STRUCTURAL ADJUSTMENT: THE PAINFUL MEDICINE THAT SEEMS TO WORK WHEN ALL ELSE FAILS—THE CASE OF KENYA†

Benjamin E Kipkorir*

INTRODUCTION

For many nations, structural adjustment is a painful yet inevitable process. It may be compared to a patient taking bitter medicine to cure both a fever and the disease which caused it. The treatment is prescribed and administered by specialists who act in concert to heal an ailing patient. If the treatment succeeds, credit goes to both the patient and, especially, to the healer. If it fails, the patient is held responsible and must often face successively more painful treatments to recover. However, no condition is hopeless. Ultimately, adjustment works! Nevertheless, it is easy to see why many countries, especially those in sub-Saharan Africa are reluctant to embrace adjustment. It is so painful a process, it seems to hurt more than it heals. It takes exceptional political courage to lead a country through the process of structural adjustment.

In this paper, I will discuss structural adjustment from the narrow standpoint of a developing sub-Saharan African country--Kenya. I intend to examine the ideological framework and the policies of Kenya's economic development against recent measurable results. I make no pretensions of scholarship. My paper is not the product of research; it is a reflection of my intellectual understanding of adjustment as a process and my personal perception of the Kenyan experience. It is not an official apologia for the Kenyan Government's sometimes ambivalent stand on structural adjustment. I will attempt to present both sides of the issue: the economic and the political arguments for and against adjustment.[1]

A discussion of any facet of Kenya's political economy would be incomplete if it did not address, even if only in passing, the question of Kenya's *exceptionalism*.[2] Kenya has always been judged by a different yardstick than other countries on the African continent. Since becoming home to a tiny band of European settlers, Kenya has developed a unique character. It has traditionally been regarded as a territory for rugged individuals, farmers and traders, preachers and politicians. And it has always been perceived to be prosperous, despite a lack of obviously exploitable natural resources or a work force educated to levels comparable to those of the former British West African territories.[3] For Kenya, this success is essentially accounted for by the maintenance of a working infrastructure--mail service and working telephones--and by a tolerance of other races, especially in business. Finally, it's capital, Nairobi, early on attracted international conferences and even the first UN headquarters outside the U.S. and Europe.[4] Kenya has also managed to avoid internal civil strife, despite the scare of a Somali secession in the early days of Kenyan Independence that threatened the loss of fully half the territorial domain. Civil strife such as has afflicted Uganda, Somalia and Ethiopia, as well as the costly ideological experiments in the neighboring countries of Tanzania and Zambia, have served to make Kenya a haven of stability in a continent confronted by many seemingly insurmountable problems.

---

† This paper was presented at the Earle T. Hawkins Symposium, Towson State University, in April 1995. The views expressed in this paper are the author's own, and should not be construed to represent the views of the Kenyan government.

* The Honorable Benjamin E. Kipkorir is Ambassador of Kenya to the United States.

1 The reader should know that as a public servant I have dabbled in a bit of everything from local government administration to diplomacy. In between, I have also served as a historian and as a banker, all the while nursing farming aspirations, as a true Kenyan must.

2 Attributed to John Lonsdale of Trinity College, Cambridge, in an unpublished paper.

3 In terms of the formation of an elite class, Ghana (formerly the Gold Coast), was way ahead of Kenya at the time of independence, with an educated elite going back several generations. Nevertheless, European and American visitors often singled out the Ivory Coast in West Africa, and Kenya in East Africa, as territories that were exceptional when compared with other colonial territories.

4 Nairobi, at 5400 feet above sea level has a pleasant climate which, combined with communications facilities, have made it attractive for a host of international and bilateral organizations, including the UNEP.

THE TERMS

In concise terms, what does structural adjustment mean? The IMF recently restated that adjustment should seek to:

> "achieve structural changes to enhance allocative[sic] efficiency,[5] growth, and sustainable reduction in poverty. Stabilization and structural adjustment tend to go hand in hand. Usually the country initiating an adjustment program...faces pressing macro-economic problems manifested as large and unsustainable fiscal and balance of payments deficits and inflation."

I stated earlier that I am not seeking to expound an economic theory. Nevertheless, I find it necessary to outline Kenya's economic thinking and practice, to indicate how distortions came about, necessitating structural adjustment.

THE PRICE OF AVOIDING ADJUSTMENT

There is a consensus view that Kenya's economy was, for a developing country, doing well before 1987. Occasional problems requiring adjustment, had arisen before. The attempted coup in 1982, led to a recession while the severe drought of 1984 strained both the public and private sectors. Structural adjustment was undertaken at various times before 1987, but by the end of the third decade of independence, Kenya's economy suffered from considerable distortions. The worst might have been prevented had the political will been there, but it was absent. These episodes notwithstanding, Kenya had notched up successes in critical areas that could have impacted favorably on the economy. Public health had improved considerably since independence. Infant mortality had been greatly reduced, to 77 per thousand, far better than the average obtained in most low income countries. A life expectancy of 55 years for males and 59 for females was similarly above the averages for sub-Saharan Africa. The country had also attained near universal primary school enrollment. But, Kenya began to rest on her laurels and probably began to believe in the myth of her *exceptionalism* after 1987. From 1988, her friends in the West--the donors--began to take a critical look at everything she did, from the actual conduct of the elections of 1988 to the siting of any new projects.

Many countries, Kenya included, did not immediately realize that the advent of *Glasnost* and, ultimately the collapse of Soviet Communist hegemony in 1989, would lead to a dramatic re-orientation of Western policy towards those countries which had formerly been supported more for their value as a bulwark against Socialist ideology than for any strategic reasons. Already the country was in deep macroeconomic trouble. Inflation rose rapidly to double digits and higher as the 1980's came round: Unemployment was also rising. It went up in the urban areas from 11% in 1977 to 16% in 1986, and reached 22% in 1992. In rural areas the size of the average smallholding declined from 2.0 hectares to 1.6. in the period 1982-92. (This reflects a rising population in a nation with a comparatively small amount of arable land.) Indicators of generalized poverty were going up, especially in the rural areas. It was estimated that about half the rural population were receiving less than minimum requirements of food and essential non-food commodities.

In the 1970's, when Kenya's economy hit a wall, the proverbial miracle seemed to happen and Kenyans were able to resume dreamy self delusion, believing that everything was alright[6]--Kenya's population growth rate, at 4.4% per annum, was the highest in the world at this time. But the Oil Crisis did not leave Kenya in any better shape than before; Kenya has no oil. Kenyatta's era was in its last stage, and the future of the Presidency was uncertain as different factions of the ruling party scrambled for succession. The East African Community, formed from the three countries of eastern Africa, effectively collapsed; and

5 Quoted from an IBRD Circular: "Issues in Adjustment Lending: A Summary of Forthcoming Operational Objectives," 1992.

6 A frost in Brazil in 1975 led to a dramatic rise in global coffee prices on the international markets. In neighboring Uganda, Amin's regime created an opportunity for smuggling which suited Kenyan political entrepreneurs admirably. Hence the miracle of the *Coffee Boom*.

both the Amin regime in Uganda (1971-79), and Nyerere's avowedly socialist Tanzania were equally hostile. Kenya was isolated. However, her central location in a region with a poorly developed manufacturing capacity allowed her to benefit from a captive market. In addition, she received, and made good use of, assistance from Western donors--though the value of this aid is often exaggerated. Thus Kenya came through the 1970's economically and politically stronger than any of her neighbors.

It has often been said that Kenya's economy was a mixed economy, neither capitalist nor socialist. Kenya's approach to economic development was pragmatic, and not ideologically driven. The rich did not get to exploit the poor, who were helped by a variety of governmental instruments and measurers (a few of which have been mentioned above). Equally, any aspiring Kenyan could help himself to the fruits of *Uhuru* [freedom]. The Ndegwa Commission Report of 1973 was held to legitimize this process, having underscored the point that the ordinary citizen, or *Mwananchi*, would take a long time to get a measurable share, let alone wrest control, of the economy from those perceived to control it already (Europeans) or to have advantages (Asians). In practice, this meant that the elite--including those in the civil service--were now free to undertake private business. They could legitimately stake a claim to their share of the national cake. It is this simplistic analysis of economics that led Kenya to an unmanageable state of affairs necessitating frequent structural adjustment, and this was especially noticeable by the end of the 1980's.

The foundation for this mixed economic system and agenda was laid soon after Independence. Despite (or perhaps because of) his own acquaintance with communist Russia, the nation's first president, Kenyatta, had an intense dislike of the neo-Marxist ideals espoused by many of his contemporaries in the region. Conversely, Oginga Odinga, Kenya's first vice-president, was, throughout his political life, a professed socialist. As Odinga never had the chance to carry out his agenda, we will never know whether he would have followed Tanzania and Zambia in their neo-Marxist experiments. Nevertheless, Kenya never practiced outright capitalism at any stage of the history of her political economy either. The prevailing wisdom in post World War II Europe prescribed state intervention in the economy to stimulate growth and address distortions, for example, in the distribution of wealth. The Labour Party which came to power in Britain soon after World War II. It was socialist in its philosophy and practice. It nationalized many public utilities and much of British industry with the exception of commercial banks. It was from Western European socialists that leaders of newly independent states of the world borrowed in determining economic and political ideology. Even more than their British counterparts, African leaders needed to share the national cake with millions of newly enfranchised citizens. Barring the presence of African capitalists the state was the best means by which this could be achieved.[7]

In addition, colonial Kenya's economy had already been operating under socialist ideals, borrowed from the British Labour Party. The railways, airline, and posts and telecommunications were part of the integrated British East African Territories administration (soon to be transformed into the East African Common Service Organization, EACSO, and then, from 1967 to 1977, the East African Community). Kenya only had to nationalize or purchase controlling interests in a few other utilities, the power generating and distribution company and the largest bank in the country--The National & Grindlays (which became Kenya Commercial Bank). Kenya then went on to inaugurate many state enterprises and to promote the co-operative movement through appropriate policies and regulations. In time, state ownership of insurance companies, with a monopoly in reinsurance, agribusinesses, cement manufacturing, tourist enterprises etc., effectively crowded out the private sector.

---

7 See "African Socialism and its Application to Planning", Sessional Paper No. 10, 1965, Government Printer, Nairobi. This paper, written, it is believed, by Tom Mboya (the flamboyant Oxford educated former Trade Unionist), and Mwai Kibaki, an economist educated at Makerere and at London University, set the stage for Kenya's *mixed* economy. No document has had such a profound influence on the thinking and practice of the Kenyan political economy as Sessional Paper No. 10.

At another level, the government began to embark on a socialist agenda of providing free services to *Wananchi*, i.e., the people. Access to outpatient treatment in government health centers, clinics and hospitals was made free in 1966. Also, free 7-year primary education was declared for all children in 1974. With the introduction by President Moi of free milk to primary school children in 1979, under a new School Milk Scheme that eventually became heavily donor-dependent, Kenya was firmly on the road to becoming a true socialist state like her neighbor Tanzania. The management of the two countries' economies differed only in degree and style, not particularly in ideology. The build-up of a substantial stake in commercial enterprises, coupled with a rudimentary welfare system, effectively transformed Kenya into a Socialist state in all but name. The significant difference between Kenya and the other countries in the region was in the total absence of strident ideological rhetoric in the articulation of the different programs of her political economy.

THE CRISIS

Over time, aid from friendly (especially Western) countries, became an important element contributing to Kenya's economic survival. During the Cold War, Kenya was wooed by the superpowers. Entitlement to aid was taken for granted by donor and recipient alike. Year by year, the Finance Minister increasingly relied on foreign funds, not merely to balance the budget but, more importantly, to build and maintain national infrastructure. For example, British assistance to Kenya in the mid 1980's was second only to India, a country with a population tens of times greater.

Over-reliance on aid is a grave mistake. When the crunch comes, a nation's economy is placed in peril--and this is what happened to Kenya in 1991. Aid flow has lulled many recipient countries away from sound economic and political sense. The end of the Cold War and the coincidental and the related call, from without and within, for democratic pluralism, good governance, redress of economic distortions and corruption, etc. made it necessary for Kenya to embark on an irreversible road to adjustment. The ground rules under which she had received aid from, and enjoyed cordial relations with, the West changed dramatically when the Cold War ended. Kenya was now being told that she had to change.

Such is the backdrop to Kenya's current adjustment. It is quite different from previous attempts to deal with distortions in the economy. It is a process of both economic and political adjustment for survival in a greatly changed world.

Although not alone among the sub-Saharan countries so affected, Kenya was particularly hard hit by donors' sudden withdrawal of support after 1991. The country was not prepared politically for such a dramatic confrontation and her leaders, probably justifiably, felt betrayed. Early attempts at Fund/Bank supported structural adjustment, in 1989, failed because the government was preoccupied with a domestic political crisis following party and national elections in 1988. The elections had been conducted under a new queue-voting (*mlolongo*) procedure and resulted in widespread complaints of rigging and other electoral kinds of malpractice. Consequently the new Parliament and Administration were bogged down in problems of political legitimacy. An emerging opposition movement increasingly took its case into the international arena. By the time multiparty elections were held in December 1992, the economy was in a shambles. Comprehensive structural adjustment had to be embarked upon, and without delay.

FROM POLITICS TO ADJUSTMENT

The current economic reform program commenced in earnest in May 1993. The government had expected that aid flows, abruptly stopped by the donors in November 1991, would resume following the December 1992 elections. Nothing was forthcoming without structural adjustment. The long break from effective contact with the donor community between 1991 and 1993 had taken its toll on the economy. New macroeconomic distortions, arising mostly from a laxity in fiscal and monetary controls, required urgent attention and further complicated the problem. Fortunately for Kenya, a fresh view was taken by both the IMF and the World Bank. Also critical was the appointment of a new economic team, including a new Minister of Finance and a new Governor of the Central Bank, to undertake negotiations with both the

Breton Wood institutions and the donor community. Untainted by past failures, the new Kenyan economic team, with new civil service leadership at the Treasury, has conducted effective exchange with the respective parties both internal and external. If it should turn out that Kenya's economic problems could have been avoided by the right personnel appointments, then a useful lesson will surely have been learned. Nevertheless, the question of political commitment--by politicians who cannot ignore the effects of adjustment on the people--remains. The donor community seems inclined to believe that the hesitant approach to reform is a willful act of defiance driven by selfish, interests. I prefer to believe that African leaders genuinely fear the unknown consequences of adjustment.

Few African politicians are personally acquainted with successfully concluded adjustment. Fewer still can persuasively explain adjustment to their colleagues. It takes guts and courage, not just reason, to embrace adjustment. The fear of adjustment and its effects on the masses and, ultimately, on the politicians themselves is real and can be illustrated. For these reasons, the structural adjustment now under way in Kenya is an impressive political effort.

The adjustment now in progress in Kenya is revolutionary. It addresses the fundamental question glossed over at Independence: what is the most effective role of the state in the economy? A crucial platform of Independence generation leaders was African **control** of the economy. Participation in business by an elite was seen as a partial means to this end. Another means to the same end was state participation in commercial enterprise over and above its constitutional role as regulator. It is this other role of the state in the economy that has come under critical review. The government has had to agree to privatization of most state enterprises, and discussions on the accomplishment of this policy are at a delicate stage. Donors would like Kenya to move forward more aggressively while the government is worried that privatization could result in other, potentially more serious, distortions (chiefly regional inequities due to inherent differential factors that are themselves functions of earlier unequal distribution, by colonial powers, of services and patronage). In a related issue, the government has to address the subject of a functional civil service, one that is well remunerated and committed to professional service to the public. Before this can be fully realized many public workers will have to be retired under a comprehensive program of civil service reform.

The most important of the other areas covered in the program of adjustment is market liberalization and the removal of price controls. In many cases the government has readily acceded to essential reforms and the removal of the price control regime in toto. The most difficult case, inevitably, is grain marketing. The government's concern with food security in a region prone to periodic droughts and famine has made it difficult for progress to be achieved despite the philosophical acceptance of open market principles.

What successes have been achieved so far? Perhaps the most important indicator of the positive effect of reform is the stabilization of the Kenya Shilling. At the beginning of the reform, the U.S. dollar was valued high at 80 Kenyan Shillings. Within a year, the exchange rate had become one dollar to K.sh.37.00. For some time now, the currency has stabilized at K.sh.44.00. The rapid relaxation and ultimate removal of exchange controls has been the single most important indicator of the positive results of adjustment. Nobody likes to operate in a market in which the currency is fluctuating and erratic or moving in one linear direction for no apparent reason. Due to the fiscal and monetary measures undertaken up to the present time, a flurry of economic activity has been witnessed locally. With the partial opening of the local stock market to foreign investors, there are positive signs from that direction too.

THE SOCIAL DIMENSION: WHO CARES?

A meaningful discussion of structural adjustment without an attempt at discovering its social dimensions is incomplete if not impossible. Governments often describe the social impact of structural adjustment as unacceptable or unbearable to justify their reluctance to undertake it. They imply that the condition of some or all of the individuals in their society would be irreparably hurt by the sacrifices of adjustment. This contention makes objective sense only if the individuals in question had been working hard enough, prior to the distortions in the economy, to have deserved better. The case has also been made that the need for adjustment is in part a function of extraneous factors such as adverse weather conditions, unpredictable international developments and unfavorable terms of trade. These factors explain the reluctance of governments to accept the bitter medicine of structural adjustment. It can indeed be shown that quite often adjustment, like aid, can harm those whom it is intended to benefit.

The government of Kenya has tacitly assumed that the long term effect of adjustment is beneficial for the society as a whole and for the economy in particular. Simultaneously, it has most emphatically argued that "in the short term, the policy changes [of adjustment] have exposed the poor to higher levels of risks."[8] The government has identified certain vulnerable groups in incredibly ingenious categorizations: the young, women, the landless, those in arid and semi-arid (ASAL) areas, subsistence farmers, hunter gatherers, the disabled and others.[9] You might wonder who is not vulnerable to adjustment. If you conclude that no one is, you get the message. The government then went on to call on the donor community to "assist..in the dual responsibility of supporting both the reforms [related to adjustment] and the social dimensions arising from them."[10]

While structural adjustment has adversely and severely affected the poor, no single economic group has been spared. Currency devaluation, an immediate and visible consequence of adjustment, hurts the propertied classes especially badly.

It is true that exporters enjoy immediate advantages, but these are illusory and temporary. In the fewer than twelve months that I have been in America, I have seen both sides of the coin. Tour operators who immediately switched to the U.S. dollar in their contracts--because the currency was more reliable at the initial stage of adjustment--soon found themselves at the short end of the metaphorical stick when the Kenyan shilling recovered much of its lost strength and stabilized, within a matter of months!

On the other hand, Kenyan farmers who had to withstand unadjusted petroleum and spare parts prices for their agricultural inputs found, at the end of the season, that, because of economic liberalization, the market was flooded with cheap, often dumped, subsidized grain and other food crop supplies from the very countries decreeing adjustment. In less than nine months, the price of a 90kg. bag of maize (corn) dropped from 1000 to 570 shillings, not because the cost of production decreased, magically, in a single season, but for precisely opposite reasons. It takes more than a season for costs and prices of domestically produced goods to adjust to open market conditions.

The litany of woes attendant upon adjustment is long but neither tedious nor inconsequential. Governments choose to ignore the social dimensions of adjustment at their peril. Even communist dictatorships have to pay attention to the plight of discontented populations as Romania's Nicholae Ceausescu found out too late. Democratically elected governments are particularly sensitive and vulnerable. In Kenya, where more than 50% of the population is made up of youths under 16 years old, the burden on the working and income generating sections of society can be unbearable.

8 ''Kenya Poverty Assessment: Executive Summary Overview, Conclusions and Recommendations.'' Paper prepared for the Consultative Group Meeting for Kenya, Paris, December 15-16, 1994, The World Bank, 1994.

9 *Ibid.*

10 *Ibid.*