Can Conditionality Promote Governmental Reform?
Alternatives to structural adjustment programmes in Kenya

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Introduction

Our research evaluates the appropriateness of conditional aid in promoting institutional reform and democratic governance, taking Kenya as a case study. We compare current alternatives to traditional structural adjustment programmes. These include conditionality-based initiatives under the auspices of the International Monetary Fund and World Bank (the Poverty Reduction Strategy Paper and Economic Recovery Strategy) and a regional, conditionality-free and government-owned process (the African Peer Review Mechanism).

The problem of poor governance

- Good governance: effective rule of law, accountability, public participation, respect for human rights and transparency in the management of the public realm (World Bank, 1988)
- In the absence of good governance, malfunctioning institutions impede investment and economic growth (North 1990, Dalmazzo and de Blasio 2003)
- A key concern about governance in the last twenty years has been how to create institutions in which proper political competition and public scrutiny of the executive can take place.

Kenya and corruption

- Kenya has a history of poor governance. Corrupt practices were institutionalized under the totalitarian KANU regime (1963 - 2002). The NARC coalition has since been in power, leading to optimism for improvements.
- Yet according to Transparency International's corruption perception index (CPI), the Kenyan public still sees the government office as the country's most corrupt body.
- Main constraints on growth include weak governance, corruption, and poorly coordinated government actions.
- Fiscal inefficiency and poor public expenditure management persist under the new regime (UNDP): Kenya only complies with 4 of 16 public expenditure targets under the Public Expenditure Management Assessment.
- For former British High Commissioner to Kenya, the NARC government has "embraced corruption and denied its citizens the constitutional reform it loudly advocated a few years before".

> "Unless corruption can be efficiently tackled, prospects for LDC development will remain very poor indeed" - Clay 2006

1997: IMF stops disbursements for ESAF due to insufficient progress in governance

2000: PRSP completed; lending restarts, but suspended Dec. 2000 due to grand corruption

2002: NARC government elected, IMF & WB resume lending

March 2003: Kenya joins APRM

October 2004: APRM National Governing Council appointed

August 2005: Draft APRM programme of action submitted; Internal Self-Assessment report completed

May 2004: ERS (reformulation of the PRSP under the new government) initiated

May 2006: Review of APRM Kenya Report at AU summit in Banjul

2004-2007: CAS initiated (WB programme based on ERS)

The conditionality debate

- For the World Bank and IMF, conditionality is necessary so that governments with poor governance structures can ensure development. Yet *moral and empirical empirical arguments suggest that good governance, unlike macroeconomic progress, cannot be externally imposed*.

Empirical objections:

- The success of a reform depends on domestic forces rather than on donor efforts (Burnside and Dollar).
- Conditions complied to may be meaningless: progress in the ERS (such as the set-up of the KACC) is criticized as façade moves to placate donors.
- Rate of compliance with IMF programmes declined markedly after 1988, when more governance-based conditions were introduced. Only one-quarter of IMF programmes are completed without interruption.
- Kenya has a success rate of 48.2% for completed World Bank projects.

Moral arguments:

- Conditionality involves governments being accountable to external bodies rather than to their own people; this is undemocratic and undermines state sovereignty.
- Representatives from DFID and NEPAD agreed that conditionality was inappropriate for improving governance. For Transparency International, conditionality disrupts government initiatives and creates avenues for corruption.
- *Representatives of the IMF conceded that there was debate within the Fund over whether or not it should include governance in its programmes.*

> "The very logic of structural adjustment policies requires the repression of democratic rights" - Briones

The 'exogenous' approach: International Monetary Fund & World Bank conditionality

What is conditionality?

- Conditionality: policies a member state is expected to follow to access the financial resources of the IMF and World Bank.
- The most common tools for promoting the efficient use of resources and equity have been adjustment programmes. These demand improvement in both macro-economic imbalances (*stabilisation*) and in countries' institutions (*structural adjustment*).

What are Structural Adjustment Programmes (SAPs)?

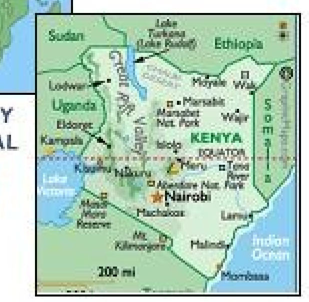
- Following the 1980s oil crisis, many developing countries could not service their debt and turned to the IMF and WB for help. Assistance was conditional on implementing SAPs (included market liberalization, privatisation, devaluation and reduction of public expenditures).
- But SAPs are criticized for not applying to Africa, introducing a democratic deficit in countries and even harming economic growth. Their failure is attributed both to poor governance and to deficiencies within the adjustment policies themselves.
- The IMF's Enhanced SAP in Kenya was abandoned in 1996. Since then there has been a shift towards PRSPs.

What is a PRSP?

- Poverty Reduction Strategy Paper: breaks with previous SAPs by stressing *government ownership* of reform and *pro-poor growth*, and by attempting to improve governance. Conditionality is still key.
- Governments write their own PRSPs after extensive consultations with civil society, and submit this to the IMF and WB for approval.
- Emphasises reforming government institutions: downsizing public sector, setting up Kenya Anti-Corruption Commission (KACC), passing Economic Crimes Bill and Public Officers Ethics Act.
- Has been reformulated under the NARC government as the **Economic Recovery Strategy (ERS)**.

The 'endogenous' approach: African Peer Review Mechanism

- Voluntary African self-monitoring mechanism created under New Partnership for African Development. Focus on improving: democracy and political governance; economic governance; corporate governance; and socio-economic development. Includes periodic reviews of the policies and practices of participating countries in this light.
- Unlike other multinational approaches, it is *internal to African states*, stresses *national ownership*, and is *voluntary and conditionality-free*.
- Kenya is one of the pioneer countries to have joined the APRM in March 2003.
- But since 2005 there have been claims of micro-management by the Ministry for Planning.
- Problems include doubt over the autonomy of the APRM from government interference, and the lack of punitive mechanisms to enhance the programme's efficacy.



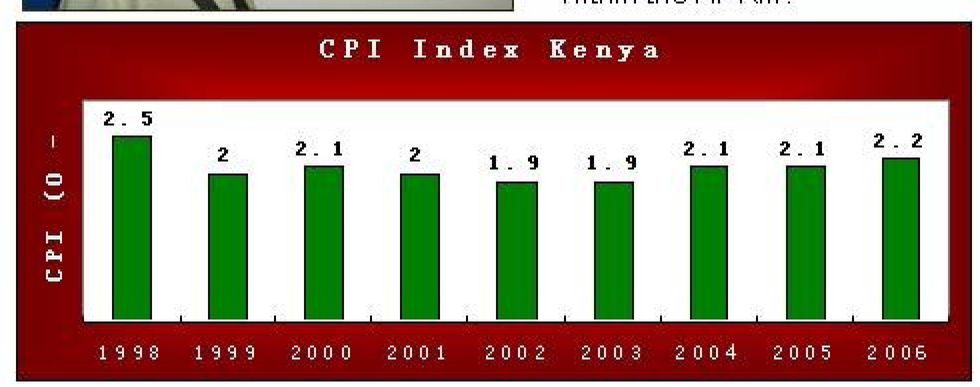
Evaluation: what balance of conditionality and government ownership is needed?

- *Representatives of Kenyan ministries, KACC and APRM see genuine political will in the government.*
  - Public awareness of individual rights is rising, reducing incidences of corruption.
  - Transparency International representatives claim that there is more democratic space in Kenya with the new regime. For many, conditionality is "a thing of the past".
  - The government is currently planning "Vision 2030", a reform programme independent of donor influence, suggesting a genuine motivation for change.

> For the Ministry of Planning, "the political will is there and it is from the top".

Other sources deem a conditionality-free approach premature

- Since the Paris Declaration on Aid Effectiveness (2007), there has been an increasing trend amongst global donors towards budget support (injecting money directly into government accounts rather than tying aid to specific projects).
- Yet DFID does not undertake budget support to Kenya, believing that political will is not yet strong enough for change to be implemented without the threat of withheld funds.
- Recent evidence of grand corruption confirms this view, as do allegations of micromanagement within the APRM.



Kenya's Corruption Perception Index: The CPI is based on surveys conducted by Transparency International. It "relates to perceptions of the degree of corruption as seen by business people and country analysts", ranging between 10 (highly clean) and 0 (highly corrupt). *(TI Website)*.

Conclusions

- The debate remains open. We advocate a *division of labour* between exogenous and endogenous approaches to governance: rather than the APRM and the ERS working independently, the political motivation for reform must first be instilled in the country before government-owned programmes under donor auspices can achieve successful outcomes.
- If the APRM succeeds in promoting competition for good governance across African countries, it will have greater impact on political will. Other encouraging trends include increasing civic education in the population and the ongoing generational shift in values. Kenyans are demanding more accountability from their government and becoming less tolerant of corruption.

Methodology and References: The study was conducted on the basis of an extensive literature review (academic publications, official reports of programmes investigated) and of interviews held in Kenya of: World Bank Lead Economist, IMF representative, Friedrich Naumann Stiftung Foundation representative, Transparency International Kenya Deputy Executive Director, APRM Kenya programme officer, Ministry of Planning Macroeconomic Directorate staff member, Kenya Anti-Corruption Commission representative, European Commission staff-member, DFID Kenya, Former British High Commissioner to Kenya, and members of the Kenyan public. Key authors consulted include: Buira 2003, Kanbur 2002, Dollar & Svensson 2000, Danaher & Yunus 1994, Kiringai 2001, Rahman 1993, UNDP, World Bank & IMF working papers.