive interference in the workings of parliament. Nature of party politics may be an obstacle to the efficient working of parliament.</p> <p>Strong influence of <b>ethnicity</b> on party formation and parliamentary proceedings.</p> <p><b>Gender.</b> Currently only 6 women MPs</p> <p><b>Agents of change</b></p> <p>A change in the nature of <b>political parties</b> could improve the quality and usefulness of the parliamentary process.</p> <p>Unmet potential to develop alliance between MPs and change agents in <b>civil society</b> and the <b>private sector</b>.</p>	<p>Donors should continue to support capacity building within the parliament, in particular in relation to policy research and budgetary oversight.</p>
Political parties	<p>Political parties mainly pursue personal and ethnic interests, and lack a strong policy vision and programme.</p> <p>Political parties are generally poorly organised, lack a strong membership base, and are dependent on a single or few patrons for their funding and survival.</p> <p>Internal democracy and</p>	<p><b>Contextual factors</b></p> <p><b>Globalisation and regional influences.</b> Exposure of political parties to international networks and external ideas.</p> <p><b>Institutions</b></p> <p><b>Political process.</b> Parties mainly used as an instrument for elites to gain power rather than to provide policy choices. New legislation on party funding may change the nature of political parties</p> <p><b>Public administration.</b> Political appointments common in civil service.</p> <p><b>Ethnicity.</b> Political parties are essentially based on ethnic identities.</p>	<p>Donors have been very reluctant to engage with political parties in the past. However, there may be scope to support the development of national, issue-based political parties, for example through capacity building and twinning programmes with foundations in other countries. This support should be provided in an equitable and cross party manner in order to avoid the impression of donors taking a partisan position.</p>	

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		governance is typically very weak.	<b>Agents of change</b> <b>Media and civil society organisation</b> can expose political parties to scrutiny. Ultimately a change in the nature of political parties will require a shift in the behaviour of voters.	
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	<b>Driver of change</b>	<b>Key features</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>C. AGENTS OF CHANGE</b>	Local government	<p>At present local government has very limited powers. However, depending on the outcome of the constitutional review local government could take on much greater functions.</p> <p>In theory, decentralisation could help bring government closer to the people and enhance local participation and accountability.</p> <p>Capacity is weak in local government, and there are risks of elite capture and corruption.</p>	<p><b>Contextual factors</b>  <b>Infrastructure and human development.</b> Decentralisation could result in improved service provision.</p> <p><b>Institutions</b>  <b>Political process.</b> Decentralisation threatens established elites and may be resisted. Local democracy may enhance public accountability, but patronage politics could also emerge at the local level.  <b>Public administration.</b> Administrative capacity lacking at local level.  <b>Ethnicity.</b> Limited impact of ethnicity on local politics so long as local authorities cover ethnically homogenous areas.</p> <p><b>Agents of change</b>                      Decentralisation could create an important new group of change agents in Kenya, including elected councillors, empowered electorates and stronger community based organisations.</p>	Provide support to decentralisation and local democracy processes taking a realistic view of the level of capacity and governance problems existing at the local level.
	The judiciary	<p>Despite the existence of deep rooted corruption and executive interference, there are examples of agents of change within the justice sector. Reform minded lawyers, and concerned organisations, such as the law society of Kenya have shown their activism.</p> <p>With the suspension of corrupt judges there are now good</p>	<p><b>Contextual factors</b>  <b>Globalisation and regional influences.</b> Exposure of legal professionals to international networks and external ideas.  <b>Human development.</b> Secondary and tertiary education vital for raising calibre of legal professionals.</p> <p><b>Institutions</b>  <b>Political processes.</b> The judiciary have been subject to heavy executive interference in the past. Judicial appointments need to be subject to greater parliamentary and public scrutiny.  <b>Public administration.</b> Weak administrative capacity in judiciary  <b>Ethnicity.</b> Possible influence on judicial appointments.  <b>Gender.</b> Few women legal professionals</p>	Continue to support processes of judicial reform and institution building in the justice sector.

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		prospects for reform, but in the short term there is likely to be considerable disruption to the legal system.	<b>Agents of change</b> Decisive role of <b>political leadership</b> in reforming judiciary. Possible role for <b>parliament</b> in scrutinising judicial appointments. <b>Civil society organisations</b> and the <b>media</b> have highlighted abuses within the justice system. <b>Donor</b> support to justice sector reforms.	
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	<b>Driver of change</b>	<b>Key features</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>C. AGENTS OF CHANGE</b>	The military	<p>The military could play a greater role in addressing internal security threats in lawless parts of the country.</p> <p>There is potential for the military to engage more fully in emergency relief and development work.</p> <p>The Ministry of Defence consumes nearly 8% of government spending.</p>	<p><b>Contextual factors</b>  <b>Regional influences.</b> Few external threats, but proximity of failed states (Sudan and Somalia) creates internal security problems.</p> <p><b>Institutions</b>                      The military have not become involved in <b>political processes</b>.</p> <p><b>Rule of law.</b> Limited role of military in internal security issues.</p> <p><b>Agents of change</b>  <b>Political leadership</b> and <b>parliamentarians</b> play the leading role in determining defence policy. <b>Civil society</b> and <b>media scrutiny</b> is also important.</p>	Security sector reform is not currently a donor priority, but this situation may change in the context of the war on terrorism, or if internal insecurity increases.
	Civil society organisations	<p>Vibrant and well organised civil society in Kenya with capacity in service provision and advocacy.</p> <p>Focus on human rights, environmental issues, gender issues, anti-corruption and community development.</p> <p>Most active CSOs tend to be Nairobi based with middle class</p>	<p><b>Contextual factors</b>  <b>Globalisation</b> and <b>regional influences.</b> Exposure of civil society organisations to international networks and external ideas.</p> <p><b>Urbanisation.</b> Civil society organisations concentrated in Nairobi</p> <p><b>Institutions</b>  <b>Ethnicity</b> influences the staffing composition and geographical focus of CSOs.</p> <p><b>Gender.</b> Many organisations addressing gender issues.</p>	<p>Focus support on advocacy and rights-based NGOs, in particular those representing disadvantaged groups.</p> <p>Broaden the focus of donor support away from Nairobi-based English speaking civil society to include community level organisations. Encourage greater outreach of civil society organisations to the poor.</p>

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	<p>leadership.</p> <p>Many community based organisations in rural areas, but not well linked at national level.</p> <p>Many CSOs dependent on strong leadership. Lack lower level organisation and management capacities. Problems of internal governance and democracy in some CSOs.</p> <p>Few examples of alliances between CSOs, government and the private sector.</p>	<p><b>Agents of change</b></p> <p><b>Political elite.</b> Civil society forms an important pressure group. Some civil society leaders have taken high level posts within the NARC government.</p> <p><b>Parliamentarians.</b> Limited relationship between CSOs and MPs.</p> <p><b>Judiciary.</b> Role of civil society in pushing for judicial reform.</p> <p><b>Private sector.</b> Alliance between civil society and business not present.</p> <p><b>Donors.</b> High levels of donor support have helped to develop the civil society movement, but have led to a number of distortions.</p>	<p>Encourage the development of strong membership based organisations and do not undermine accountability to members through donor funding.</p> <p>Give attention to capacity building in research and policy advocacy skills.</p> <p>Encourage closer relationships between civil society organisations and the state at central &amp; local levels</p> <p>Encourage the strengthening of coalitions between CSOs, and the formation of alliances between civil society and other change agents where interests coincide.</p>
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<b>C. AGENTS OF CHANGE</b>	<b>Driver of change</b>	<b>Key features</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
	Trade unions	<p>Trade unions have potential as agents of change because they tend to have a multi-ethnic membership, and could become strong negotiating partners with government. However, their membership is limited to formal sector workers.</p> <p>Trade unions were seriously weakened during Kenyatta and Moi eras due to executive interference and legislative changes.</p> <p>UASU and KNUT have recently shown greater activism</p>	<p><b>Contextual factors</b> Weak presence of trade unions in the <b>informal sector</b>.</p> <p><b>Institutions</b> <b>Political process.</b> Executive interference in trade unions <b>Rule of law.</b> Legislative changes have weakened trade unions.</p> <p><b>Agents of change</b> Alliances with other change agents largely absent.</p>	Limited scope for donor support. Some capacity building or twinning programmes might be appropriate.
Academic and policy research units	<p>Crucial role in creating a well educated and enlightened elite.</p> <p>Periods of strong university activism and political repression.</p> <p>Heavy political interference in running of universities and appointment process.</p> <p>Research capacity on poverty issues limited in universities, but there are stronger poverty research institutes outside the</p>	<p><b>Contextual factors</b> <b>Globalisation and regional influences.</b> Greater international contacts and exchange. <b>Human development.</b> Free primary education has stretched government budget. Lack of resources for tertiary sector (e.g. lecturers' pay dispute).</p> <p><b>Institutions</b> <b>Political process.</b> Heavy political interference in running of universities and appointment process. <b>Public administration.</b> Key role of universities in creating well qualified civil servants.</p>	<p>Take a holistic view of education systems, recognising the vital role of primary education in creating an empowered citizenry, but also acknowledging the contribution of tertiary education and research to creating a well informed elite and strengthening the policy process.</p> <p>Consider support for development research institutes.</p> <p>Where possible draw on local</p>	

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		universities.	<b>Agents of change</b> Key role of universities in creating a well informed <b>political elite</b> . Some exchange between academics and <b>civil society</b> , but relationships could be strengthened.	research capacity in conducting studies.
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C. AGENTS OF CHANGE	Driver of change	Key features	Linkages with other drivers	Operational implications
	Faith groups	<p>Faith groups have enormous outreach in areas where other civil society organisations are not present.</p> <p>However, they have not acted as a unified force because of divisions on ethnic political and sectarian lines.</p> <p>At times in Kenya’s recent history faith groups have played a role in pushing for political reform.</p> <p>Faith groups have also been very active in the health and education sectors, often substituting for the absence of state provided services.</p>	<p><b>Contextual factors</b></p> <p><b>Human development.</b> Key role of faith groups in providing health and education services.</p> <p><b>Institutions</b></p> <p><b>Political process.</b> Faith groups have been effective pressure groups.</p> <p><b>Ethnicity.</b> Membership of different religious groups tends to be ethnically determined.</p> <p><b>Agents of change</b></p> <p>Faith groups have an influence on all sections of society, including the <b>political elite</b> and ordinary citizens.</p>	<p>Where appropriate support faith groups in the provision of basic services.</p> <p>Caution is required in engaging with political agenda of individual faith groups because of their ethnic and political affiliations. Coalitions between faith groups should be encouraged.</p>
	The media	<p>Key role in exposing corruption and poor governance, disseminating information and ensuring public accountability.</p> <p>Political independence variable between different sections of the press.</p> <p>Media subject to considerable official harassment and attempts at control.</p> <p>Weakness of Kenyan language papers.</p>	<p><b>Contextual factors</b></p> <p><b>Globalisation and regional influence.</b> Increasing exposure to foreign media and ideas.</p> <p><b>Human development.</b> Education and literacy to enhance influence and quality of the media.</p> <p><b>Institutions</b></p> <p><b>Political process and public administration.</b> Key role of media in exposing corruption and poor governance. Political repression of the media.</p> <p><b>Ethnicity.</b> Ethnic bias in some reporting</p> <p><b>Agents of change</b></p> <p>Media influence on all agents of change.</p>	<p>Donor support to the media should generally be avoided because it may give the impression of interference. However, some capacity building support could be considered.</p> <p>Better public relations may be required to counter media misconceptions on the role and influence of donors.</p>

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	<b>Driver of change</b>	<b>Key features</b>	<b>Linkages with other drivers</b>	<b>Operational implications</b>
<b>C. AGENTS OF CHANGE</b>	The private sector	<p>Fragmentation of the private sector and ethnic divisions.</p> <p>Weak political organisation of the cooperative and informal sector.</p> <p>Only the formal sector is able to act as an influential lobby group. However, there are conflicts of interests between different industry associations.</p> <p>Establishment of the Kenya Private Sector Alliance as an apex body.</p> <p>Tendency of private sector to pursue firm or sector specific goals rather than the broader public interest.</p> <p>Close relationship between business and politics have led to widespread corruption and reliance on rent-seeking in some</p>	<p><b>Contextual factors</b></p> <p><b>Globalisation and regional integration.</b> Enhanced competitive pressures on the private sector may result in stronger lobbying for business friendly policy reforms.</p> <p><b>Deteriorating infrastructure</b> is a key business constraint.</p> <p><b>Urbanisation</b> associated with the growth of service industries and labour intensive manufacturing</p> <p><b>Informal sector</b> very dynamic, but less productive and less politically organised than formal sector.</p> <p><b>Changing rural livelihoods.</b> Increasing privatisation of agricultural services.</p> <p><b>Human development</b> essential to increase labour productivity.</p> <p>Impact of <b>HIV/AIDS</b> on the workforce and labour productivity.</p>	<p>Provide selective support to business associations to promote advocacy work. Core funding should generally be avoided.</p> <p>Promote research on specific issues affecting the private sector by industry associations and research institutes.</p> <p>Encourage private sector organisations to campaign on big issues of common interest by supporting capacity for joint action, networking and evidence based advocacy.</p> <p>Explore options to support the development of informal sector organisations and cooperatives.</p> <p>Recognise the potential for coalitions to emerge between business, civil society and the poor on specific issues. There is particular scope to encourage such alliances at the local level.</p> <p>Advocate institutional reforms to ensure a greater separation between business and politics. A number of measures are relevant in this respect, such as regulatory reforms to reduce the scope for rent seeking and individual discretion in public administration (e.g. improved procurement procedures,</p>
			<p><b>Institutions</b></p> <p><b>Political process.</b> Close links between business and politics leading to corruption in the award of public contracts and anti-competitive behaviour. Increasing influence of business lobbies on policy making.</p> <p><b>Rule of law.</b> Insecurity and shortcomings in the justice system imposes major costs on business.</p> <p><b>Ethnicity.</b> Clear ethnic divisions across the private sector.</p>	

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		<p>sections of the private sector.</p> <p>Many areas of common interest between the private sector and the poor, but coalitions for change have not developed.</p>	<p><b>Agents of change</b></p> <p>Close relations between the <b>political elite</b> and some elements of the private sector</p> <p>Business funding of <b>political parties</b></p> <p>Limited relationships between private sector and <b>civil society organisations</b></p> <p>Some <b>donor</b> involvement in strengthening private sector organisations.</p>	<p>reduced tariffs and stronger rules on tax exemptions), stronger enforcement of laws on corruption, clear ethics codes preventing politicians engaging in business, and new rules on party financing. Actions can be taken immediately, for example by supporting the implementation of the Public Officers Ethics Act.</p> <p>Promote improved corporate governance and business ethics as a means to reduce corruption and patronage.</p>
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C. AGENTS OF CHANGE	Driver of change	Key features	Linkages with other drivers	Operational implications
	Donors	<p>Relatively low ratio of aid to GDP suggests that donor influence is rather limited in Kenya, but donors may have greater influence since the change of government.</p> <p>Donors have achieved varying degrees of influence using different aid instruments. Attempts to 'buy reform' through conditional loans have been largely ineffective.</p> <p>Technical assistance has often been deployed in dysfunctional institutions and politicised environments with limited results.</p> <p>Large scale funding of civil society organisations during 1990s.</p> <p>Incentives operating within aid organisations and weak donor coordination partly explain the limitations of donor influence.</p>	<p><b>Contextual factors</b></p> <p>Some adjustment of donor strategies to reflect the changing social and economic context and emerging trends.</p> <p><b>Institutions</b></p> <p>Very limited donor influence on <b>political process</b>.</p> <p><b>Public administration.</b> Limited effectiveness of previous donor attempts at public sector reform and capacity building.</p> <p><b>Rule of law.</b> Increasing donor involvement in the justice sector.</p> <p><b>Agents of change</b></p> <p>Donors engage with most agents of change. For example:</p> <p>Policy dialogue with the <b>political elite</b>.</p> <p><b>Civil servants</b> affected by donor funded programmes for public sector reform and institutional development.</p> <p><b>Local government.</b> Increasing donor interest in decentralisation process.</p> <p><b>Judiciary.</b> Justice sector reform has become a major donor priority.</p> <p><b>Civil society organisations.</b> Large scale donor funding has supported the development of civil society, but led to a number of distortions</p> <p>Very limited donor involvement with <b>political parties, trade unions</b> and the <b>media</b>.</p>	See chapter 7 and the points above.

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