National Conference on Equity & Growth

Conference Report

Society for International Development
African Women & Child Feature Service
ActionAid International Kenya
Swedish International Development Cooperation Agency
Report of the
National Conference on Equity & Growth

“Towards a Policy Agenda for Kenya”

May 22–23, 2006
Kenya School of Monetary Studies
Nairobi, Kenya

Hosted by
Society for International Development (SID) Eastern Africa Regional Office,
ActionAid International Kenya (AAIK),
African Woman and Child Feature Service (AWC),
in collaboration with the Ministry for Planning and National Development (MPND)
and the Swedish International Development Cooperation Agency (Sida).

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### Abbreviations

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<tr>
<td>AAIK</td>
<td>ActionAid International Kenya</td>
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<tr>
<td>AGOA</td>
<td>Africa Growth and Opportunity Act</td>
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<td>ASALs</td>
<td>Arid and Semi Arid Lands</td>
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<td>AWC</td>
<td>Africa Woman and Child Feature Service</td>
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<td>BEE</td>
<td>Black Economic Empowerment</td>
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<td>CBS</td>
<td>Central Bureau of Statistics</td>
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<td>CDF</td>
<td>Constituency Development Funds</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>ERS</td>
<td>Economic Recovery Strategy</td>
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<td>ERSWEC</td>
<td>Economic Recovery Strategy for Wealth and Employment Creation</td>
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<td>FPE</td>
<td>Free Primary Education</td>
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<tr>
<td>GEAR</td>
<td>Growth, Employment and Redistribution</td>
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<td>IDP</td>
<td>Internally Displaced Persons</td>
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<td>KARI</td>
<td>Kenya Agricultural Research Institute</td>
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<td>KHPF</td>
<td>Kenya Health Programme Framework</td>
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<td>KNCHR</td>
<td>Kenya National Commission on Human Rights</td>
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<td>LATF</td>
<td>Local Authority Transfer Fund</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MPND</td>
<td>Ministry of Planning and National Development</td>
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<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>NCEG</td>
<td>National Conference on Equity and Growth</td>
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<td>NESC</td>
<td>National Economic and Social Council</td>
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<td>NSHIF</td>
<td>National Social Hospital Insurance Fund</td>
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<td>RAPP</td>
<td>Rich and Poor: National Discourses on Poverty, Inequality and Growth Project</td>
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<td>SID</td>
<td>Society for International Development</td>
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<td>Sida</td>
<td>Swedish International Development Cooperation Agency</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strength, Weakness, Opportunities and Threats</td>
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<tr>
<td>VCT</td>
<td>Voluntary Counselling Centre</td>
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<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Foreword

We are glad to present to you the report of the National Conference on Equity and Growth that was held on May 22nd to 23rd, 2006 in Nairobi, Kenya. The Conference was a culmination of over two years of project work on poverty, inequality and growth that our organisations have been implementing since May 2004. Some of this work was also undertaken in conjunction with the Ministry of Planning and National Development.

The motivation for this work, of which the Conference was a key highlight, was premised on the fact that, whereas Kenya is a very unequal society, the issue of inequality had not yet received appropriate attention both in public policy and debate. Whereas the undercurrents of inequality have been felt in our politics in one form or another, much of these have been focused on regional rather than on other forms of inequality such as income, and even much less on the more important question of equal opportunity. The sheer force of ethnicity has effectively shielded a coherent political debate and concrete policy response to this problem which has a strong multi-dimensional character. Our work seeks to raise the profile of inequality in public dialogue, and provide a calm arena where this debate can take place as the country explores ways of addressing this matter comprehensively.

Because of the intricacies of the subject, the process has been deliberately designed and implemented in a consultative and collaborative manner. It has involved communities, academics, private sector, civil society and government. In so doing we have been able to tap onto the perspectives of people from different backgrounds, talents and experiences. We believe this has enriched the debate and ensured ownership and sustainability of the dialogue on emerging issues.

This Conference Report does not seek to position itself as the ‘final word’ on inequality in Kenya and how to deal with it. On the contrary, we think that it marks the beginning of a thought process that should contribute to the design of a comprehensive framework for addressing this outstanding development question.
We would like to invite Kenyans and others who have an interest in the country’s development to use this Report to engage the debate and help in providing appropriate direction. Additionally, we invite all readers to carefully study the presentations that were made at the Conference which are annexed to this report. They highlight key issues and lessons, even from other countries.

The country is presently on a reform path and it is important to seize the opportunity to undertake reforms that also address issues of equity. As participants at the Conference noted, we must all continue to emphasize the need for greater equity in programming, policy formulation, civic and political leadership. Different actors from research, media, community organisations, private sector and international partners all have a role to play in ensuring that equity becomes a core value that informs our decision making and processes.

Finally, we would like to acknowledge all the people and organisations that made the National Conference on Equity and Growth a success. Since we cannot mention all of them here, we would like to appreciate all their efforts. In particular, we would like to thank the Ministry for Planning and National Development for their involvement in our collaborative project on poverty, inequality and growth.

**Duncan Okello**  
*Regional Director, Society for International Development*

**Rosemary Okello-Orlale**  
*Executive Director, Africa Woman and Child Feature Service*

**Joyce Umbima**  
*Country Director, ActionAid International Kenya*

**H. E. Bo Göransson**  
*Ambassador, Embassy of Sweden in Kenya*
The National Conference on Equity and Growth came at an opportune time in Kenya’s history and transition. Kenya has been characterized as a highly unequal country; with these disparities manifested along income, regional and gender lines. Crucially, inequalities in opportunity, rights and political power underpin the disparities we observe daily. However, the country has attempted to implement various policies and reform measures to reduce poverty and foster pro-poor growth.

The Government has introduced such measures as free primary education, constituency development funds, and other sector-level reform initiatives. The Conference discussed these reforms and how they can be improved in order to enhance participation, growth and equity. As the Permanent Secretary and Minister in the Ministry for Planning and National Development noted, gains in the last few years indicate that reform measures are paying off, and that this provides good basis for equitable development.

On this, the hosting organizations observed that it is noteworthy that the reform environment in the country is a good opportunity to implement comprehensive reforms and strategies aimed at tackling widening inequalities. This is the main challenge that arises out of the history that Kenya has had with inequality. Conference speakers and participants illustrated this point well.

Arne Bigsten, from Sweden and who has written widely on inequalities in Kenya, indicated that inequalities have changed over various phases of Kenya’s pre-colonial history and post-independence experiences. Moi University’s Mutakha Kangu (a former Commissioner with the Constitution of Kenya Review Commission) indicated that the structure of post-independence governance, its skewed and elitist character, has led to the regional disparities that are present in Kenya. However, as other speakers noted, there are great opportunities for a developing country like Kenya with vast endowments to reduce poverty and inequality by focusing more on institutions and sound policies for growth.

The Conference also discussed the theoretical and conceptual definitions of equality and equity, noting that it is crucial for debates and policy to clearly outline the variable or outcomes under which equality is being discussed. While appreciating the fact that
human beings are inherently different because of differing personal attributes and skills, it is essential for policy and the State to provide equal opportunity, rights and public goods, the basis on which different people can participate in development equitably. Prof. Terry Ryan’s succinct presentation offers good reading in this regard.

In the break-out discussions, the Conference considered a number of issues based on nine sector working groups. A number of emerging issues were unique to each of the groups while others were cross cutting. A good number of the working groups observed that inequalities in Kenya are produced generally by structural and political factors such as marginalization, ethnic-based politics and bad governance. Failure to review the constitution comprehensively still means that Kenya suffers form a multiplicity of laws, marginalization by gender and region and skewed political power representations that continue to drive inequalities in Kenya. Discussions from the groups on agriculture, trade and small industry observed that information flows and the lack of integration of either small agriculture or small enterprise with the formal economy are key challenges inhibiting growth in the sectors. The government should continue to play the role of linking these sectors domestically, and even with the international markets and economy.

Mainstreaming of issues like gender and human rights are essential for equitable growth. The human rights group emphasized accountability, equity, participation and empowerment as key operating principles that can lead to human rights based concept of development. The principle of inclusivity was also discussed by the working group on constitutional dimensions of inequality. It emphasized that the fundamental function of a constitution must be to govern society and limit state power.

Summarizing these discussions, the report offers general foundational principles that emanating from the Conference. While restricting itself from drawing a long list of ways, means and strategies that can address inequality, the report is of the view that given the multidisciplinary nature of the issue at hand, and given the varying sector and geographical experiences, these broad principles can inform sector strategies and action plans.

The report identifies five key areas for consideration: correct historical and conceptual analysis; dealing with horizontal and vertical inequalities; developing sustainable institutions; participation; and leadership. All actors on the development scene are called upon to focus on the issue of equity as a cardinal value that can inform their programming, implementation and leadership.
1 Introduction & Opening Statements

1.1 Introduction

The *National Conference on Equity and Growth: Towards a Policy Agenda for Kenya* was a culmination of project work on poverty, inequality and growth that was initiated in May 2004 by the Ministry for Planning and National Developments (MPND), Central Bureau of Statistics (CBS), and the Society for International Development (SID) with support from the Swedish International Development Cooperation Agency (Sida). The Project team was later joined by the African Woman and Child Feature Service (AWC) as the project’s media partner, and ActionAid International Kenya (AAIK) to deepen and widen the work by involving communities in the issues that were being tackled. This project, of which the Conference was a significant component was titled *Rich and Poor: National Discourses on Poverty, Inequality and Growth (RAPP)*. It had the following objectives:

- To elevate the visibility of inequality as a special development question
- To facilitate national public debate and discussions on inequality, poverty and growth and mobilize key stakeholders around these challenges
- To generate and publish knowledge and information on poverty and inequality
- To assess the impact of previous poverty reports
- To evaluate and design and consider appropriate policy responses to the problem of poverty and inequality

To this end the Conference was being hosted as a climax activity to consolidate work done over the last two years and involving stakeholders in suggesting possible strategies of addressing inequality in Kenya. The main objectives of the Conference were:-

- Reviewing the progress made in terms of growth and development policies that have been implemented so far;
- Raising the level of understanding and awareness of socio-economic and political inequalities, to learn how other countries have been able to address
inequalities, and how equity can be fostered as a value in planning and leadership;

- Identifying key strategies and policies that can be implemented in order to address various inequalities and to foster growth and equity;
- Providing a platform and impetus for the conceptualization and design of a framework that outlines what can be Kenya’s long-term vision for growth, equity and development.

The Conference was being hosted as an activity that would enable the achievement of the RAPP objectives in a number of ways. Firstly, the event enabled the mobilisation of key stakeholders who came together to discuss ways and means that can be used in addressing the twin challenges of poverty and inequality in Kenya. Secondly, it was an event where we shared lessons, experiences and information from different regions and countries, all in a bid to facilitate wider learning and dissemination of key findings. Thirdly, the Conference was an opportunity to involve, and to share information with Government in order to ensure that policies aimed at addressing poverty and inequality are deepened for better outcomes of our peoples. Finally, the Conference was hosted in order to take stock of the gains that Government, and other actors, had gained in terms of designing and implementing interventions aimed at reducing poverty and improving the standard of living of Kenyans. Such interventions include the on-going implementation of the Economic Recovery Strategy for Wealth and Employment Creation 2003-07, implementation of various policies aimed at achieving the Millennium Development Goals (MDGs), free primary education and devolved funds such as the constituency development funds (CDF).

The Conference brought together over 300 participants from civil society, community-based organisations, research institutes, universities, private sector, international bodies and government. There were participants from Uganda and Tanzania. The Conference was addressed by both local and international speakers,* and it was characterised by both plenary and working group discussions.

1.2 Statement from hosting institutions

In light of the broad vision of the RAPP project, the objectives of the Conference, and the collaboration with the Ministry of Planning and National Development, SID, AAIK and AWC Feature Service begun the Conference by noting the major gains and successes that had been achieved thus far, and highlighted the need to deepen these gains by ensuring that Conference deliberations are forward looking in terms of continuing debate on inequality. They outlined the major reasons for which they remained keen on the inequality debate in Kenya and the need to remain focused on the Conference objectives. They thanked and welcomed Government participation in the process and hoped that the Conference would mark a new phase of the good collaboration that the hosting institutions had with the Ministry for Planning and National Development.¹

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* The key International speakers were: Prof Arne Bigsten from Göteborg University (Sweden), Dr Giovanna Prennushi from the World Bank, Prof Stephen Gelb from South Africa and Prof Okello Oculi from Nigeria. Their full papers are annexed at the end of this Report.

¹ See annex for full statement that was read on behalf of SID, AAIK and AWC. See annex for all presentations or access through www.inequalitykenya.org or www.sidint.org
1.3 Government of Kenya representation

The Government was represented at the Conference by the Minister and Permanent Secretary in the Ministry for Planning and National Development, Hon. Henry Obwocha and Dr Edward Sambili, respectively. In attendance was also a number of other government officials, permanent secretaries from various ministries and other departmental heads. The Conference was officially opened by the Minister.

In his opening statement the Dr Sambili begun by reminding the participants that a Conference is only as good as the discussions and recommendations it makes. He also noted that after years of much decline, growth in Africa in general and Kenya in particular had been revived and that this was a statement that policy reforms are starting to pay off and that this was a good opportunity to have a discussion on distributional aspects of economic growth. He noted the importance of moving forward in terms of debate, so that discussions at the Conference would not just be restatement of the facts and data about poverty and inequality, but that participants would go beyond these and make concrete recommendations on how these challenges can be addressed within the context of on-going policies. These include the on-going implementation of the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC), various sector-level strategies that have been initiated (such as in health, agriculture and governance). Completion of these reforms would lay the foundation of a pro-poor and equitable growth process in Kenya. In closing, the Permanent Secretary reminded the participants that discussions at the Conference can inform such policies as the Economic Recovery Strategy (ERS), whose implementation period is nearing, and any long term development strategy or vision that would be appropriate for Kenya. He welcomed the Minister to give the key note address and to officially open the Conference.

In his keynote address Hon. Obwocha begun by mapping out the various policies that had been implemented by the Government in the past and present which clearly outlined the intention of the Government to address the challenges of underdevelopment and inequalities. These included such interventions as land resettlement and reform programme, rural works, district focus for rural development and the devolved funds that were in operation in all constituencies. He noted that when the NARC government was elected it embarked on a number of programmes that were aimed at reducing poverty and reviving growth. In reinforcing sentiments echoed by his Permanent Secretary, the Minister also noted that various sector level strategies have also been designed and are currently being implemented.

The Minister noted that the experiences the Government had learned in policy implementation in the 1990s showed the need to focus on creating an enabling environment in which people’s opportunities and incomes could be raised in order to widen choices. While quoting the Nobel laureate Amartya Sen, the Minister noted that creation of an enabling environment would also empower people to utilise their capacities and knowledge in order to improve their standard of living. In this light, he said that such policies as the free primary education would not only have short term gains in terms of enrolling more students to schools than before, but that it would
empower these children in terms of their long term potential. The Minister noted the importance of addressing the real causes of inequality and the need to build strong institutions which would be the basis of building a united nation and safeguarding the dignity of Kenyans.

In ending his keynote address the Minister said that Conference discussions would inform such processes at the National Vision process that is being spearheaded by the National Economic and Social Council that is chaired by the President. He thanked the hosting institutions for the continued involvement and collaboration with his ministry. The Minister then declared the Conference officially open.²

² See annex for full statements by the Minister and Permanent Secretary.
2.1 Background

The issues of inequality and poverty have characterised economic debates in Kenya for many years, certainly from the last days of colonialism into the independence years. As we discuss below, colonial policies divided the country into different productivity categories that were ascribed racially, for political participation, residence, education, agriculture, commerce and leisure. The African nationalist struggle was as much about redressing these inequalities. Indeed, one can comfortably ascribe the Mau Mau struggle to the effort to redress different forms of inequalities, most specifically over political self-determination and access to land. After independence, however, we seemed to renege on the expectations that had driven the liberation struggle. An African elite assuming a somewhat repressive political leadership and slotting itself into the privileged socio-economic positions left behind by departing colonialists who could not face life under African leadership.

As various contributors at the Conference observed, the independence government did little to restructure the economy in ways that would provide opportunities for getting rid of the inequalities inherited from colonialism. Consequently, various measures of inequality have revealed that after the second decade of independence, inequality worsened. In recent times the Gini coefficient\(^3\) have moved from 0.45 (1994) to 0.49 (1997) to 0.57 (1999).\(^4\) Meanwhile, the impressive 6% per annum growth rates of the early independence decades also gave way to marginal rates that fell below zero into the late 1990s. Rising inequality accompanied by declining economic growth rate suggests declining average incomes, meaning the poor falling further below the poverty line. Recent efforts to revive the economy, especially in light of on-going policy implementation and reforms, have brought some gains. In many ways, people are starting to see the fruits of various reforms and development interventions that have been put in place by Government. However major challenges still remain in ensuring gains are equitably distributed while focussing on institutions for long term growth.

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3 The Gini index is a quantitative measure of inequality; it ranges from 0 to 1. A gini of 0 indicates perfect equality, and 1 indicates perfect inequality. Thus, as the index moves closer to 1 it indicates increasing inequality over time.

The rest of this report summarises the deliberations from Conference, presentations by speakers, discussions at plenary and the sector working groups. This section of this summary offers some insights from the Conference regarding the conceptual and theoretical issues surrounding inequality and growth. It also uses material from the deliberations to summarise the history of inequality in Kenya. Section three gives a summary of the working group discussions. Section four concludes with the proposed way forward that emanated from the Conference. Section five provides some brief closing remarks. Presentations are contained in the annex that follows.

2.2 A synthesis of the main issues

The main focus of the Conference was on equity and growth, how these two relate with each other and their impact on development in the country. There were a number of basic postulations that deliberations at the Conference noted, namely:

- Equality, in its pure sense, is at best elusive and at worst impossible to attain because of the inherent human diversity and traits;
- Policy can effect poverty reduction and welfare enhancement within a differentiated context; and
- There is no universal growth and development model – so policy can design peculiar interventions for desirable transformations towards improvements of individuals and communities.

Equality and equity are distinct in significant ways. Equality might be a desirable outcome; yet, often this implies a utopian state of parity, since the dynamic environment in which development happens means that the status quo is perpetually in flux, changing in directions and at rates that cannot always be determined or controlled. The foregoing explains why Prof. Terry Ryan noted that equality is “usually treated with respect to inequality (of treatment).” This concerns underscore the perception of Amartya Sen, the 1998 Nobel prize winner for Economics, that it is necessary to know what is being equalised (“equality of what?”). While moralists will confront such inequality, its insidiousness often forces resort to second best circumstances.

However, it was also observed that equality is itself not always desirable or just, as in vertical inequity and horizontal inequity, when unequal people are treated equally and equal people are treated unequally. Some inequalities are natural, such as biological differences in personal attributes and skills and these advantages that these might bestow on a person. Thus the important thing is to identify which types of inequalities exist and what levels of each is acceptable. Ryan noted that inequalities are often discussed with respect to assets or opportunities (echoing Sen). Asset inequalities can be financial, redistribution coming through progressive taxation which, at certain levels, can deter initiative among high income earners. Physical asset inequalities can also be redressed through redistribution, often of land in a country like Kenya. Yet land redistribution is often politically unpalatable despite being more desirable because it directly enhances opportunities for, and capabilities of the poor. Thus, governments find income redistribution the more practicable option.

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While democracy is supposed to promote markets, when participation is low, market failure often leads to elite capture of institutions which they consequently manipulate to serve their interests. The presentation made by Giovanna Prennushi of the World Bank warned that such elite capture and populism – where benefits are monopolised by better-off farmers for example – are means by which inequalities can be exacerbated.\(^7\) In such situations, the elite direct their privilege into the political arena where decisions on reversing inequalities are made, hence the preference of taxes to land reforms. Yet, while progressive taxes take proportionately more from the rich, poor countries depend more on indirect taxes which are regressive in taking the same from all, whether poor or non-poor. Furthermore, while land reforms are likely to involve permanent loss of assets, the variability of taxes means that the extent of its burden (on the rich) can also be varied as desired.

A common means of gauging inequality – amongst many others – is the use of *incomes*, which reflect *all payments to, on behalf of, or for the benefit of a particular agency*, as was clearly outlined by Seth Gor of the University of Nairobi.\(^8\) Table 2.1 distinguishes *composition* from *sources* of income, suggesting that most facets of life can translate into a money measure.

**Table 2.1: Composition and sources of income in Kenya**

<table>
<thead>
<tr>
<th>Composition</th>
<th>Sources</th>
</tr>
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<tbody>
<tr>
<td>• Salaries &amp; wages, overtime payments, commissions, bonuses, tips, gratuities,</td>
<td>Income Producing Asset</td>
</tr>
<tr>
<td>• Self employment income</td>
<td>• Farm Property which produces income</td>
</tr>
<tr>
<td>• Amount of employed insurance benefits</td>
<td>• Real Estate</td>
</tr>
<tr>
<td>• Worker’s compensation payments</td>
<td>• Savings account ,annuities, Guaranteed Investment Certificates, stocks or shares, bonds, debentures, mortgage, loans, notes, term deposits</td>
</tr>
<tr>
<td>• Old age security</td>
<td>• Business interest which produces income</td>
</tr>
<tr>
<td>• Pension, allowance, benefits and annuity, alimony, separation, maintenance or support payments</td>
<td></td>
</tr>
<tr>
<td>• Gains from investments</td>
<td>Non-Income Producing Assets</td>
</tr>
<tr>
<td>• Interest income</td>
<td>• Retirement</td>
</tr>
<tr>
<td>• Value of assets which do not produce interest income</td>
<td>• Savings Plan,</td>
</tr>
<tr>
<td></td>
<td>• Real Estate</td>
</tr>
<tr>
<td></td>
<td>• Investments Life Insurance</td>
</tr>
<tr>
<td></td>
<td>• Registered in other non income producing assets</td>
</tr>
<tr>
<td></td>
<td>• Business asset which does not produce income</td>
</tr>
<tr>
<td></td>
<td>• Non-interest bearing bank accounts</td>
</tr>
<tr>
<td>Other sources of income</td>
<td></td>
</tr>
<tr>
<td>• Employment; Self -Employment</td>
<td></td>
</tr>
<tr>
<td>• Tips, gratuities; Vacation Pay; Insurance Payments; Workers Compensation Payments; Payments from Official Guardian or Public Trustee; Separation &amp; Alimony Payments; Support Payments (for spouse or child); Support from relatives or other sources; Mortgage Income;</td>
<td></td>
</tr>
<tr>
<td>• Immigration remittance; Student Grants</td>
<td></td>
</tr>
</tbody>
</table>

Income comparisons can be based on population, class, region, gender, race, etc. Table 2.2 offers further classifications of income, including *functional* and *personal* distributions.

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\(^8\) Seth Gor. *Income inequalities: Measurements, dynamics and broad policy recommendations*. See annex for full presentation.
Table 2.2: Functional and personal classification of income

<table>
<thead>
<tr>
<th>Functional (returns to production factors)</th>
<th>Personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Income to labour (human capital)</td>
<td>• Occupational distribution (by groups or industries)</td>
</tr>
<tr>
<td>• Income to property (physical capital)</td>
<td>• Geographical or regional distribution</td>
</tr>
<tr>
<td>• Proprietor’s income (enterprise)</td>
<td>• Racial distribution</td>
</tr>
<tr>
<td></td>
<td>• Distribution by sex</td>
</tr>
</tbody>
</table>

Kenya’s main mode of measuring income inequalities is the Gini coefficient generated from the analysis of household survey data. These however typically have a large scope for error due to incomplete or inaccurate cover of populations and/or incomes.

If equality is elusive, then a more practical policy instrument is equity, emphasising ‘justice’ and ‘fairness’, best illustrated using Amartya Sen’s capabilities and entitlements approaches. Sen argues for equalising opportunities for achieving outcomes, rather than equalising outcomes. Thus, schools provide opportunities for education, but some may not benefit at all, or as much as others for for a number of factors including differences in educational potential. Indeed, Prennushi ascribes outcomes to individual preferences, efforts and talents, rather than some pre-determined factor or consideration (age, gender, etc).

Prennushi points to the inefficiency impact of inequity in the distribution of power and resources. Poverty undermines access to available opportunities for poverty reduction: thus poor children forego immunization and schools; and conservatism/ risk aversion among poorer farmers undermines their breaking out of a low output trap; etc. Unequal power also skews distribution of and access to other opportunities, such as universal suffrage.

2.3 Kenya’s historical experiences with inequality

While Arne Bigsten’s economic approach sees pre-colonial Kenya as an undifferentiated society with relatively unlimited supplies of land, Ryan’s noted that existence in traditional society of cultural diversities which prescribed rights by age, gender, etc. Both Bigsten and Ryan recognise the differentiating impact of the arrival of foreigners to the East African region, the subsequent introduction of widespread exchange broadening the scope for inequalities within societies and between them. These beginnings and transformations are very similar to the experiences of Nigeria whose surpluses were diverted to overseas instead of being reinvested domestically to uplift marginal areas in the country (as noted by Okello Oculi from Nigeria).9 The same was noted of South Africa (as presented by Stephen Gelb from South Africa).10

John Mutakha Kangu from Moi University (and a former Commissioner with the Constitution of Kenya Review Commission) dwelt extensively on the origins of governance, and its link with regional inequalities showing its underlying essence to be the ordered or orderly self-preservation of humans.11 He emphasised that British colonial governance was for the preservation of the colonisers rather than the colonised. It was therefore logical that in the racially motivated distinctions of

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11 John Mutakha Kangu, Regional inequalities in Kenya in the context of decentralization and devolution: dynamics and policy options. See annex for full presentation.
high-, medium- and low-potential lands, Kenyan Africans (just as black South Africans) the least productive lands which would receive least infrastructural investment to further undermine their potential and outputs. The introduction of multiple taxes (hut and poll taxes) while commerce was an exclusive Asian domain, exacerbated precarious African livelihoods, inducing them to comply with forced labour demands. Besides geoclimatic differences, these administrative constructs exacerbated regional inequalities across Kenya.

While labour in Kenya was paid a wage, however, measly, Oculi reports that in the early 1990s, Governor Lugard paid Igbo workers no wages despite being uprooted from their traditional agriculture pursuits. The same injustices applied to South African miners, the bulk of the surplus from their work being retained by their employers. In all these instances, women suffered most because they were left to care for families with scarce resources, confirming Nyaradzai Gumbonzvanda’s observation that women are the greatest entrepreneurs for managing families without resources.¹²

Mutakha lamented the failure to deconstruct the colonial state, a measure necessitated by the devious manner in which the colonial government had invested the tax revenues generated largely from indigenous Kenyans. The Sessional Paper No 10 of 1965 on African Socialism and its Application to Planning in Kenya presented the framework for development and equity in Kenya but also presented great dilemma when it noted public investment would go to areas of highest potential returns and people most responsive to change. This approach was to favour the former White Highlands while perpetuating the marginalization of areas like North Eastern Province and the malaria and tsetse fly infested western lowlands. These inequitable public investments form the core of Arne Bigsten’s original Kenyan research of the mid-1970’s. A wide variety of data exists that reflect the deepening of inequalities in the past.

The negative impacts of these inequitable policies on economic performance of 1980’s and 1990’s are consistent with Prennushi’s prognosis that unequal control of resources leads to concentration of political power and bad economic institutions. Yet this relationship could be expressed differently. Widespread corruption has widened inequalities in allowing those who work less to get more while those working more get less, inducing a disincentive to hard and genuine work. Further, consistent with Prennushi, Kenyans suffered a sham universal suffrage for the quarter decade to 1992; (basic) education was the preserve of those with means (until the introduction of free primary education in 2003); and the capture of institutions was manifest such as in the successive collapse of state-protected indigenous banks (mid-1980’s and mid-1990’s).

Bigsten joined Mutakha in lamenting independent Kenyan’s failure to undergo a radical structural transformation, retaining colonial era economic structures with an Africa/black elite assuming control of the White Highlands. What has proved significant is that much of this new African ownership has held the land for speculative purposes rather than for agriculture, constraining such land’s contribution to growth and income generation. Bigsten argues that this change of guard on the Highlands fuelled growth in inequality among Africans while inter-racial inequalities diminished. This counter-intuitive phenomenon – given the nationalist aspirations to reduce poverty and inequality – is replicated in post-1994 South Africa, ironically fuelled by the very policies that were meant to equalise opportunities, viz, the Black Economic

¹² Nyaradzai Gumbonzvanda, Gender inequalities: Experiences, dynamics and broad policy options. See annex for full presentation.
Empowerment (BEE) and the Growth, Employment and Redistribution (GEAR), as was observed by Gelb. Bigsten agreed with the Minister and Permanent Secretary in the Ministry of Planning and National Development, that contemporary Kenya has the right policies in place, more or less, but emphasised the need for implementation. While the Kenyan economy had opened up by 1994, Bigsten argues that it remains unattractive because of an uncertain policy environment and high transaction costs. While inequalities in the formal sector have diminished, other areas have seen expansion. Rural-urban migration is for example over-flooding the informal sector, partly because high formal sector wages driven by liberalisation – rather than growing sector productivity – contribute to the latter sector’s employment stagnation.

2.4 Inequality in contemporary Kenya

After the welcoming remarks of the Conference hosts and sponsors, two community representatives (Joseph Ngichili and Nalang’u Taki from Isiolo and Narok Districts respectively) set the ball rolling by vividly summarising the nature of exclusion and poverty in the arid and semi arid lands (ASALs) in particular, and in contemporary Kenya in general. The significance of their submissions was to put a human face to the evidence on inequalities that are described in the various sector papers on the subject. Ngichili pointed out that while Kenyans had equal rights fundamentally, they were not equal in reality. He lamented the idle, high potential farmlands belonging to local and international absentee landowners while many Kenyans lived on increasingly over-populated land or moved to the towns where they supplemented diminishing informal sector incomes by tilling roadsides.

Both speakers dwelt on insecurity, Taki citing the perennial Government failure to protect communities bordering national parks against wildlife while Ngichili wondered at the over-concentration of military units in Isiolo even as cattle rustlers killed, maimed and robbed the locals. They lamented the posting of teachers to the ASALs as punishment, wondering why their children sat the same national exams as those from better of regions. Taki highlighted persisting gender biases in land-ownership, which caused women to be men’s property. Women find it hard to access HIV/AIDs funds because of the requirements to access these resources, such as proposal writing.

Swedish ambassador, H. E. Bo Göransson, gave a brief speech and dramatically underscored his desire for the Conference to move immediately to a discussion on the way forward rather than dwelling on re-diagnosing the inequality problem. Both the Planning Minister and his Permanent Secretary agreed with the sentiments of the community representatives and of the ambassador. They both spoke of Economic Survey 2006, which was released a few days after the Conference and showed the economy has grown by 5.8% in 2005, up from 4.9% in 2004. While acknowledging the high poverty levels, the Permanent Secretary emphasized that growth be accompanied by re-distribution and social stability/cohesion for sustained ability in the long term, noting that the challenge was how to design this strategy. The minister listed various Government anti-poverty initiatives in the NARC government’s Economic Recovery Strategy. He noted that priority areas such as ASALs and urban areas,
which remain a priority figure, for whom a budget would be ring-fenced, requesting the Conference to contribute to the 20-year vision being crafted by the National Economic and Social Council (NESC).

Bigsten argued that policy and general economic insecurity in Kenya is undermining foreign investment, causing the country (and continent) to lose out on (for example), the lucrative Northern out-sourcing business captured by more efficient Asian countries. He ascribed economic stagnation to the failure of independent Kenya to secure an environment attractive to domestic and foreign capital. He argued that given Kenya’s comparatively good policies, the problem is one of implementation. Meanwhile, Oculi argued that African countries had lost their sense of national pride; Nigeria’s oil surpluses being spent on conspicuous consumption whose comparative advantages undermined local production. However, in response to questions from the floor, Prennushi acknowledged that countries like Kenya might be suffering from the bad policies that were conditioned on them by the structural adjustment reforms of the Bretton Woods institutions through the 1990s, inviting countries to speak out more openly should policy prescriptions impinge their development.

On weak policy implementation, however, Gumbonzvanda also lamented the weak commitment, which has seen women continue in being under-privileged. She highlighted the persisting macro-focus of analysis when women’s problems – which were of an everyday nature – were at the meso- and the micro-levels. Echoing Taki’s complaint on the exclusion of women from land ownership despite being key players in agricultural production, Gumbonzvanda wondered how the income-focus of national production analysis would capture women’s ‘unseen’ or non-monetary work. Her concern with feminization of poverty also echoed Taki’s exclusion of women from HIV/AIDS fund benefits, emphasizing that domestic violence retards productivity. She concluded that patriarchy deters the translation of the overflowing basket of forward-looking policies since Beijing Women’s conference, into tangible benefits for women.

On Africa’s economic stagnation, Bigsten suggested a closer look at the Asian continent, noting that Kenya’s growth prospects had once been brighter than South Korea’s. For this growth would provide resources for re-distribution to address inequalities that are manifest across regions and sectors.

Ryan suggested the need to focus on numbers to get a hold of the problem. He notes that out of 30 million Kenyans, the 6.1 million in the informal sector are part of that population over which poverty and inequality are a concern. He echoed Oculi’s comments on the lack of trust and patriotism destroying the Nigerian economy, and also laments the ‘tribalisation’ of Kenya, which Gelb recognises to be a strategy of the elite. However, Ryan’s dismissal of the tribe fails to recognise its social capital contribution – positive parochialism – in a country without formal social security for the masses.

\[14\] Instead of investing petro-dollars in local agriculture, the Nigerian elite used the surplus to import products like beef and milk from South America and Europe.
The Conference hosted nine break-out sessions as follows:

- Agriculture, land and rural development
- Trade, industry and small business
- Fiscal policy and public finance
- Health
- Education
- Human rights
- Gender
- Marginalisation
- Constitutional and institutional dimensions.

Below, we present the deliberations of the groups which were asked to deliberate on:

a) The current manifestations of inequalities, existing legal and policy frameworks,

b) Lessons from on-going reforms including international perspectives, and

c) Make recommendations on how policies in Kenya can foster greater equity.

The working groups were chaired by selected experts who have knowledge and experience in these areas. They were supported by a mix of Conference participants who were drawn from communities from various parts of the country, and organisations dealing with specific issues related to the Group’s discussion. Apart from this knowledge and experiences that the groups had at their disposal, they also benefited from background summaries or draft papers that had been commissioned by SID which were looking at inequality from various sectoral perspectives, and others also benefited from reports from AAIK outlining grassroots perspectives on inequality. These issues formed an integral part of the working group discussions.
3.1 Agriculture, land and rural development

*Chaired by Paul Gamba, Tegemeo Institute of Agricultural Policy and Development*

The agriculture working group took the position that agriculture could not be discussed in isolation of land, natural resources and the environment. The Group traced the origins of inequalities to the colonial measures, notably those associated with land expropriation, the distinction between high and low potential areas and the attendant designation of some areas as labour reserves while favoured areas benefited from infrastructure investment and the provision of subsidised credit, extension and marketing services.

**Manifestations of inequality and their inter-linkages**

For the agriculture sector, manifestations of inequality are manifold arising from colonial policies which independence governments did not substantively set out to redress. Thus, the working group could distinguish inequalities based on the cash crop/commercial vs. food crop/pastoralism divide and the irrationality of absentee landlords owning thousands of acres upon which *bona fide* Kenyans are squatters. A further irony identified by the Group was the dominance of females in agriculture – 80% of the labour accounting for 60% of incomes (Kodhek, 2006), while many cultures do not allow women to own land constraining their titles to a modest 5% of total land ownership. This adds a gender dimension to the perennial problem of inaccess to capital/credit with which to improve productivity, notes Syagga (2006). The subsidised inputs that had been the preserve of settler agriculture have now been focused on large scale farmers of whatever race, while self-provisioning, small farmers are hard put to access the same. Thus marketing channels for the traditional cash crops are quite advanced while all manner of obstacles are placed in the way of similar channels for the produce of the poor. Given the significance of pastoralism, it was pointed out that variations in the carrying capacities of varied landscapes and the extension services offered.

**What is the current status of law, policy and reform initiatives?**

The working group noted that while environment concerns are captured in a single law, the Environment Management Act, the legal frameworks for agriculture and land are highly fragmented, the former having a large 132 laws (while the latter has about 10). The Group noted that these numerous frameworks overlap or conflict, undermining their effectiveness.

The Group also noted the proposed role of the *Strategic Plan for the Revitalisation of Agriculture* in addressing issues of credit, marketing, inputs etc. These concerns were all seemingly directed at the global competitiveness of the modern agriculture sector; yet the initiative seemingly overlooked the place of smallholders despite evidence from the 1970s indicating the significance of the latter for national economic growth. The *National Agriculture Extension Policy* is directed at reforming extension services based on community-managed funds. Research would be extended beyond traditional institutions like the Kenya Agriculture Research Conference Report

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Institute (KARI) to ‘lesser’ institutions while the coverage would extend beyond agronomy, crop and animal varieties to appropriate agriculture technology and avenues for its financing.

On the trade scene, non-tariff barriers continue to undermine the competitiveness of local producers under the World Trade Organisation [WTO] rules, with liberalisation fuelling further inequalities, as some are able to take advantage of it while others cannot. Indeed, Kodhek notes that the lower prices likely to arise from imports will be good for consumers but destructive for producers, exacerbating inequalities between affected sectors and others. The group noted that sector policies are dominated by the international financial institutions instead of being internally generated.

On land, the big question to be addressed was whether the commodity was a social good in which case all Kenyans should have some, or an economic good which should only be accessible to those that can put it to productive use. The Group concluded that since not all Kenyans could be farmers, ownership for most should be restricted to land for construction of residential houses. The Group lamented the failure of land laws to go beyond providing for adjudication to regulating the management of titled land. Indeed, the group lamented the failure to enforce land laws.

A further area of concern is the human/wildlife conflict. While the law provides for some compensation for loss of human life at the hand of the animals, the rate is small and in practice, the money is difficult to obtain. However, the law provides no compensation for loss of produce or animals (while communities are strictly monitored for any damage to wildlife).

How sector policies, strategies or laws can be designed to foster equity

- The agriculture working group first recommendation involved instituting a participatory approach to policy making, which should cover all laws in the sector.
- The Group recommended joint ownership of land between men and women. This however would need to be facilitated by provision of laws that repeal obstacles that prevent this. There is need to clarify whether land is right (basic need) or a market commodity, where this classification could vary with contexts. There was a discussion highlighting the need for rationalisation of land holdings according to potential so that fragmentation does not undermine land potential. He further points to the need for this rationalisation to address the plights of squatters and internally displaced persons. All this amounts to the need for the Government to speed up finalisation of the development of the national land policy.
- The Group suggested a rethinking of the role of the state in agriculture with a view to reviving or enhancing its support for the sector. For example, investment in appropriate technology research is critical while irrigation should be promoted alongside reclamation of marginal lands for increased production. The latter two measures are often technically difficult to manage and one notes the difficulty of the working groups to address the need for land reforms which
is politically complex but is likely to more easily increase output since it would open up idle prime land to production.

- The Group also suggested an assessment of each ecological zone to establish its potential and comparative advantage.

- Alongside efforts to improve extension and land under crops, the Group suggested lobbies for small-scale farmers that would address resource allocation for agriculture improvements.

- Constituency Development Fund resources could be used for infrastructure improvement to enable agricultural development. ‘Community farming’ and/or ‘block farming’ are also recommended, calling for new legislative frameworks.

- Finally, microfinance (credit) and marketing networks should be improved to increase profitable production.

- As part of the discussion Kodhek noted that all necessary reforms are already listed in the Strategy for Revitalisation of Agriculture. There should be a review of the legal and institutional frameworks for the management of agriculture, land and natural resources towards a more equitable use. Along these lines, is the need to respond to the concerns of Ngichili and Taki, that wildlife gets preferential treatment in conflicts with humans.

- In addressing the provision of services to agriculture, especially to poor farmers, Kodhek points to the indispensable role of parastatals, but emphasises the need to reform them, certainly to depoliticise them.

- The need for improved extension – whether through the parastatals or private suppliers – must also be reviewed, as must the availability of quality inputs. There is need for value addition in agriculture, which would diversify the off-farm incomes that were identified significant for the poor/smallholders compared to large scale farmers. These points to the need to invest in agro-processing.

- Finally there was emphasis on the need for a pro-poor food security policy, especially in light of the emphasis on commercial agriculture.

3.2 Trade, industry and small business

*Chaired by John Ochola, Econews Africa*

**Manifestations of inequality**

The Group argued that small industries (SMEs) and the informal sector are not just the basis for sustainable growth, but are also critical for poverty and inequality reduction. The significance of small Kenyan producers has previously been illustrated in the 1960s agriculture sector, where political freedom afforded access for the African majority to cash crop farming, the small scale producers dominating national outputs most notably tea and coffee. The Group further argued that the efficacy of the small businesses in poverty and inequality reduction lay in their ability to reach deep into pockets of poverty which large enterprises could not access.
The Group traced Kenyan inequalities to colonial interventions that assumed some Kenyan regions are enterprising while others were backward. Such prejudices informed colonial resource allocation, reflected in the skewed distribution of infrastructure, for example, which was concentrated in and around the “White Highlands” while the rest of the country barely benefited despite assiduously paying hut, poll and other taxes. These intrigues induce regional asymmetries in access to information, capital and technology, which deepen inequalities. Obstacles in access to capital have especially disadvantaged women, since they are invariably victimised with respect to the key collateral – land title deeds – since many cultures have yet to accept women’s ownership of land.

The working group emphasised the potential roles of large enterprises and the formal sector in poverty and inequality reduction. For example, in an effectively integrated market, large enterprises can provide SMEs with markets as well as providing them with inputs. There is also likelihood that the focus on the formal sector trade and industry is squeezing SMEs out of opportunities for self-advancement.

**Existing legal and institutional frameworks**

The Group lamented the failure of existing legal and institutional frameworks to extend to the non-formal sector and pointed to the need to develop a policy paper which focuses on the needs of SMEs, such as the draft policy paper addressing their scope for growth and exploitation of export potential. The Group mentioned a somewhat obscure ‘National Export Policy’. There is need for a trade sector’s framework to deal with issues such as the role of the World Trade Organisation (WTO) on access of SMEs to global markets.

**Lessons from on-going policy reforms**

The trade working group lamented that when issues are focused on the elite formal sector, SMEs suffer exclusion leading in the long-term to inequalities. The Group pointed to the need to consider ways in which participation by SMEs and the informal sector can be raised to reverse trends in inequality. The Group further felt that the current focus of public spending on growth undermines attention to development/investment spending which would pay attention to those areas that might offer escape from poverty, such as the development of infrastructure in under-served areas. This public spending concern was extended to the need to rationalise frameworks for decentralised funds. The Group felt that just as racially prescribed spending generated gross, enduring inequalities in South Africa, so Kenyan spending, which might induce ethnic tensions not to mention its colonial legacy of regional bias, could lead to enduring inequalities and possible tensions.

Furthermore, the group identified the need for improved/enhanced information on market access as well as capacity building among SMEs and informal sector operators. Such initiatives should always focus on areas where they might extract the greatest advantage in terms of providing opportunities for reducing poverty and inequalities. Initiatives to empower SMEs should be generated in a participatory manner to heighten their significance and focus. These initiatives should focus especially on small-scale agriculture, which is the sector of the majority poor, but also on grassroots activities where poor traders are to be found. Finally, the Group noted the need for authorities to
foster legitimacy through transparent and accountable management of affairs, to justify payment of taxes.

**How sector policies, strategies or laws can be designed to foster equity**

In considering the way forward, the Group highlighted the need to be clear on priorities, their urgency and the manageability of their implied costs, lest undertakings are abandoned without completion.

- Policy should further be equitable in treating equals equally (horizontal equity) while unequals are treated unequally (vertical equity). In turn, this approach highlights the need for good data with which to effect such targeting. This data collection process will provide research contexts to enable auditing of interventions.

- The Group felt that political will was necessary if policies reversing inequalities were to be effected. This will need to be extended to giving greater recognition to the informal sector given both its current contributions to well-being and its potential. Indeed, given the sector’s role in employment creation, it should enjoy positive discrimination in the same way that export processing zones (EPZs) do. Thus, the Group argued that privileges like tax breaks, should be extended to SMEs and the informal sector at large, in the same way such is done for EPZ activities. Access to finance was also considered a critical area.

- However, the Group also pointed to the need to distinguish characteristics within SMEs and the informal sector, responding to the need, for preferential treatment for marginalised groups, including women, the youth and the disabled, *inter alia*. An important aspect of empowering SMEs and the informal sector is the provision of adequate protection against international competition which floods the domestic market with foreign surpluses courtesy of regional trading agreements.

**Other policy recommendations addressing sector inequalities**

- Amongst other approaches, use the strengths, weakness, opportunities and threats (SWOT) framework to review/research Kenya’s national and international trade competitiveness. Such a review would install a framework for auditing the viability and sustainability of business enterprises.

- The research and reviews above would also facilitate an evaluation of the extent of exploitation of existing business/trade opportunities, such as are provided by regional trade agreements and facilities like the Africa Growth Opportunities Act (AGOA), but remain less than optimally exploited due to weak information flows to the grassroots on issues such as rules of origin, certification, etc.

- Increase the national integration and harmonisation of frameworks (rules, institutions, etc) governing trade, industry and business, especially those emanating from the Finance, Regional Planning, Trade and Industry ministries, as well as private sector organisations like Kenya Association of Manufacturers and the Chamber of Commerce. Integrate social, economic and
political incentives within the frameworks to encourage business growth. Consequently, stakeholders should follow up their respective roles to ensure efficiency in activities.

- Pay attention to the establishment and maintenance of a conducive infrastructure, including roads, telecommunications, water and electricity.
- Undertake awareness creation among business operators and local authorities to clarify respective roles and to enhance inclusiveness in setting priorities and developing policies.
- Policies should be instituted that support SMEs and informal sector operators to gain recognition in the formal and private sector, including sponsorship of measures that allow such operators to enter the formal sector.
- In light of persisting credit constraints, a statutory authority could be established to cater for the micro-financing and other credit needs of SMEs and other informal sector operators.

### 3.3 Fiscal policy and public finance

*Chaired by Albert Mwenda, Institute of Economic Affairs*

The deliberations of the fiscal policy and public finance working group commenced by identifying the sector challenges facing the country with implications for public spending, which could be summarised under the following headings:

- Rising urban and rural insecurity
- Effects on governance of culture, ethnicity and politics.
- The role of governance in scrutinising policy formulation and implementation. Scrutiny over the parastatal sector and the role of the media in monitoring governance
- Parliamentary accountability
- Poverty, inequality and the effects of un/employment and informal sector activities.
- Also, wage policies and the returns to education should be addressed.
- Accessing quality health care.

Turning to public finance management, the working group felt that policies had to be dynamic if they were to respond to the vagaries of the environments in which they operate, which are buffeted by domestic and global factors. Fiscal policy has to be well grounded/based on a sound macro–economic framework, their design and formulation giving due attention to key economic challenges in design and formulation. Since the scope for tax revenues is limited – given the constrained size of the formal sector and the costs of collecting revenues from the informal sector – public spending must be focused on areas with optimum returns.

It was emphasised that poor economic growth undermines inequality reduction, though the role of re-distribution should be emphasised. Further, the lack of specific Ministry
of Finance controls on ministry management of the provincial and district budgets also means that while national allocations might seem right, actual spending might undermine policies, such as inequality reduction and politically neutral allocations.

The working groups decided to adopt a structure around challenges and the policy proposals nexus. The themes singled out for discussions included debt, unemployment, devolved funds, taxation, pensions, infrastructure financing, budget process and social accountability.

**a. Debt**

**Challenges**
There was a concern that debt had recently been growing fast, its accumulation threatening Government expenditure, which could undermine future commitment in areas with widening inequalities. Meanwhile, Kenya has resolved it will not negotiate under the IMF’s Highly Indebted Poor Countries initiative, which might have relieved some of the debt burden even if this adversely affects our ego.

**Policy recommendations**
Arising from the foregoing challenges, the working groups recommended greater transparency in the management of our debt portfolio, in borrowing, spending and repayment terms, to avoid high transaction costs. Furthermore:

- Long-term debt must apply only to investments with high returns pegged to national plans
- Debts must be audited regularly to ensure efficiency and greater returns
- Debt reporting including to the public must be regular and consistent
- The debt environment must be governed by clear and effective legislation which must be put in place
- The public and parliament should undertake scrutiny of the debt

**b. Unemployment**

**Challenges**
While unemployment is high and increasing especially among women and youth, there is a risk of those in employment losing their jobs. Partly, this might be due to the rising minimum wage levels and a raising wage bill, especially in Government.

**Policy recommendations**
While the Government should establish whether high taxes deter investors, it should also determine whether opportunities like Export Processing Zone are using their investment quotas or merely exploiting local workers. Furthermore:

- The Government’s tax incentives and subsidies should target all potential investors without discrimination.
• Wage adjustments (increments) should be pegged to productivity so that we do not lose competitiveness, otherwise investors might prefer capital, as is the case in the tea sector.

• Small businesses should be induced to cluster so as to make the sector easier to manage and to facilitate provision of infrastructure while also improving their management for tax compliance.

c. Devolved funds

Challenges
Devolved – or more accurately, decentralised – funds have acquired a high profile in light of perceptions that delivery of development through regular Government channels was ineffective. Their popularity is however, tempered by people’s concern that their management is dominated by politicians, notably members of parliament and councillors. The working group lamented: “We want this money to be owned by the community, not by politicians!” The Group noted the weak local level capacities and structures with which to manage the projects, decrying the lack of a participatory approach that incorporates specialists at all levels of the project. The weak consultations were also reflected in the poor coordination between various decentralised funds committees, the net effect of all these shortcomings being the development of ‘white elephants’, such as health centres with neither equipment nor staff.

Policy recommendations

• De-politicise the management of devolved funds and introduce a professionalism that emphasises formulation and prioritisation of projects.

• Introduce proper linkages between fund management, local level structures and the line ministries.

• Review the scope of fiscal devolution as a tool for greater economic equality, such as standardisation of taxes or responsibility for deficit financing.

d. Taxation policy

Challenges
The Group felt that the current tax audit system is weak with only 1.5% of money received being used for audit purposes. The tax authorities have inadequate information consumption patterns, incomes, etc., with which to develop suitable policies. The Group felt the administrative provisions for tax collection were quite tedious for the people from whom payroll taxes are collected since there was an over-reliance on this revenue source while the informal sector was excluded from the tax net. The burden on tax revenues was enhanced by their coverage of pensions since civil servants had no mandatory contribution to a pension scheme.

Policy recommendations
Funds should be ear-marked for auditing.
Research on taxation and its basis, such as consumer habits, to provide information for debates that can generate sound tax policies.

The Government pension scheme should be transformed into a contributory scheme to raise more money and lighten the burden on the exchequer.

**e. Infrastructure financing**

**Challenges**
The infrastructure is dilapidated possibly due to the poor Government financing, which raises questions about the Government’s continuing monopoly over the sector, including the roads, railways, airports and ports. The costs of infrastructure development and maintenance are high, which have adverse consequences for the poor, such as higher access costs.

**Policy recommendations**
The working groups seems to have been emphatically neo-liberal on the way forward for infrastructure development, its recommendations championing privatisation.

- Mobilize local resources through infrastructure bonds
- Speed up the enactment of the legal framework for public-private partnerships to facilitate infrastructure development. Alternatively, public ownership of infrastructure could persist, but with private management
- Where local capacity is lacking, provide concessions for foreign investors to help develop infrastructure

**f. Budget process and social accountability**

**Challenges**
The foregoing concerns and policy recommendations depend quite critically on the efficient management of the budget. Despite growing recognition of the significance of participatory interventions, citizens continue to have a marginal role in the budget management, unsurprisingly translating into scepticism over the management taxation benefits. In turn, these factors constrain efficiency and effectiveness. There’s need for research into greater budget effectiveness that can allow the use of formulae in allocating funds. Emphasis should also be on integration of recurrent and development spending to raise the profile of investment in areas that can address poverty and inequality reduction while at the same time instituting some regulation over sub-national budgets to ensure that partisanship does not undermine the flow of resources to areas that might not be favoured by ministry bureaucrats and politicians.

**Policy recommendations**
The working groups proposed that the Budget process be opened up to public participation to ensure visible economic returns to tax payers which induces further compliance.
• Encourage the tracking of resources, flow of funds and impact assessment through, e.g. public expenditure tracking surveys, community score cards, etc.

• Establish periodic monitoring of tax incidences by qualified persons, such as leading policy makers, academicians and research institutions.

• Replicate the Medium Term Expenditure Framework (MTEF) at the district level to ensure efficiency in linking resources to policy and strengthen the monitoring of projects.

3.4 Health

Chaired by Rosemarie Muganda-Onyando, Centre for the Study of Adolescence

How are inequalities manifested and inter-linked?

The Kenyan public health sector’s share of total Government spending has only recently passed the 10% mark having been about 6%, suggesting that health care was not given as much attention as the (other) strategic sectors.

Within sector inequalities were manifest in the skewed distribution of resources in which the curative budget dominated the preventive and promotive health care budget, despite focus on the latter being capable of pre-emptively addressing most of the disease burden of the poor. The curative focus – presumably due to its inefficient management – is causing a resurgence of conditions thought to have been contained, such as measles (in Nairobi) and meningitis (in West Pokot). Furthermore, the Group pointed to the possibility that over-concentration of resources on certain diseases – notably HIV/AIDS – meant that the numerous other high incidence illnesses or conditions – such as malaria – competed for very scarce resources.

A further area reflecting inequalities was staffing, with urban areas getting more than the rural areas (which accommodate the larger share of Kenya’s population). The urban concentration of personnel is probably driven by the budget’s focus on curative/hospital care. The personnel problem is further aggravated by the ‘brain drain’ which sees the flight of staff to better-paying situations abroad. Nyanjom (2006) distinguishes several categories of flight attention to which will require quite different solutions. Unsatisfactory work environments – including terms and conditions of work, and the social environment – fuel rural to urban flight. These conditions also fuel public to private sector flight, as well as, eventually, flight abroad to southern Africa, Europe and America. Finally, these same conditions drive partial flight into straddled livelihoods or total flight from the profession.

Inequalities are further reflected in the regional distribution of morbidity and mortality, the Group noting instances where infant and child mortality rates were three times the national average. Coast, North Eastern and Nyanza provinces also had markedly higher maternal mortality rates. Regional inequalities are further reflected in an urban bias in the distribution of health facilities, where rural areas with the majority of the population are under-served. The Group noted that high, HIV prevalence Nyanza province had a modest 18% of its facilities offering AIDS related services, while Nairobi with less than 10% of the population infected had 40% of VCTs.

A regional aspect of inequality which the working group did not discuss is budget resource allocations, understandably overlooked as Ministry of Health outsiders are unlikely to have access to such data. This is however, an area which budgets touch directly or indirectly on all the inequality aspects mentioned above. For instance, that the districts with the highest morbidity levels or highest abilities to pay for health care (implicit in poverty levels) do not necessarily get the highest allocations of budget resources.

However, the Group noted the way in which poverty undermines access to health care, including free services like ante-natal clinics, because households could not afford transport costs. Meanwhile, health insurance remains largely out of reach since only a small number of Kenyans are in the formal, private sector which offers insurance, the majority being poor and in self-employment. Given health’s linkages with labour (an ‘active, healthy, productive life’), little need be said that health inequalities were impinging in productivity while inequalities in other sectors also carried into the health sector.

**What is the current status of law, policy and reform initiatives?**

The main health policy document is the Kenya Health Policy Framework (KHPF) (originally launched in 1994, but modified greatly since). However, this document and/or its derivatives have no founding in law. The Group listed the “Reproductive Health Care Legislation” and the “Sexual Offences Bill” as health sector legislation, which they are not. However, it rightly listed the National Social Health Insurance Fund (NSHIF) Bill as belonging to the sector. Notwithstanding the disaggregated picture of the sector, it is managed through the Public Health Act which is in the custody of the Ministry of Health. The working group did not cite the other legislation governing the sector, such as that overseeing drugs management or the nursing profession.

The Group distinguished macro-level reasons behind health reforms to include:

- Declining financial resources;
- Increased disease burden and prevalence, such as surrounding HIV/AIDS; and
- Worsening poverty levels.

While the health group does not make explicit links to solutions, it suggested the resource issue to have been addressed through cost sharing while additional resources will be generated through the impending NSHIF Bill. The Group further pointed to the need to improve knowledge base through research (citing the AIDS vaccine) and facility based information (the Health Management Information Systems), and notes a shift from curative to preventive care.

There’s need to improve the data collection system, the decentralisation programme, or the introduction of a maternal health and HIV/AIDS insurance scheme and to deepen the Sector Wide Approach to financing as well as work on private/public partnerships.
Lessons from on-going policy reforms and international perspectives on inequalities

The health working group lamented the failure to domesticate the material of international conferences, undermining implementation of resolutions years down the road. The Group noted however, that home-grown reforms with a basis in international conventions are taking root, such as the attention to children’s rights which in Kenya is embolded in the Children’s Act.

However, there was concern of persisted failure despite repeated commitments, to implement the more cost-effective preventive health care, which would stretch Kenya’s Kenya’s budget much further. An effective implementation of such a reform would enhance Kenya’s health care delivery. But Nyanjom emphasises the Dahlgren/Whitehead framework which shows that a greater share of one’s health status is determined by non-health factors. Consequently, delivery of the Millennium Development Goals (MDGs) is critical for health sector advancement.

How sector policies, strategies or laws can be designed to foster equity

For improved actions/interventions, policy makers should assume the World Health Organisation (WHO) definition of health as “a state of complete physical, mental and social well being and not merely the absence of disease or infirmity.” This is consistent with the Dahlgren/Whitehead model or the multi-disciplinary MDGs.

- Lay more emphasis on preventive health care compared to curative care, with Government restoring the Kenya Extended Programme on Immunisation.
- Comprehensively review tax policies vis a vis health sector goods, zero-rating where possible to benefit the poor.
- Evaluate attention to HIV/AIDS compared to other illnesses to deliver equitable attention in all areas.
- Greater recognition should be given to traditional health carers and their capacity strengthened for greater roles especially in areas not reached by the formal public sector. The health working group proposes a harmonisation of training/curricula, as is the case with traditional birth attendants.
- Strengthen cross-sectoral partnerships and networking, reeling in the for-profit and not-for-profit private sectors and development partners.
- Enhance sector monitoring and evaluation (M&E), focusing on accountability, effectiveness and efficiency.
- Political will is critical in achieving policy goals. Kenya might learn from the Ugandan presidency’s role in that country’s HIV/AIDS decline, and involve the President and the First Lady.
- Introduce selective, free health care targeting pregnant women and under-5 children. Legislation should guarantee ante-natal, maternity and post-natal care. One approach to the foregoing would be the establishment of a socially sensitive, economically viable, politically feasible social insurance scheme catering for the poor.
The Government should use monetary incentives, training opportunities and fringe benefits to attract and retain qualified medical personnel especially in those parts of the country considered unattractive, to redress imbalances.

The emphasis on preventive health care will reduce the risk of emergency disease outbreaks, but the public health system should also prepare to cope with crises that might arise.

**Long-term strategies on growth, equity and development**

There is a need to develop a national rallying call, a shared vision which acknowledges national diversity as well as past injustices in developing an equitable approach to future resource management. Where necessary, affirmative action should be employed to redress colonial and independence era imbalances.

Development should be people-centred, meaning that measures of human dignity should replace, or take precedence over those of technical advancement.

In developing equitable growth and development strategies, it is imperative to move beyond policies to actions, to move away from excessive consumption to interventions that pay attention to sustainability.

### 3.5 Education

*Chairied by Arthur Karobia, Church Mission Society*

**How are inequalities manifested and inter-linked?**

The education working groups noted stagnation in infrastructure growth despite Kenya’s growing population, though this stagnation is not uniform across the country. Kenya’s 17,000 primary schools translate into 70-odd students per class/teacher, which is well above the recommended 40 students per teacher. The 3,000 public secondary schools are also likely to suffer similar over-crowding.

Stagnation in infrastructure development while student numbers grow is likely to result in mal-distribution of schools, meaning that some students cover long distances to get to schools, which might result in inaccess for the poorest. Meanwhile, the bureaucracy involved in establishing schools undermines such initiatives.

Quality education has remained the preserve of those who can afford to pay the higher cost private or public schools. The working groups included issues of access to text books and equipment under ‘quality’. There’s need to fund non-formal schools which pick up the students eliminated from or excluded by the formal system. Adult education has been neglected (constraining literacy levels as well as exacerbating its regional disparities).

**What is the current status of law, policy and reforms initiatives?**

The critical question raised by the working group is:
The philosophy of education?

Why educate people?

Responses to the two questions would draw attention to whether we have the right legal and institutional framework for education, and whether its contents are ‘right’. The working group noted the need to emphasise alternatives to formal education, such as vocational training, as avenues to poverty reduction.

Wainaina (2006) highlights the basis of current sector reforms to be the Kenya Education Sector Support Programme, which grows out of the sector’s Sessional Paper No 1 of 2005 on Policy Framework for Education, Training and Research. While Free Primary Education (FPE) has drawn many pupils into the system, some 1.5 million school-age children remain outside, which is where the non-formal schools come in. Furthermore, there are critical shortages in the FPE system; of teachers, text books, infrastructure, etc. Wainaina notes for example, that there are situations where 120 students share a teacher instead of the recommended 43. Furthermore, while primary education is free, parents should not interpret this as an absolution from any responsibility. Other investment areas could also strengthen FPE; such as nutrition and sanitation programmes.

What lessons from on-going policy reforms and international perspectives on inequalities

The working group noted Kenya’s need to avoid the manner in which religion, culture and politics have undermined education expansion and effectiveness in Nigeria. It cited Cuba’s eradication of illiteracy 20 years ago as an example that Kenya can emulate of doing what is necessary to bring (about) change.

Along the lines of developing a philosophy of education, the working group noted the need for a reviewed curriculum that espouses national values while promoting our cultures and technology. The group noted the need to resolve the issue of the language of instruction in schools in the context of the need to preserve our ethnic variety while also nurturing our national unity. Decision regarding these issues will have implications for the books developed for classroom use (see below).

How sector policies, strategies or laws can be designed to foster equity

The Group noted the need to equalise opportunities for quality education across the country. This involves rationalising infrastructure development as well as the redistribution of teachers towards the recommended 40 students per class. Teacher redistribution to hardship areas must not be seen as a punitive measure, therefore requiring that authorities offer substantive incentives, such as Uganda’s offer of preferential treatment regarding career enhancement or monthly travel allowances.

- The working group noted the need to pay attention to Early Childhood Development and Education, which can lay an even better foundation for primary learning.
- An effective monitoring and evaluation system should continually review the sector’s performance, with teachers being rewarded for creativity and
attainment. Care should be taken to ensure that administrative duties do not undermine teaching roles.

- The education curriculum should be reviewed to incorporate nationalist and cultural values alluded to above. Further, it should be reviewed for local relevance, so that illustrations are drawn from local case studies which ring true to students while also feeding into prospects for their employment. The current commercialisation of the production of text books should be reversed through encouraging teachers to write books while giving them the liberty to choose which text books they prefer. This last recommendation is however, curious since multiple text book options has been a financial burden on parents as schools change recommended books from year to year seemingly in response to author ‘pressure’ on local administration.

- The Group further pointed to the need to ensure efficient management frameworks that improve targeting for bursaries to ensure retention of students and completion of education cycles. Further, bursary resources should be raised to levels where they enable award winners to remain in school, instead of the current practice in which allocations often induce indebtedness among parents. Indeed, the Group felt that free primary education should be secured statutorily, rather than the current practice in which its basis is merely in the provision of the Children’s Act that requires all school-age children to be in education. Such a statutory basis would also ensure the timely release of funds, unlike the current situation in which the release is discretionary.

- The working group also called for the establishment of district centres of (academic) excellence to tone down the focus on national and provincial schools. This approach would benefit from the establishment of libraries and resource centres to induce a reading culture for school age children and other members of their societies. The working group proposed attention to the education needs of the marginalised members of society, such as the physically and mentally challenged. Given that such needs involve small numbers, such facilities could be integrated to the centres of excellence to serve whole districts. Adult education is an area which has retarded but has immense potential in redressing welfare through improved literacy.

- Besides the above sector specific interventions, it is necessary to employ affirmative action to improve circumstances in marginal areas. Such action should be time-bound and specific, such as in employing decentralised funds to develop infrastructure, including electricity, water/boreholes and roads amongst others. There is need to establish boarding or mobile schools in arid and semi arid areas, as well as school-feeding programmes that ensure learning is not hampered by hunger.

### 3.6 Human rights

*Chairled by Wambui Kimathi, Kenya National Commission on Human Rights*

The human rights group noted a direct link between inequality and people’s access to key institutions that enable them to enjoy their rights. Additionally this can be
interpreted in terms of discrimination and rights in a very broad way to include xenophobia, ethnicity, gender discrimination, and so on.

**How are inequalities manifested and inter-linked?**

The working group noted that inequalities arise from the failure to incorporate the principles of human rights in the planning and implementation processes. Such principles are accountability, empowerment, non-discrimination and equality, and participation. Consequently, those in society who are aware and are able to take advantage of this failure reap benefits with impunity while the victims of the failure are disenfranchised of key rights and benefits. The Group also noted that implementation of existing human rights policies has been poor especially because the people at the grassroots do not know their rights.

The Group further identified unaccountable governance and ineffective enforcement of laws as a source of inequality as this allows a few elites to transact business while not widely sharing benefits. The failure of human rights institutions to reach the grassroots undermines awareness raising, causing differentiated impacts of existing policies. Furthermore, poverty means that some people cannot afford justice provisions which are accessible to others in the same communities, such as the acquisition of the P3 form which is imperative in most criminal offences against person or property.

Inequalities are manifest within families too. Gender discrimination against women denies them access to land title deeds, for example, which in turn denies them access to credit with which to expand their livelihood opportunities. While the Group did not mention this, discrimination against children also undermines their access to justice, such as their being denied education opportunities because they are required to undertake domestic chores.

On the livelihood front, bureaucracy complicates registration of businesses. The Group expressing concern over the number of licenses required before operations commence. Weak access for informal sector operators and/or SMEs to credit undermines their business prospects, even as the Group places their capacity at 70% of all new jobs created. The lack of training for *jua kali* operators also means they are less well organised than they would otherwise be to bridge the gap between them and the rich.

The Group also emphasised that it is not the Government alone whose activities spawn human rights-related inequalities. It points to the role of the ‘big capital’ of non-state actors in fostering inequalities, citing the impacts of the Turkwell Gorge Project on the Pokot community and the potential outcomes of the Tiomin and Yala Swamp project on the vulnerable communities in which they are operating.

The foregoing matters addressed the fundamental failure to observe human rights arises from the failure to respect the current constitution. For instance, that the Constitution’s gender insensitivity breeds real-life situations in Kenya.

Other issues that arose include: access to information and how this impacts on the capability of those excluded from taking advantage of existing and emerging opportunities; lack of definitive methods of informing public policy making so that policies can reflect the real experiences of the people. The Group observed that some
policies end up creating more tensions and in some cases impoverishment of the people examples given – management and utilization of natural resources where user/host community rights are ignored. They recommended policy making approaches that build from below.

**What is the current status of law, policy and reform initiatives?**

Kenya is signatory to various human rights conventions some of which it has ratified while others it has not. The Group mentioned the need to domesticate international human rights statutes make them enforceable in Kenyan national law. Given the various examples cited above as causes of inequalities, it would have been useful for the human rights group to cite the legal and institutional frameworks that allow the non-state actors to for example, undertake activities exacerbating inequalities and undermining their host communities’ rights. One has in mind, for instance, Kenya’s drive to attract foreign direct investment, offering facilities like the (EPZ). Labour relations within EPZ are largely unregulated by local labour laws for instance, meaning that Kenyan labourers are grossly exploited.

However, the Group mentions the need to revive the HIV/AIDS bill which would secure equal treatment of people infected and affected by the condition. It further cites the Kenya National Commission for Human Rights (KNCHR) and the National Commission on Gender and Development as frameworks that are already in place, whose use should be strengthened. It also cites the Children’s Offices which are ineffective because they do not reach the grassroots.

It was pointed out that a stalemate in enacting a new constitution citing the various proposals in the Bomas draft constitution, which would have gone a long way towards improving observance of human rights. Meanwhile, it was recognised that reformist legislation that has gone some way to elevating people’s rights, such as the provisions of the Children’s Act on compulsory primary education while outlawing child labour, and its stand against female circumcision.

**What lessons from on-going policy reforms and international perspectives on inequalities**

Other than the impending HIV/AIDS bill, the Group could not cite any on-going policy reforms. However, it implies the need for reforms in stating that “mechanisms already in place should be strengthened... so we don’t create just more bodies to do work that can be handled by existing commissions.”

The Group advocates affirmative action as a tool for narrowing the equality gap. It cites the experiences of Uganda and South Africa as instances where affirmative action went “beyond numbers to truly giving the excluded a voice and opportunities to catch up through special loans to the youth for enterprise.”

**How sector policies, strategies or laws can be designed to foster equity**

The Group’s recommendations on the way forward grow directly out of the foregoing observations. The underlying position of the Group is that measures should be taken to
enhance the awareness and participation of communities in planning and managing issues surrounding their unequal circumstances. They point to an “overarching need to adopt a human rights based approach to the planning process incorporating... accountability, empowerment, equity and participation.”

Further, the Government must make justice more accessible by amongst other things, sensitising its own officials to human rights concerns, so that they more effectively disseminate information on how people can deal with inequalities, such as making use of the Children’s Offices. Human rights frameworks that already exist should be strengthened, such as the use of the KNCHR and the Gender Commission. Kenya should ratify and domesticate international conventions that promote human rights. Subsequently, civic education should be conducted to bring people on board these human rights frameworks, the group recommending that independent civil society organisations could undertake such work, their objectivity being assured through a dedicated fund. Along these lines, the Group finally also recommends the integration of the human rights agenda into the education system.

The Group points to the need for affirmative action to redress inequalities. Such measures should address excessive bureaucracy that deters the poor from pursuing small enterprises while EPZ-like privileges – such as tax relief – should also be considered for the small operators. Access to credit, capacity building and/or training should also be considered.

Other recommendations that were mentioned include: identification of ways of highlighting issues of inequality so that they can take centre stage during the campaigns for the next general election; use of public resources should be examined more critically with a view to determining how they can be better used to mitigate existing inequities especially those relating to affordability of crucial social services; that more resources should be allocated on the basis of poverty index so that poorer regions can access more public resources and therefore give them a chance to enjoy development levels similar to other regions; that more attention should be paid to the linkages between global aspects that affect human rights protection and therefore generate inequality of access to opportunities and even resource allocation; that community organizing at the grassroots level is important for empowerment; that various administrative actions could be taken to enhance public programs accountability which may have the effect of mitigating practices that generate inequality; and that government must exhibit greater commitment to make the Gender Commission more effective by way of allocating more resources to it.

3.7 Gender

Chaired by Sam Ogola, National Commission on Gender and Development

The report from the gender group suggests that it assumed a rather narrow definition of the concept, focusing more or less exclusively on the circumstances of women as if it was unnecessary to explore the possibility of inequalities impinging on men.
**How are inequalities manifested and inter-linked?**

- Women are excluded from leadership and decision-making positions with modest electoral positions in parliament and local authorities while there is none a provincial commissioner.
- Women suffer poor health (reproductive, mental and emotional health of women come under sexist attacks and discrimination time and again).
- Women are disproportionate victims of gender-based violence (including rape and domestic violence) and are targeted by negative and harmful cultural practices and traditions (e.g. the implications of bride wealth and consequences of female circumcision).
- Asymmetric distribution of economic resources favours men. Kenyan women own about 3% of the land title deeds, are paid about 30% less in salaries than men in the same positions, and normally occupy lower cadre positions in formal employment.
- Women face declining education opportunities and are subjected to gender insensitive media reporting.
- While the working group cites women’s declining education opportunities, it is significant to note that women dominate the populations of private universities, a factor whose implications are yet unclear.

**What is the current status of law, policy and reform initiatives?**

- Candidacy in elective positions are available to all who are interested and women have increasingly taken up such opportunities. However, these provisions continue to be abused by men who manipulate nominations to favour women of their choice, such as relatives and friends, undermining the democratic rights of women as a category.
- Persistently high maternal mortality rates have been addressed through the abolition of cost sharing fees in public hospitals.
- Five per cent of the Secondary School Bursary Fund is presently ring-fenced for girls at the constituency level, over and above what they might get in competition with the boys.
- Some legislation, such as the Children’s Act, has abolished harmful traditional and cultural practices that previously affected the girl child in adverse ways.
- Within appropriate management frameworks, the Government’s decentralised funds – including the Constituency Development Fund (CDF), Constituency Aids Fund, Constituency Bursary Fund, Constituency Roads Fund – have the ability to expand opportunities for women. The pending micro-finance bill is also likely to expand opportunities for women as it will target the small enterprises often dominated by women.
- A Women’s National Fund was founded in the 1990s but failed to make its anticipated impact due to political machinations. However, a national framework addressing gender-based violence is being developed.
The Central Bureau of Statistics and the Gender department have developed a Gender Sheet of disaggregated statistics for use in planning, which was launched at the end of May 2006. This Sheet will facilitate greater sensitivity to gender disparities in planning and budgeting.

Lessons from on-going policy reforms and international perspectives on inequalities

- The establishment and implementation of a gender policy framework (and even legislation) is at modest levels and remains ineffective in combating gender inequality.
- The fact that women comprise the majority of the Kenyan population seems not to count since they are not organised to make their voices heard. Indeed, some women are functionally patriarchal due to their socialisation, meaning their contribution to the gender struggle will be minimal.
- Gender friendly legislation and policies would be difficult to push through due to the dominance of patriarchal males in decision-making positions. Indeed, this is what hampered the passage of the Sexual Offences Bill in early April 2006, eventually being passed with major revisions. Other good bills like the Family Protection Bill and the Micro-Finance Bill may suffer similar fate.
- Elsewhere, women do not yet enjoy the statutory privileges already accorded them, such as tenure on committees of the decentralised funds.
- Traditions are very good at self-entrenchment and are therefore very difficult to change – certainly in the short to medium term. The same can be said of gender inequality that grows out of religious dogma. Consequently, it is important to engender approaches that emphasize formal learning structures, like school curricula, so that gender parity is instilled in young people during their formative years. However, the socialisation process must begin right from the home where (married) couples bring up their children, socialising them in gender justice.
- There is need for data disaggregated by gender for use in policy planning and implementation.

How sector policies, strategies or laws can be designed to foster equity

Recommendations can be summarised in three sub-headings: engender the constitution; address gender based violence; and mainstream gender analysis. These recommendations find their way into the four broad intervention areas identified by the working group, including education, health, economic empowerment and leadership.

a. **Education**

- Increase bursary allocations to girls in schools while ensuring adequate resources for boys. Effectively, this calls for an increase in overall resources committed to bursaries.
- Introduce gender concerns in Kenyan education curricula and national policy frameworks, and encourage their application in everyday activities. Meanwhile,
leaders should be held accountable to minimise political interference in gender related initiatives.

b. Women’s health

- Establish and implement a policy framework that promotes women’s health and ensures their access to essential care, such as catering for reproductive health needs. Desirable budget resources should be availed to cover the various programmes.

- Health-focused policies should be developed on abortion and commercial sex work and frameworks be developed for their actualisation.

- The foregoing initiatives are likely to be undermined by regional and national staff shortages. Therefore, the Government should review remuneration and incentives of health workers to attract them to work anywhere in the country, and in any case, to deter their loss to emigration. Recruitment of additional health workers is critical given existing shortages and the increased demand arising from the new facilities being built through decentralised funds, such as CDF and the Local Authority Transfer Fund (LATF).

- Given trends in stress-related incidents such as domestic violence, social workers and counsellors should be hired and posted to the communities to attend to the crisis in parenting and in families. Respect should be ensured for motherhood and the institution of marriage, by inculcating gender sensitivity on the domestic front. It is necessary therefore, to implement the national framework addressing gender based violence.

c. Economic distribution of resources/Women’s empowerment

- It is necessary to recognise and enact policy on ‘hidden’ workers, particularly women, since their domestic work is never recognised in determining the value of national production.

- The government should streamline processes surrounding property ownership and inheritance, making them gender friendly.

- The government should enact a law on micro-finance which integrates as much gender concerns as possible, especially in light of the dominant role of women in SMEs. Along these lines, the Government should set aside some funds for village banks to assist women’s groups in economic empowerment initiatives. Such banks should be sensitive to women’s needs and proposals for empowerment, paying special attention to female-headed households, for example.

- Decentralise the Gender Commission to the district level to facilitate interactions with grassroots women so that it can pass useful, empowering information on to them. The Commission must be well endowed with resources to effectively carry out its mandate.
d. Leadership

- The Government should domesticate all the international protocols and legal instruments on women’s rights that Kenya is a signatory to.

- The Government should facilitate/sponsor a gender focused national civic education program spearheaded by civil society. In accelerating the issuance of national identity cards and voter registration for example, special attention should be paid to the circumstances of women, given for instance, that time spent in queues could have been employed in caring roles.

- More resources should go to women and women friendly institutions, including the Gender Commission. Its proposals on women’s parliamentary presence should be fast tracked, including the increase of parliamentary seats to 300, reserving 60% of the new seats for women. Meanwhile, women should take responsibility for improving their circumstances, such as by voting for their won candidates in forthcoming elections.

- There is need to promote a women’s movement across the country, such an initiative being led by the elite women in the universities, women’s groups and other initiatives already involved in grassroots gender empowerment. The Kwale Sauti movement is an example of popular mass meetings of women to address issues affecting their lot, a model that could be adopted elsewhere.

- Affirmative action is necessary over leadership and decision-making. For example, women need to be more visible in decentralised funds management given they are the majority among the poor and in the rural contexts in which most of the funds operate. A 50: 50 ratio of men to women is suggested. However, as with all fund officials, women representatives must be elected in a transparent and accountable manner. Meanwhile, the management of the funds should be removed from the hands of politicians (parliamentarians and councillors).

3.8 Marginalised groups

The marginalisation working group perceived marginalised groups as invariable minorities within the population, in non-dominant positions whose members – being nationals of the state – possess ethnic, regional, religious and/or linguistic characteristics which are different from those of the rest of the population. Such groups show, if only implicitly, a sense of solidarity directed towards the preservation of their peculiar characteristics. This perception led the group to identify the following categories of people as being marginalised:

- Widows and orphans
- Certain religions
- Youth and the elderly
- Pastoralists
Internally displaced persons  
Victims of gender discrimination  
Regions that are ostracised by Government

While this list was long and elaborate, the Group produced a matrix distinguishing inequality characteristics, legal and institutional frameworks and suggestions on the way forward.

Box 5.1: Categories identified as being marginalised

<table>
<thead>
<tr>
<th>Composition</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of adequate education or no education at all to cater for their needs;</td>
<td>The youth lack capital to set up businesses;</td>
</tr>
<tr>
<td>Discrimination in terms of resource allocations;</td>
<td>Youths comprise the largest share of population in Kenya yet they are discriminated against in decision making;</td>
</tr>
<tr>
<td>Inaccessibility of the disabled people to many buildings;</td>
<td>Mass unemployment of the youth;</td>
</tr>
<tr>
<td>Ignorance of their rights;</td>
<td>Lack college fees to further their studies;</td>
</tr>
<tr>
<td>Non-invitation of the groups in decision making forums;</td>
<td>Youths are negatively represented by the media;</td>
</tr>
<tr>
<td>Lack of market for their animal and animal products in the case of pastoralists</td>
<td>There is no legislation on retirement age for politicians hence selfish self preservation for such politicians and their families in power;</td>
</tr>
<tr>
<td>Inadequate personnel in schools and hospitals in the pastoralists regions, the group gave the ratio of one teacher to 120 pupils.</td>
<td>Recent Likia evictions are a clear manifestation of the IDP; there are women who end up being raped, injured, or killed. Their livelihoods are always at risk on times of evictions;</td>
</tr>
<tr>
<td>There has been a number of massacres, hunger, lack of access to clean water, poor infrastructure and food insecurity, and insecurity in most pastoralists regions;</td>
<td>Discrimination on gender, ethnic chauvinism;</td>
</tr>
<tr>
<td>Poor diet especially to widows and orphans;</td>
<td>Its difficult for a migrant to get education, health etc;</td>
</tr>
<tr>
<td>Lack of shelter;</td>
<td>Girl child is discriminated; she has heavy work loads and boy child is favored- in most family set ups;</td>
</tr>
<tr>
<td>Non-involve and representation of the groups in management of Constituency Development Funds (CDF);</td>
<td>There are forced marriages of under age girls to give parents of such girls dowries;</td>
</tr>
<tr>
<td>Non-representations of the widows and orphans in decision making</td>
<td>There is discrimination of spouses not originally Kenyans especially in cases of men married to a Kenyan woman.</td>
</tr>
<tr>
<td>Unaffordable health care;</td>
<td></td>
</tr>
<tr>
<td>Are squatters in their own land as most of the land is under the county councils; youths do not own land and can not get loans using land as security;</td>
<td></td>
</tr>
<tr>
<td>Most youths have innovative ideas but these ideas are sparingly used;</td>
<td></td>
</tr>
</tbody>
</table>

Resource deprivation, widows and orphans, homelessness and gender ostracisation are among the listed *bona fide* characteristics of marginalisation. However, illiteracy, ignorance of rights and market inaccess are unlikely qualifications for marginalisation.
**What is the current status of law, policy and reform initiatives?**

While the Group acknowledged the existence of laws and policies to cater for various categories of marginalised people, such as the disabled, it lamented weak implementation or non-implementation. The Group also pointed to ignorance among the populace of the existence of the policies and laws, causing low demands for rights.

For pastoralists, the Group concluded there is no law or ongoing reforms to address issues of inequality. Pastoralists had been ignored and/or discriminated against for a long time. While land ownership was important for development, pastoralists were further marginalised by being tenants of local authorities, undermining potential development of the land son the land. Access to education was also difficult for pastoralists due to their nomadic lifestyles alongside the greater lack of education infrastructure. Poor teacher/student ratios undermine effective learning, also compromising retention and completion rates especially for day schools. However, the Group also noted that unless secondary education was free, many students would be unable to proceed. Education was considered critical in moving people out of poverty.

**Policy recommendations addressing sector inequalities**

The working group agreed that beside attention to resource allocation among pastoralists, Government initiatives were necessary to strengthen parliamentary representation for women, youths, the disabled, and ethnic, cultural and religious minorities.

**a. Disabled persons**

On bridging inequality between disabled persons and the rest of society, the following recommendations were made by the Group:

- Government should take action to institute policies and laws that assist the disabled, such as their access to appropriate, free or subsidised health care or fast tracking judicial cases involving them. The disabled should participate fully in effecting such reforms;
- Disabled persons should have access to free education with curricula/syllabi designed to suit their circumstances;
- Disabled persons should be assisted to secure investment credit while facilities they use should enjoy some tax relief; and
- Society’s awareness of the circumstances of the disabled should be enhanced with facilities being designed to enable their effective participation. The media should facilitate this awareness creation.

**b. Pastoralists**

For pastoralists, the Group offered four categories of recommendations covering policies, livelihoods, education and justice.

- As a livelihood, pastoralism ought to have the same type of recognition as is given to other agriculture pursuits, such as cash crops, thus warranting
extension and marketing services. The development of policy frameworks should be participatory, with special attention being paid to the ownership status of the land on which pastoral livelihoods survive;

- Besides extension and marketing services, pastoralists should also be accorded veterinary services while opportunities for dairy pursuits (milk processing) should be enhanced, all these undertakings benefiting from investment in suitable infrastructure;

- Education among pastoralists is a further avenue for addressing inequalities. Government affirmative action in the arena is critical since pastoralists are often poor. This requires attention to the distribution of schools, whether permanent or mobile, day or boarding. Attention to the distribution of teachers is also necessary, ensuring incentives that attract them to endure the hardships of their arid and semi-arid lands. Special attention should be paid to retention of the girl-child, while domestication of teaching content is also important;

- Legal and judicial reforms should be undertaken to redress past injustices against pastoral communities. Compensation to victims of previous state excesses, such as the Wagalla massacre, should be addressed in the context of improving pastoralists’ rights, such as to water.

c. Widows and orphans
The incidence of widows and orphans has been increased by the effects of the HIV/AIDS pandemic. The marginalisation working group recommended measures delivering support as well as attention to safety nets.

- Policies support for widows and orphans should be developed and implemented. Where funds are set up, communities should be empowered to manage such funds, equitable criteria being installed for their disbursement while tools for fighting corruption are also established;

- Education on and access to social services – health and education – should be secured where possible. Health awareness and attention to preventive initiatives should be emphasised.

d. Youths and the elderly
The youth constitute 75% of the country’s population and about 60% of its workforce; yet, they do not own any land. To bridge the inequality gap, the Group identified the following intervention areas:

- The youth should play a greater role in policy-making because such policies affect them more directly than they do other members of society. Thus, they should be involved in developing an economic recovery plan focusing on them.

- On education for the youth, they pointed to the need to establish a quota system for girls at all education levels with the Higher Education Loans Board resources being a right of all students in all colleges. Youth polytechnics should be transferred to the Education ministry for management that is more efficient and accountable to all stakeholders. Furthermore, the feeling was that the youth should be trained in human rights issues at all levels of education.
• On employment, the Group felt the youth need to be better appreciated for their innovations and industry to motivate them further in endeavours against poverty. To this end, the feeling was that the media also needed to be more positively inclined towards the youth, rather than its current negative attitude. Provisions should be made that recognise those seeking employment but are yet to find it.

• On employment, the Group advised that the retirement age should be lowered to 50 years while pension levels are raised. Politicians should also have a retirement age. Decentralisation of industries to rural areas would provide local employment opportunities for the youth, curbing rural-urban migration.

• It was also suggested that youth health centres should be established with staff trained in skills for handling problems of the youth.

• It was suggested that the Government should review its land policies and attendant laws especially to secure ancestral/family land so that the youth could use it. Squatters should never be evicted without alternative settlement.

• Finally, the Group felt that international conventions and laws on refugees should be domesticated to protect such vulnerable people.

e. Gender

The Group recognised gender inequalities and recommended that:

• The Government should ensure adequate legislation and policies promoting gender parity. Further, existing instruments promoting gender parity should be applied vigorously, such as provisions against female circumcision.

• The Government and other interested parties should heighten gender awareness, including empowering communities to address the problem at the grassroots. To this end, participants noted that administrators/chiefs from conservative areas have difficulty in conceiving of a reformed society, and should tour areas of greater gender parity for first hand lessons.

• Women should be empowered to improve their income generating capacities.

3.9 Constitutional and institutional dimensions

Chaired by John Mutakha Kangu, Faculty of Law, Moi University

The constitution working group decided to broaden its framework of analysis beyond what was presented at the Conference plenary and arrived at the following “micro” questions:

- Can issues generating poverty, such as size of land holding and its subdivision, be radically addressed by the Constitution?
- What impacts do institutional frameworks have on inequity?
- How does the constitution affect growth and development?
What lessons can be learned from the November 2005 constitutional referendum?

What policy reforms could break the yoke of inequality?

Which legal reforms can be implemented without hindrance to enhancing equity?

How can the constitution address access to resources?

How does the constitution relate to policy structures?

Having raised these questions, some which are quite significant in elaborating the Conference’s questions, the constitution working group discussed them in general. For example, the discussion broadly addressed the relationship between the constitution, growth and development. The Group usefully defined the constitution and government; that body of law that seeks to not only define and organise governance but also constrains or limits state power” while governance “is the social, political and economic management of state resources.” Limitation of state power deters its abuse. The working group combined the two definitions to conclude that constitution is therefore:

“That body of law that seeks to not only define and organise the social, political and economic management of state resources but also constrains or limits state power.”

The Group argued that the above were fundamental characteristics of pre-colonial Kenyan societies, which were done away with by the introduction of the colonial state. Consequently for the Group, a good constitution that addresses inequality must sift through the varied attributes of Kenyan communities and manage the difficult task of selecting elements that would be included in a negotiated social contract. The Group argued that whereas the independence constitution had structures that assured equity – notably the bicameral National Assembly and the majimbo constitution, changes to the document undermined the inherent checks and balances, spawning inequalities. The solution is to return to the Bomas Draft Constitution and find ways of decentralising governance so that regions run their own affairs, enhancing fiscal management and tax output.

How are inequalities manifested and inter-linked?

Given the above discussion on limiting the state, it is unsurprising that this was among the manifestations of inequality identified by the group.

- The Group noted the state had excess powers which it used to perpetrate injustices with impunity, such as its eviction of people without paying attention to their resettlement despite admonition by its own commissions, such as the Akiwumi Commission on the Likoni land clashes.

- Further injustices include the unequal regional distribution of Government resources, such as in the judicial system where fines for the petty offences among the poor are heavier than those for the more serious offences that bring the rich to court. Inequalities also exist in health, education, etc., such as in the distribution of professional services.
Further inequalities are manifest in service delivery, the distribution of infrastructure causing some people to travel very long distances.

Finally, the Group pointed to inequalities in budget allocations which translate into regional welfare inequalities.

**What is the current status of law, policy and reform initiatives?**

- The first area of consideration is the budget and resource allocation. The Group felt the Financial Management bill should ensure good governance, transparency and accountability. The District Focus for Rural Development of the 1980s had failed because of central government's reluctance to make district development autonomous. However, the Group lauded the introduction of the Medium Term Expenditure Framework and the Poverty Reduction Strategy Paper, which are designed to make resource allocation more participatory.

- The second area of consideration was service delivery, which should improve with the launch of performance contracts for management.

- Attention to procurement, the avenue through which Government resources have been siphoned out of the system, has led to the Public Procurement and Disposal Act (2005) alongside several other legal frameworks for increased transparency and accountability. These should contain the avenues through which people in office have been misappropriating resources, exacerbating inequalities, should be penalised.

- Decentralisation was a further area of concern given the place some decentralised funds have received in the media. The Group felt the need to rationalise the locus of decentralisation, “the lowest budgetary tier”. It noted that while funds like CDF are important for development, their roles need to be rationalised and their frameworks given a legal status.

- A further area discussed by the Group was gender, for which the Group noted the pending Sexual Offences Bill and Affirmative Action Bill. The creation of the Gender and Development Commission to address women’s issues was a further step in the right direction.

- A further policy measure is the on-going democratisation which has meant that Government has an opposition that can scrutinise its actions.

- Finally, the Government’s recent declaration on free anti-retrovirals at public facilities means that those unable to meet indirect costs (of transport) will continue to have difficulty in accessing the drugs.

**What lessons from on-going policy reforms and international perspectives**

The Group found a few areas which offered lessons:

- There is a need to incorporate measures such as affirmative action into the constitution.
On governance, the Group asked the Government to strengthen its commitment to the African Peer Review Mechanism.

The Group noted the need to use the Millennium Development Goals as guidelines for policy-making. Exposure to other international governance instruments will also enhance Kenyan values.

How sector policies, strategies or laws can be designed to foster equity

The way forward largely covered legal and institutional frameworks.

- On the whole, there was a need to expand the coverage of the Government’s institutional and administrative network, such as, elements of the informal sector meaning that those evading taxes be brought on board so that increased revenues can address inequalities.

- The Group pointed to the need for reform policies to be rooted in some legal framework if their agenda is not to be swept aside promptly if they inconvenience.

- For the National Economic and Social Council, the group even suggested its entry into the constitution.

- The need to rationalise Government institutions was highlighted as a means of avoiding duplication of initiatives. This was the case with respect to the decentralised funds. The Group noted the need to return to the Bomas Draft Constitution’s provisions for devolution and resource allocation (through a revenue allocation commission).
In collating published evidence on inequalities in Kenya, SID’s *Pulling Apart* publication, and the Ministry for Planning and National Development’s *Geographical Dimensions of Well-Being* reports (poverty maps volume I and II) initiated a debate that is quite critical for Kenya’s long-term development. The information and issues in the reports have been quite useful in the design of various interventions and giving actors on the ground information for project design. A major value added by work undertaken the Ministry, SID, ActionAid International Kenya, AWC Feature Service, with the support of Sida,²⁰ to highlight a key development issue in Kenya today, its extent, and making a call for discourse and action.

Above, we have summarised the status, problems and way forward for the various sectors. Here, we identify some broad issues that came out of the Conference at both plenary and break out sessions. These do not by any means represent the detailed discussions that took place at the Conference. Rather, they are a synthesis of the main issues that were common in working group and plenary discussions, and also what seems to be recurring as suggestions on how different actors on the development scene can foster greater growth and equity. As a Foreword notes this is by no means the final word on this debate but attempts to provide a platform for further discussions.

### 4.1 Correct historical and conceptual analysis

Since there is a long history of inequality in Kenya, we need to return to it with honesty and establish ‘where the rain began to beat us’. Bad governance in the past can perhaps explain our current problems and development challenges. At a time when local scholarship hardly dared do so, several analyses by writers such as Arne Bigsten highlighted the manner in which public spending was laying the foundations of future, deep-seated inequalities.²¹ We need to return to the data to understand why, for instance, some regions are developed while others are so under-developed, despite comparable education attainments. Do people from certain regions have a greater pre-disposition for work; can we find any plausible explanation for years when certain provinces got no road maintenance resources? These answers are in...
an honest appraisal of the data. This was one of the key issues that were present in the presentations that were made by Arne Bigsten, Stephen Gelb and Okello Oculi. That Kenyans must look at themselves as such and approach problems in that spirit. Additionally, as Ryan noted, this analysis must be preceded by a critical appraisal of which inequalities are unjust and which ones are necessary for policy to change.

4.2 Dealing with vertical and horizontal inequalities

Conference took place at a time when official reports were to indicate that Kenya had grown by 5.8% in 2005, the only time in 15 years that Kenya has achieved more than 5% growth. While this might be reducing what one can call vertical inequalities (inequalities among groups in different levels) it might be challenging for the country to reduce horizontal inequalities (differences among individuals as the same level) both at the same time. The South African experience illustrates this point:

*The South African experience underlines that addressing inequality is a long-term process, involving policies, institutions and ‘ideas’ which need to ‘work’ together for success. Transitions – moments of political fluidity and re-conception – may appear to offer promising circumstances to make radical or fundamental shifts of strategic direction. But initial conditions matter: the nature of the dominant class may block strategies and options, while new institutions, however promising in conception, take time to consolidate and mature before they begin to have an impact. In South African circumstances, generational turnover seems likely to be important to escape the strong ‘pull’ of anti-apartheid struggle comradeship and solidarity. Finally, South Africa underlines the difficulties involved in trying to address horizontal and vertical inequality simultaneously.*

The experiences in Kenya over the last two or three years have indicated the challenge and difficulty of promoting high and sustainable growth to try and close gaps between the poor and non-poor (bridging vertical inequalities) while also ensuring that people deserving the same fair chances and opportunities can access these on a level playing field (horizontal equity). This is one challenge that policy makers will have to grapple with. However, the strong and high growth that we are registering now is a good point of a departure for the pursuit of growth and equity.

4.3 Develop sustainable institutions

If, as we suggest above, inequalities have been caused by bad governance, then we must develop and apply a good governance framework which derives its legitimacy from a sound constitution. Country’s governance challenges are more fundamental than the fact that successive presidents changed to the Constitution to consolidate their powers. The problem seems to be the need to build more open, sustainable and functional institutions. A sound constitutional framework is a necessary, but not sufficient condition, for this kind of institutional set up.

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Having developed a sound constitution, we must develop an adequate capacity to enforce it to the letter. Inequality arises from an inequitable distribution of natural and other resources, including political power, which can be redressed through equitable policies. Equitable taxation will ensure adequate resources with which to reduce poverty and inequality. Of course, therein lies a chicken-and-egg conundrum: do adequate revenues precede or follow good governance? Answers to these questions will have to come from a shared development vision that Kenya can devise, which would be supported by democratic and institutional development. We have noted human and natural resource inequalities, which call for resource re-distribution across sectors. Institutions must be developed that ensure timely and effective delivery, of infrastructure, personnel, inputs for operations and maintenance, good management of public resources. A shared sense of sustainable and equitable development of the country is essential for national unity.

4.4 Widespread participation

In arriving at a diagnosis of the problem and its solutions, it is imperative that the people affected by problems of poverty and inequality are consulted. Part of that consultation lies in a popular constitution and the institutions that grow from it. However, those levels of long-term consultations are not a replacement for short-term micro-consultations and interventions that would be aimed at ensuring progress and better living standards. Such consultations can ensure the design of the most cost-effective interventions, meaning that resources go further down would otherwise be the case. An important element of such participation is a review of past policy propositions and reforms. Participation would also ensure evaluating effectiveness of interventions, especially in instances where impacts are either subtle or only observable in the long run. Such would not only be good for the design and implementation of public policy but also for democratic empowerment.

4.5 Leadership

Correct diagnosis of the problem at hand, developing sustainable institutions and participation is as much a role for the wider public as it for the various leadership functions and groups. Indeed, leadership is perhaps the single most important factor in steering reforms and determining the extent to which a nation can overcome current constraints. As one presenter noted, there need in Kenya for an “elite consensus” on how to make Kenya a more prosperous and equitable country. This means that this leadership function is to be played by not only elected representatives in Government, but also by other personalities and offices where duty for choice and decision making is bestowed. These include churches, politicians, business, women, the youth and others. A consensus among these various groups would develop the kind of consensus and vision that move beyond parochial divisions of tribe and class. This leadership consensus can uphold the aspirations for growth, development, equity and justice.
5 Closure

The Conference was closed with remarks from selected speakers, hosting institutions and the Swedish ambassador. Participants were reminded to rethink the role and manner of ownership of important resources such as land, noting that not all those who need it can have it. That it is time to start developing Kenya’s land resources to serve the needs of both the people and economy. In reinforcing a point on the need for inclusiveness in public policy, a participant noted the importance of recognising the role played by the elderly in Kenya.

In their closing remarks, Conference speakers noted that to achieve economic growth, poverty reduction has to be addressed by setting up good policies with returns to particular investments. Also, disclosure in public leadership would address widespread corruption and inculcate a culture of openness in public and civic leadership. Speakers applauded the comprehensive proposals from group discussions. There was a concern on the need to develop national identity. The need for community involvement in the management of devolved funds was emphasized. The history of nation building, determination and integrity was mentioned as key to prosperity in developing countries. The international speakers in their closing remarks agreed with the view that poverty reduction requires strong economic growth.

Hosting institutions also gave their closing remarks. In her remarks, Joyce Ombima, the ActionAid International Kenya country director, thanked the participants for taking their time to participate in the Conference. She acknowledged the wealth of knowledge and experience displayed during the discussions and community consultation that went into the process. Rosemary Okello, Executive Director, AWC Feature Service, thanked the media for their work on highlighting issues and providing briefings during the preparation of the Conference. She urged participants to share the information with others as a strategy to reach out to as many people as possible.

Duncan Okello, SID Regional Director, who also doubled as Chair of the Conference, thanked participants for attending the Conference. He noted that the recommendations made during the discussions would be useful in preparing policy recommendations to be forwarded to the government.
In his closing statement Swedish Ambassador, Bö Goransson, highlighted a number of points that reflected the main issues that arose in the two day deliberations. He pointed out that often lack of money can be the problem in development but that money can be a problem if these funds are not invested or put into productive use. He touched on the need for ideas, policies and institutions as essential ingredients needed to tackle poverty and inequality. Good ideas, policies and institutions are therefore required to accelerate change. Independent, transparent institutions that can ensure checks and balances, and good governance are a primary condition to make this happen. The rewards to good governance are enormous!
Duncan Okello, SID's Regional Director, who was also the Conference Chair, making his preliminary remarks.

Voices from the communities: Nalang’u Taki (right) from Narok District addressing participants during the opening ceremony with the aid of a translator (left).

Dr. Edward Sambili, Permanent Secretary, Ministry for Planning National Development, giving his opening remarks.
Hon. Henry Obwocha, Minister for Planning and National Development, delivering his keynote address and formal opening of the Conference.

David Nalo, Permanent Secretary, Ministry of Trade and Industry, participating in the plenary discussion. Seated in the front row (left) is Nyaradzai Gumbonzvanda, Regional Director, UNIFEM and Joyce Umbima (right), ActionAid International Kenya Country Director.

Participants follow the presentations keenly.

Prof. Arne Bigsten, Department of Economics, Göteborg University, Sweden, delivering his paper. Prof. Bigsten is one of the academics who has written widely on inequalities in Kenya.

Prof. Okello Oculi of Ahmadu Bello University, Nigeria, making his presentation on Nigerian and Africa wide experiences on inequalities.
Dr Edward Sambili (left), and Hon. Billow Kerrow, Mandera Central M.P. and shadow Finance Minister, in a conversation during one of the Conference breaks.

Getrude Muguzi, Coordinator, Policy Forum, and Donald Mmari, Consultancy Coordinator, Research on Poverty Alleviation (REPOA), both participants from Tanzania.

The closing ceremony as was officiated by H. E. Bo Goransson, Swedish Ambassador to Kenya (left), Rosemary Okello-Orlale, Executive Director, African Woman and Child Feature Service (centre) and Joyce Umbima, Country Director, ActionAid International Kenya.
# Annexes

## Conference Presentations

### Opening ceremony

1. Statement and welcoming remarks on behalf of hosting institutions, Joyce Umbima, Country Director, ActionAid International Kenya
2. Opening statement by Ministry for Planning and National Development, Dr. Edward Sambili, Permanent Secretary, Ministry for Planning and National Development
3. Keynote address and official opening, Hon. Henry Obwocha, Minister for Planning and National Development

### International perspectives

4. Dr Giovanna Prennushi, Poverty Reduction Group, The World Bank on “Growth, poverty reduction and the quest for equity: Global perspectives and lessons for a developing country”
5. Prof. Arne Bigsten, Department of Economics, Göteborg University, Sweden on “Historical perspectives and lessons on how to tackle inequality in development: Policy formulation and dialogue”

### Kenyan perspectives and experiences

6. Prof. Terry Ryan, Independent economic expert on” Policy dynamics and issues on inequalities in Kenya”
7. Seth Gor, Department of Economics, University of Nairobi on “Income inequalities: Measurements, dynamics and broad policy recommendations”
8. Nyaradzai Gumbonzvanda, Regional Director, United Nations Development Fund for Women (UNIFEM) on “Gender inequalities: Experiences, dynamics and broad policy recommendations”
9. John Kangu Mutakha, Faculty of Law, Moi University on “Regional inequalities in the context of decentralization and devolution: Issues and policy options”

### African perspectives

10. Prof. Okello Oculi, Ahmadu Bello University, Nigeria on “Political economy of growth, inequality and poverty reduction: What are the Nigerian and Africa-wide lessons and experiences?”
11. Prof. Stephen Gelb, The EDGE Institute: Economic Development, Growth & Equity. And Visiting Professor of Economics, University of the Witwatersrand, South Africa on “Growth and inequality in South Africa: Experiences and lessons for other developing countries”

### Closing remarks

12. H.E. Bo Göransson, Ambassador, Embassy of Sweden in Kenya

## Programme

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## Participants list

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Presentations outlined here can also be accessed at [www.inequalitykenya.org](http://www.inequalitykenya.org) or [www.sidint.org](http://www.sidint.org)
Opening ceremony

Joint statement by hosting organisations (SID, AAIK, AWC)

As read by Joyce Umbima
AAIK COUNTRY DIRECTOR

Two years ago in May 2004, a collaborative effort between government through the Ministry of Planning and National Development, Civil Society (Society for International Development and African Woman and Child Feature Services) with the aid of international development partner Sida, began a process that has 2 years latter and additional partners culminated into this Conference. This collaborative project, titled Rich and Poor: National Discourses on Poverty, Inequality and Growth (RAPP), was aimed at disseminating and producing publications on poverty and inequality in Kenya, while encouraging dialogue and debate that would inform policy making.

The RAPP project did stir the inequality dialogue. The Geographical dimensions of Well Being in Kenya Volume I and volume ii & pulling apart, Facts and Figures of Inequality in Kenya provided a much needed impetus in the poverty and inequality debate.

The success of RAPP 1 needed to be followed up. The next level was to expand the process. AAIK came into the process to facilitate the rooting of this debate at the grass root.

During RAPP I and RAPP 2, which this Conference is a product of, many activities have taken place with the direct objective of elevating inequality into the political and policy arena and into the national development discourse. Apart from the launching of the three aforementioned publications, the GOK and SID held dissemination workshops across the country. SID has held inequality round table meetings, AWC has held training and sensitization workshops for journalists with an aim of enabling them to sustain the inequality debate at the media and AAIK has held community consultative forums in a drive to take the debate to the grassroots.
Why are we interested with the inequality discourse?

All the hosting agencies including the GOK have an interest in the inequality issues. In the 40 years plus - post independence dialogue on national development, the issue of inequality has been on and off the board. It has been characterized by periods of intense debate and interest for politicians, civil society, academics and even the mwananchi, followed by periods of deafening silence, eventually the inequality discourse seems to have been de linked from the poverty and development discourse.

The reality is that Kenya is among the most unequal societies. The 10% richest households control 42% of the national income with 10% of the poorest households controlling less than 1% of the National income. There is 1 doctor for every 20,000 people in Central province compared to 1 doctor for every 120,000 people in North Eastern province. The immunization coverage in Nyanza is at 38% and has a child mortality rate of 133 per 1,000 as compared to immunization coverage of 79% in Central province and the attendant low child mortality rate. Of the 2,140 elected councilors in 2002, only 97 were women and of course out of the 210 elected members of parliament only 9 are women. The girl child is grossly under represented in other important sectors including education; it is thus little wonder that the outcome would be gender inequality.

Inequality is not only an economic issue, where it is clear that growth does to a large extend depends on consumption and the poor are poor consumers, but also an equity issue. It is inequitable for one region of the country like Mombasa to have a low life expectation of 33.1 years as compared to 68.6 years in Meru.

It is a human rights issue; the exclusion that contributes to the grim inequality profile of this country speaks of human rights violation. The right to life is negated by the low immunization coverage when caused by inequitable distribution of health care delivery systems and unequal distribution of trained manpower paid by the state. It actually amounts to taxation without representation – the people in the excluded areas are taxed and their taxes are paying for social services like medical care in other regions.

The equity and rights issues aside, there are indications from studies conducted that initial inequality gaps does affect in both developed and developing nations economic growth. This is understandable, if we have an education system which due to structural constrains exclude certain sectors of our society the impact of that is long term. The excluded sections will find it hard to participate in the formal economy, which requires a basic minimum of education to operate effectively. This is the case for other services like health, agriculture extension services among others.

It is now clear that it is possible to achieve economic growth without achieving the attendant poverty reduction. This is so if the distribution of the benefits of the growth and wealth created is skewed like in our case in favor of a few at the exclusion of others, and if the state does not effectively convert the benefits of that growth into social services distributed equitably though out the nation.

What are the objectives of this Conference?

This Conference should be able together with the pre conference activities of the last 2 years firmly locate inequality as part and parcel of the development dialogue in this
country. It is not enough to concentrate on generation of wealth and economic growth but must go the extra step of deciding how the benefits of that growth are equitably distributed.

We must exchange views, ideas and experiences with a direct view of changing the inequality profiles of this nation. All the stakeholders’ state, and non state, alike must take responsibilities for what they ought to do in changing positively this unenviable profile.

The Conference will also act as a base for a proposed policy paper on inequality that will set the policy direction that we as a nation need to take to mitigate inequality and the inequity that attends the inequality. We call upon all stakeholders to continue with this engagement even post conference. We in particular ask the government through the ministry of planning to engage with us to breathe life into the policy paper that we shall be constructing form this Conference.
Government of Kenya Remarks

Dr. Edward Sambili  
PERMANENT SECRETARY,  
MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

Honorable Ministers  
Permanent Secretaries  
Honorable Members of Parliament  
Members of the diplomatic community and development partners  
Government officials  
Distinguished scholars and speakers  
Heads of organizing agencies  
Ladies and Gentlemen,

I would like to start by expressing that it is an honour for me to have been asked to make this opening statement at this Conference on “Creating Wealth through Growth and Equity”. Allow me please to start by joining the previous speakers in thanking each and every one of you for taking time to attend this important Conference. I would like especially to thank the Society for International Development (SID), who were hosts of the Conference Secretariat, and who have done so much in putting it together in collaboration with ActionAid International Kenya, and Africa Woman and Feature Child Service. I would also like to thank the Swedish International Development Cooperation Agency (Sida) for their continued financial support to this work that has led to the Conference we are all attending. Sida has been a partner of Kenya in her development efforts since independence in 1963, and her projects have always aimed at uplifting the living conditions of our most disadvantaged citizens, particularly in the rural areas. So its support for this initiative is very much in line with the concerns which Sida has raised with the Government of Kenya over many years.

Ladies and Gentlemen:  
A conference is only as good as the contributions and recommendations which are made by its participants. I notice that we have some of the most distinguished experts on the subject of growth with equity here in Kenya and internationally. We also have in the audience individuals and organizations that have been active over many years dealing with practical development work on equity issues. I take this opportunity to welcome all of you and to thank you for taking time to come here and participate in the deliberations that we shall be having over the next two days. I am certain that we shall see some of the most objective and well-informed discussions on the subjects of economic growth and social inequality. Indeed, we all look forward to the discussion and the new thinking on this subject that will come out of this meeting. As we are all aware, GDP growth in Africa has resumed after many years of stagnation and regress—Sub-Saharan Africa grew at 5 percent in 2004 on average. Given the high prices of oil in the international markets, If we exclude the oil-producing nations, the rest of Africa registered an average of 4.5 percent GDP growth rate in 2005. Here in Kenya too, economic growth has resumed a clear upward trend—the economy grew by 4.3 percent in 2004 and is expected to grow by over 5 percent in 2005.
There are two lessons we must learn from this. First the policy reforms African countries undertook in the past decades are bearing fruit. Of particular significance in this regard are governance and institutional reforms. These reforms need to continue and be strengthened. Secondly, in all cases when growth resumes an upward surge, questions of distribution tend not to be too far behind. We have in the audience, I am aware, many participants who have traveled from other countries in Africa. This Conference should therefore provide an excellent opportunity for comparative analysis of lessons learned on how best to combine the policy priorities of economic reforms, rapid growth and equity.

For as we are all aware there are trade-off and tough policy choices that need to be made from time to time between the three. And these are best done in open and well-reasoned debates of the kind we expect to see in this Conference.

Ladies and gentlemen:

Speaking for Kenya specifically, the National Conference on Equity and Growth, “Towards a Policy Agenda for Kenya”, is the culmination of a project titled Rich and Poor: National Discourses on Poverty, Inequality and Growth (RAPP) that was initiated in May 2004 by the Ministry of Planning and National Development, the Society for International Development (SID) and Swedish International for Development Assistant (Sida). This collaborative RAPP project was aimed at facilitating a national debate process on key challenges facing Kenya, producing publications and data that is vital for policy making and design of development interventions and the nationwide dissemination of these outputs to key actors on the development scene. The work that we started about two years ago, has now culminated in this major event that is aimed at having discussions and making policy recommendations as to how Kenya can continue building on past gains, recent progress we are registering on the economic front under the Economic Recovery Strategy for Employment and Wealth Creation, and also to reinforce on-going reforms being implemented in various sectors.

I am glad to report to you today, that under this collaborative RAPP project we were able to carry out a number of key activities. The key executing agency for this project has been the Ministry of Planning and National Development, and in particular the Central Bureau of Statistics (CBS). I am sure you are all familiar with the social impact of structural adjustment studies which many African countries carried out after SAPs came under severe criticism in the 1990s. We in Kenya just to give two examples, noted that under the SAPs, school enrolment as a percentage of the relevant age cohort was falling, and hospital attendance per capita was declining—all due to the introduction of cost sharing. So the CBS in partnership with the World Bank, UNICEF and the GTZ funded a series of surveys known as “Welfare Monitoring Surveys” in 1994 and 1997. From these surveys, the Kenya Government obtained a fairly accurate picture on the conditions of poverty, incomes and access to public services in the country. That information was extremely useful in formulating our Poverty Reduction Strategy Paper in 2001.

The data was also extremely useful in the publication of the two volumes CBS published in 2004 and 2005 respectively under the title Geographical Dimensions of Well-Being in Kenya: Who and Where Are the Poor? While the first volume contained poverty estimates up to location level, and sub-location level in urban areas; the second volume contained statistics on poverty and inequality up to constituency level. Additionally, through the CBS working together with SID, we were able to have two rounds of
nationwide dissemination workshops to widely share and disseminate these reports to Government officers and key actors countrywide. This underscores the commitment of the Ministry of Planning and National Development and the entire Government in availing timely, accurate and relevant data and information not only to aid development planning and implementation, but also to enhance accountability and empowering citizens with key information.

I would like to thank the staff of the Ministry of Planning and National Development, in general, and the CBS in particular, for the professionalism and dedication that they have put into these efforts from data gathering, analysis and writing, and dissemination meetings. All informed policy-making depends on careful interpretation of objective data, and we in the Kenya Government and society are indebted to the CBS for the excellent service which it has given this country over the years despite serious resource constraints. We in Kenya are in the process of transforming CBS into a National Statistical Service, and this is in recognition of its status as among the most distinguished institutions of its kind in the developing world.

Ladies and Gentlemen:
But as you all know statistics on their own cannot make policy. In the subject you are discussing today, we know there are figures that show that some wealthy countries have very few poor but much inequality. There are also many poor countries with a high degree of equality. How does one take a stand when confronted with such data in the world, or indeed in any country? The issue we are discussing today, that of equity and growth, has featured in many policy debates here in Kenya. Starting right from independence, the Government identified disease, ignorance and poverty as the three main challenges of development. In its famous Sessional paper No.10 of 1965 on African Socialism and its Application to Planning in Kenya.

As we are all aware, under the SAPs, the proportion and number of people living in poverty increased, and economic growth and development stagnated to levels that produced falling incomes and opportunities for a great majority of Kenyans. A lot of this had to do with governance and domestic policy environment. But SAPs clearly exacerbated the situation. Although liberalization and market-based forms were and remain a vital path to enhanced growth and poverty reduction, the poor and marginalized found themselves unable to complete and fell by the way side of economic progress set for them.

When the new NARC Government was elected in December 2002, it pledged to revive the economy and create an environment that would lead to poverty reduction through wealth creation. Since then, the Government has registered positive results in many fronts.

Firstly, the economy has registered significant recovery in the last three years, with good projections for growth in the medium term. This means that in very many ways, the Kenyan economy is on a steady path of recovery, growth and development. This economic recovery and growth has enabled the government to collect more revenues for delivering services to the people, to allocate more resources to pro-poor programmes and to increase allocations in key sectors that are crucial in improving living standards of all Kenyans.
Secondly, a number of Ministries and Departments have initiated sector-level reforms that are aimed at operationalising the Economic Recovery Strategy in selected areas. The Ministry of Agriculture is overseeing the implementation of the Strategy for the Revitalization of Agriculture. There reforms that are on-going in the health sector, in roads, in the governance sector and even within the public sector and public enterprises.

We expect that completion of these reforms will lay a strong foundation for pro-poor and more equitable growth in Kenya.

Ladies and Gentlemen:
Having said this, we need to recognize that key challenges still remain. The quest of economic recovery and growth is necessary but not a sufficient condition for the promotion of equitable growth and development in Kenya. It will be quite crucial for us to ensure that as we initiate various measures to create wealth, that we do this in such a manner benefits from growth reach the poor and vulnerable groups in the least well-off people and groups in the country. The role of equity in complementing pro-poor policies and in wealth creation is quite relevant to us. Ensuring that all people have equal access to opportunities will ensure that we make best use of our relatively well developed human resource base. The quest for equity will also ensure that both men and women participate equally on decision making and political processes and both genders benefit from key processes equitably. A quest for equity will also ensure that we guarantee social stability and cohesion that is a necessary condition for long-term development.

Ladies and Gentlemen:
As I sum up since I am sure you shall be hearing many of these issues from the international, African and Kenyan speakers that are present here today, I would like to mention that the Ministry of Planning and National Development and the Government at large is very much committed to implementing pro-poor policies that ensure that all Kenyans are able to benefit from the use of the scarce resources that we have in our country.

I hope that the discussions, deliberations and conclusion of at this Conference will be constructive and will be conducted in such a manner that we can use the recommendations and outputs for our future work. As you know, the implementation period of the Economic Recovery Strategy runs from 2003 to 2007. With less than two years left to implement this strategy that has ably guided our economic policy, we would very much appreciate discussion and recommendations that hinge around how the country can design a mid- and long-term strategy for growth, equity and development. Such a long-term strategy would allow us to provide a holistic and comprehensive approach to growth and development in Kenya. I am glad to note that you plan to have very forward-looking and solutions-oriented deliberations. This will be very much appreciated, as it will enable us to focus on what we can do improve the situation in our country by looking at ways in which we can build on our successes and surpass our constraints. We look forward to continue to work with the organizations that have organized this Conference in order to further enrich our partnerships that have proved successful in the past, as we explore ways in which we can deepen any possible post-conference workings.
Lastly, allow me to take this opportunity to wish you good and productive deliberations and proceedings during this Conference. With these brief remarks, please allow me to welcome the Minister for Planning and National Development, Hon. Henry Obwocha, to make his keynote address.

Thank you very much.
Keynote Address

Hon. Henry Obwocha
MINISTER FOR PLANNING AND NATIONAL DEVELOPMENT

Honorable Ministers
Permanent Secretaries
Honorable Members of Parliament
Members of the diplomatic community and development partners
Senior Government officers
Distinguished scholars and speakers
Heads of organizing agencies
Ladies and Gentlemen,

Firstly, let me also join my Permanent Secretary in welcoming you to this important Conference that is taking place at an opportune time in our economic recovery and reform processes. Secondly, I would also like to take this opportunity to thank the Society for International Development (SID), ActionAid International Kenya and the Africa Woman and Child Feature Service for undertaking the organization of this Conference in close collaboration and discussions with my Permanent Secretary who provided good leadership in the design and structure of the event we are attending today.

Thirdly, I would like to appreciate the fact that in the audience today, we have participants and speakers who have traveled from different parts of Kenya, and other parts of the world to come and join us today. Feel very welcome and take time to enjoy the good hospitality that is normally offered by the people of Kenya.

Lastly, I would like to thank the Director and staff at the Central Bureau of Statistics, and other officers of my Ministry, who have for a long time been working in partnership with the Society for International Development (SID) with whom they have collaborated in a number of activities that the Permanent Secretary mentioned. These activities were part and parcel of the collaborative project titled Rich and Poor: National Discourses on Poverty, Inequality and Growth (RAPP) that was started in May 2004 between my Ministry, the Society for International Development (SID) with support from Sida, whom I would like to thank very much for their continued financial support to the work that we have been undertaking together. This kind of partnerships, between Government (my Ministry), civil society (SID) and development partners (Sida), underscores the importance that we put in participatory development and bringing different actors into development planning and implementation, which is one way of building ownership of our development programmes. I hope we shall continue working together so that these partnerships can build on our past successes and that the outcomes and outputs from this Conference shall be shared with us so that they can be a platform and basis for possible continued work.
Ladies and Gentlemen:
For nearly four decades, numerous policies and programs have been implemented with the intent of increasing economic opportunity. Since independence, the Government has used different approaches and initiatives to address the problems of underdevelopment and inequalities. Immediately after independence, the government focused on rapid growth as a means of alleviating poverty and reducing unemployment and inequality. Policy papers and plans have been used to articulate the governments’ intentions and programmes. In addition to the policies outlined in the development plans, and other policy statements, the government has undertaken special programmes aimed at reducing unemployment, poverty and other social inequalities.

For instance, in the early 1960s, 70s and 80s these programmes included; the Land Resettlement and Reform Programme, the Rural Works Programme, the Rural Access Roads Programmes and the District Focus for Rural Development. In the 90s, the Government came up with more interventions to address poverty and inequality such as the Social Dimensions of Development and the Community Development Trust Fund (CDTF). In the more recent past, the Government has created alternative windows that allow allocation of additional resources directly to districts, constituencies and communities without going through sectoral ministries. In the last five years for instance, there has been a massive increase in resources devoted to constituency and community based development programmes. These include development funds such as the Constituency Development Fund (CDF), the District Roads Fund, the HIV/AIDS Fund and the Constituency Education Bursary Fund. This direct disbursement of funds is intended to improve poverty targeting and project implementation by using local information and encouraging community participation especially in project identification, implementation and evaluation. The main objective is to achieve better targeting as well as outcomes by involving local communities in the decision-making process and management of projects.

Ladies and Gentlemen:
The issues on equity and growth that you shall be discussing in the next two days are quite important to us. When the new NARC Government was elected in 2002, we set for ourselves the goals of giving Kenyans a new deal and to empower citizens in order to enhance economic recovery, growth and overall development of our country. We launched the Economic Recovery Strategy for Employment and Wealth Creation 2003-2007 which is the main economic policy document of the Government. In addition to this, we initiated key sector reforms in areas such as agriculture, health, education and the governance sectors. We have also been implementing key reforms in the civil service and in parastatals and the public sector. Having passed important legislation in key areas, we got the opportunity to lead and see through these key reforms that have now started to bear fruit.

Last year, my Ministry through the Central Bureau of Statistics (CBS) launched the Economic Survey 2005 that indicated that our economy was now on a recovery path, having registered an overall growth rate of 4.3 percent in 2004. We shall be soon launching the Economic Survey 2006 and all indications are that our growth of the
The economy will be around 5 percent. This is remarkable, given the severe decline that our economy suffered in the last few years before we formed the new Government. In addition to this, there is another important dimension to the recovery that we are witnessing that is quite key from an equity perspective. If we want to improve living standards for the least well-off in society, and those that are chronically poor, we must endeavor to bake an even bigger national cake so that each person and different social groupings in Kenya continue to get an even bigger piece of our national growth and prosperity. Additionally, increasing incomes and output will enable us to have increasing resources and revenues to continue financing targeted pro-poor interventions in order to eliminate inequalities by reaching the pockets of poverty that are found in different regions of the country.

The experiences that have now been able to learn from policy implementation from the 1990s have shown us that it is quite key to focus on creating an enabling environment in which we can increase per capita incomes of each and every person in society, as this represents the real income options that people have in exercising their choice. More importantly, we must appreciate that overall development and well-being goes beyond incomes. Indeed, the inability to have as higher personal incomes as would be desirable or the disparities we observe in terms of income and resources is just an outcome of much more deeper and fundamental processes and dynamics. These underlying factors are indeed the very root causes of inequities and any discussion as to how to foster much more equitable outcomes, growth and development, must clearly understand these root causes.

The difference in access to key institutions of governance, the extent to which citizens have the ability or enjoy rights and entitlements are quite key in this debate. As the Nobel laureate Amartya Sen has outlined in his entitlement approach to development, and in his influential book *Development as Freedom*, it is quite essential for people to be empowered in order for they themselves to have the capacity, knowledge and power to improve their living standards and foster equitable development. This is the underlying philosophy behind the *Economic Recovery Strategy* as it has attempted, and succeeded in many ways, to empower citizens and create an enabling environment for democratic empowerment and growth.

Ladies and Gentlemen:

To add to this, a real discussion as to the fundamental causes and processes that lead to inequities also entails a discussion of the extent to which our people have equal opportunity in key social services and processes that are instrumental for well-being. These include education, health, water and rights, as development today is increasingly seen as a rights question as well.

As you all know, we introduced free primary education (FPE) in 2003 to give equal opportunity to basic education the millions of school age children who would not have otherwise had a chance to acquire such an important opportunity such as primary education. The results we have registered thus far are quite impressive as nearly all our children are attending school. The long-term impact of this policy of FPE will be quite key, as we shall now have a more educated populace in the long-term which is not only a pre-requisite to development, but also in the development of the human person and dignity of our people.
In addition to other sectoral interventions, the ERSWEC identified some special priority programs that target poor communities, notably the poor in arid and semi-arid areas, the urban poor, and marginalized groups. These programs include the establishment of a social action fund, the development of arid and semi-arid areas, the implementation of low cost slum upgrading programs, and the development of a program to reduce the vulnerability of other marginalized groups.

Ladies and Gentlemen:
A discussion on the real causes of inequity, and how the situation can be improved, would also entail an assessment of the extent to which our actions, all of us as Kenyans, foster fairness and justice. The very essence of equity as a normative value that a society like ours lives by, entails treating other people with the dignity they deserve and with just approaches to ensure that all people have a sense of belonging and being appreciated and served by various institutions of governance and processes that lead to development. This is the only way we can build one united nation, a working nation that ensures national cohesion and dignity.

Related to this, and the question of fostering equity in society, is the fact that we can also appreciate our diversity and difference in our peoples, and use this as a basis for having unity in diversity. The famous dictum, all born human beings are born equal under law, reminds us we all have a stake in society. However, we must also recognize that we have different competencies and strengths, and we can appreciate such diversity by ensuring that different people perform the duties they are best suited to do in order to utilize the full potential of our well-developed human resource base for equitable development.

These are some of the real discussions and positive suggestions that I hope this Conference is going to have in order to enable us to build of our past successes and positive gains that we have registered.

Ladies and Gentlemen:
I am glad that you plan to have very forward-looking and solutions-oriented deliberations as to how we can still ensure increasing growth and equity in Kenya today. The Government, which aims to reduce poverty and excessive inequalities in the distribution of income and services, need to know how best to achieve its aim. Such discussions on what can constitute a mid- and long-term strategy for growth, equity and development for Kenya can be part and parcel of an overall Vision for Kenya, the bigger picture of what Kenyans want their country to look like in 5, 10, 15 or 20 years to come. As you all know, a vision is what enables an organization, and even a country, to marshal its resources and overall constraints in order to achieve some set goals. Besides, Kenya would not be the first country to mobilize such a Vision for growth, equity and development. Countries in East Asia such as Singapore and Malaysia were able to propel themselves to such first world economies through such processes.

As you may know, the National Economic and Social Council (NESC) that was set up, and is Chaired, by His Excellency the President, is in the process undertaking a process that can mobilize Kenyans toward a shared national vision for their country. We hope the
deliberations at this Conference shall inform such processes. We remain open and welcome the organizing agencies with whom we have worked before to share the recommendations of this Conference with us.

More importantly however, we must realize that a Vision can only be effective if it is operationalized in very concrete and specific terms so that strategies can be put in place to attain the goals of such a vision. To this end, we must also have discussions and consider ways in which we can have a comprehensive strategy or paper outlining how we can continue to foster growth, equity and development in Kenya. Such a policy strategy or paper can outline the overall framework for growth, equity and development, and what specific sector options and reforms need to be undertaken. Indeed, the progress and gains we have registered under the implementation of the Economic Recovery Strategy can be used as a basis for the conceptualization and design of such a policy strategy.

Finally, I would like to seize this opportunity to express my gratitude to SIDA and to Society for International Development (SID) for inviting the Government to co-host this very important national Conference. The Government will indeed use the outcome of this Conference to sensitize the sectoral planners and departments on the need to establish and streamline equity and growth policies and programmes from the national level to the lowest level in order to benefit the vulnerable and poor people. I would like to sincerely thank SIDA for sponsoring this important national Conference.

**Ladies and Gentlemen:**
As I concluded, I wish to remind you that no one else will help us develop our country other than we Kenyans ourselves. We can get help from our partners, and assistance from well wishers, but in the final analysis the responsibility of developing our country is that of all Kenyans. To this end, we must have a sense of belonging to the country, to take stock of the past gains we have generated, and utilize these to build a stronger, prosperous and equitable Kenya for all.

With these few remarks, it now gives me great pleasure to declare the National Conference on Equity and Growth officially open.

Thank you very much and I wish you happy and productive deliberations.
International Perspectives


Dr. Giovanna Prennushi
POVERTY REDUCTION GROUP
THE WORLD BANK
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Introduction: What is equity?

- A normative concept, related to fairness in distribution.
- Two basic principles:
  1. Equality of opportunity
     Outcomes should be driven by individual preferences, efforts and talents, and not by their predetermined circumstances, such as gender, race, social group or family background.
  2. Avoidance of outcome deprivation
- Almost never the same as equality in a particular outcome dimension, but may require changes in distribution in a number of them.

The entire report can be accessed at www.worldbank.org
WDR 2006 Main messages

- There are massive inequities in the world today
- Equity is a key ingredient of long-term prosperity
- Achieving greater equity requires both more equitable *domestic* policies and more equitable *global* policies
Inequities within countries
The opportunity to learn

Family wealth affects learning
Cognitive test performance by children in Ecuador by wealth quartiles

Inequities across countries
The opportunity to earn/consume

Per capita income for the 10-90%, of the pop, mean and median (1997-2002)
Dr. Giovanna Prennushi
Poverty Reduction Group, The World Bank

Some differences are declining, others rising
Trends in life expectancy

Life expectancy has risen on average from 53 to 65 years


Some differences are declining, others rising
Trends in extreme monetary poverty

Extreme monetary poverty (consumption below $1/day) has declined globally, but not in every country
Some differences are declining, others rising
Trends in income inequality

Global income inequality has increased, but not in the last 30 years

Part II. Why does equity matter for development?

1. Inequalities in wealth and power -- combined with imperfect markets (credit, insurance, land, human capital) -- create large inefficiencies.
   - Poorer entrepreneurs have limited access to credit, so capital is not allocated efficiently
   - Poorer children may not go to school, even if they are bright
   - Poorer farmers may choose crops with lower expected returns, because they are less risky
   - People who are discriminated contribute less to society
Why does equity matter?
Lack of access to insurance reduces growth

Average returns from switching to pineapples in Ghana

Source: Goldstein and Udry, 1999

Why does equity matter?
Discrimination influences performance

Average number of mazes solved, by caste, in five experimental treatments

Source: Hoff and Pandey, 2004
Why does equity matter?
Unequal power and influence can lead to capture of institutions

2. Unequal control over resources often leads to concentration of political power and "bad" economic institutions.

Where political power is concentrated, institutions often discriminate against the excluded:
- lack of universal suffrage
- restricted access to education
- capture of financial institutions

Part III: Domestic and global policies

An equity lens adds three new perspectives to development policy:

- Good policies for poverty reduction may involve redistribution - of access, influence, or government expenditures - away from dominant groups.
- Equity-efficiency trade-offs in such redistributions need to be assessed in light of the full long-term benefits of equity.
- The perception of a dichotomy between growth policies and policies for equity is misguided.

Country-specific context is key in policy choice.
Pro-equity domestic policies (1):
Investing in early childhood education

Mental development of undersized children (low height for age):
the Jamaican study

Pro-equity domestic policies (2):
Providing equitable access to infrastructure

Water sources and water price in Niger

Dr. Giovanna Prennushii
Poverty Reduction Group, The World Bank

Pro-equity domestic policies (3):
Broadening access to finance

- Avoid the twin ills of elite capture and populism
  - Elite capture (ex: Mexico): protected, relational, incumbent-oriented financial system
  - Populism: (ex: India) directed subsidized credit benefiting largely better-off farmers (with high non-repayment rates)

- Reform may involve innovative solutions to broaden access, provide services to the poor, and strengthen accountability

Pro-equity domestic policies (4):
Greater participation in decision-making

- Democratic deepening often begins with the democratization of local government
  - Participatory budgeting in Brazil
  - People's Campaign of Decentralized Planning in Kerala, India

- There is evidence that these mechanisms work:
  - More people from marginalized groups participate
  - More public funds are allocated in a transparent and participatory manner
  - More money goes into sectors that directly affect the poor
Pro-equality policies in China

- Phenomenal growth and poverty reduction -- 400 million fewer poor people in 20 years
- Changes in economic institutions and in economic relations among levels of government provided checks on the arbitrary use of power, protection of property rights, and fair treatment for broad segments of society
  - equitable distribution of land and human capital
  - 1987 reforms unleashed entrepreneurial initiative
  - transitional arrangements compensated potential losers
- So equitable development took place even without political openness
- But
  - growing regional inequalities
  - growing calls for greater democracy at local and central level

Pro-equality global policies and institutions: aid

- The traditional response to global inequities is aid
- Aid is small compared to other uses and recent aid increases should be sustained
- But changes in other policies are also important
Dr. Giovanna Prennushi  
Poverty Reduction Group, The World Bank

Pro-equity global policies and institutions: aid

- The traditional responses to global inequities is aid
  - aid has gone up but remains small, especially compared to other uses
- ... but aid is only part of the answer and changes in global policies are also important

Aid and agricultural subsidies over GDP in OECD-DAC countries


Pro-equity global policies and institutions: global markets

- Tariffs and subsidies on agriculture and manufactures should be removed
- Barriers to legal migration should be lowered
- Intellectual property rights protection should not come at the expense of health
- Changes in the rules and institutions governing global markets are needed

Dr. Giovanna Prennushi  
Poverty Reduction Group, The World Bank

WDR 2006 Main messages

- There are massive inequities in the world today
- Equity is a key ingredient of long-term prosperity
- Achieving greater equity requires both more equitable domestic policies and more equitable global policies
1. Introduction
The economic development of Kenya over the last century has implied dramatic structural changes of the economy and a marked shift in the sectoral labour allocation. A century ago practically everybody was working in agriculture or traditional related trades, while today close to half the labour force is to be found in formal or informal non-agricultural activities. There has been an even more drastic shift in the structure of output. The share of agriculture in gross domestic product has fallen over time. This structural transformation has been associated with changes in income levels and income distribution.

There have also been dramatic political changes. During the colonial period the dominating group in politics was the settlers, and it was primarily their interests which determined economic policy. During the colonial period racial discrimination was a major part of the picture. In 1963 Kenya gained independence, which meant that African interests came to dominate politics. This had consequences for economic policy making and the pattern of inequality.

This paper has three parts. First, I present some evidence on the evolution of inequality in Kenya between 1914 and 1976 (from Bigsten, 1986). In the second part of the paper I present the results of an analysis of changes in the factorial income distribution for the period 1964-2000 (from Bigsten and Durevall, 2006 and forthcoming). Finally, I discuss current policy challenges in the light of Kenya’s historical experiences.

2. The economic history of income distribution 1914-1976

The period up to World War I
Little is known about the income distribution in Kenya before the arrival of the British. The inland was hardly at all integrated with the outside world, while there were long distance trading activities along the coast, where there were some Arabic traders, slavers and plantation owners as well as some Indian moneylenders. The inland Africans were either pastoralists, settled farmers, small craftsmen, or traders. There was limited specialization among inland households. Since there was no serious land shortage, it may be assumed that people could use as much land as they needed to ensure a standard of living roughly comparable to that of the other members of the community.

The British presence was established in Kenya towards the end of the 19th century. To begin with they were confined to the coastal region, but with the building of the railway the
inland was opened up to trade and settlement. The railway construction was done by coolies from India, and about 6,500 remained in the country. The majority of these set up small stores and started trading, while some took up intermediate level positions in private industry or the public sector. At this time a rapid increase in the numbers of Asians and Europeans began in the colony.

By 1914 there had already been a considerable expansion of wage employment in Kenya (Bigsten, 1984). Practically all of this employment was male, and the male employment rate was about 15 per cent. Another category was engaged in the settler agriculture either as squatters (resident on the farm) or as contract labour (normally some three months per year). The latter category was made up almost exclusively of adult men, while men, women and children were working in the former capacity. Finally, a category of African traders and businessmen also emerged. This group was engaged in stock trading, maize milling, butchering, selling of food and drink, and some small scale retail trade in and around Nairobi (Kitching, 1980, p.16)

In spite of increased male African involvement outside agriculture, the period before and during World War I saw an expansion of cash crop production on African farms and an increase in the cultivated area. This was made possible by an increase in the labour input of women in traditional agriculture. Already at this time the increasing differentiation started to increase inequality.

The inter war period

Already by World War I pass laws had been introduced, and in the Highlands the Africans could only work as contract or resident labour or be repatriated. The reason for the measures that were instituted to increase the supply of African labour was that the Europeans were unwilling to pay the competitive supply price. By restricting the scope for development on the African farms, the supply price was reduced, and through various forms of coercion and through but and poll taxes the Africans were made to work for still less. The Europeans represented a small minority and chose to protect their privileges by administrative means. The Asians were not allowed to own land, and the Africans were not allowed to grow a number of cash crops.

By the mid twenties a three class society had been established along racial lines “with whites monopolising export crop agriculture, the higher administrative posts and the professions, the Asians trade, commerce and the middle reaches of the bureaucracy, and the Africans left with unskilled wage employment, small holder farming, petty trade at the village level and the lower level clerical posts in the administration” (Collier, Lal, 1986). Still, at this time the African cash crop agriculture expanded in spite of the restrictions imposed by the government, and there was a growing internal market for food crops.

Kenya was hit by the Depression in October of 1929. Since most of the produce of the settlers went on export, the effect was profound. Several settlers and estates went bankrupt, although many were saved by loans from the colonial government. The squatters, of course, could supplement their income by some production on their own plots, but their standard of living deteriorated during a few years. The level of employment fell and reached the bottom in 1932. When the effects of the depression receded, the participation rate started to increase again, particularly from say 1938 to 1948. The economic decline during the depression meant that the major market for African food crops was curtailed. This does, however, not seem to have had so severe effects on African agriculture, and the acreage expanded quite a lot during the 1930’s. The process of
commercialisation of African agriculture continued and it accelerated even more during World War II. A change during the 30’s was that a business community started to emerge, while the labour movements also gained in importance (Bigsten, 1984).

During this time inequality among African smallholders increased, and the major differentiating factor was land. Those who had large holdings in areas where cash crops could be produced improved their relative position. Already at this time, a rural elite was buying up land (Kitting, 1980). During the 20’s an African trade and business class had started to emerge. It engaged itself primarily in shop and restaurant keeping, maize milling and the provision of transport. Also various types of handicrafts started to expand. The most rapidly developing provinces in this respect were Central and Nyanza. During the Second World War agriculturalists as well as traders made considerable profits. Obviously, the Europeans and Asians still dominated business, but the African businessmen and traders were making progress.

**The post war period**

After the war wage employment in Kenya was quite extensive, but much of it was still of a temporary nature. Labour migration continued to be very common for a long time. African wage employment increased rapidly between 1950 and 1955. Then up to Independence African agricultural wage employment stagnated, and non agricultural employment even declined. This decline was more severe in the private sector than in the public sector. Collier and Lal (1986) argue that this decline was due to rapid increases in real wages over this period, among other things due to the efforts to increase the minimum wages.

In agriculture there was a rapid increase in employment during the first half of the 50s. This reflected an increase in demand, which was due to rising producer prices and switches to new crops such as tea. During the second half of the decade the government changed their policy towards the African small farmers, who were now allowed to grow coffee. This should have been reflected in a higher supply price of labour, but this was more than offset by rising demand for labour, so employment continued to increase. During the period 1960 1967, however, employment in modern agriculture fell. One reason for this was the breaking up of some estates reduced the demand for agricultural wage labour.

During the 40’s there was a considerable gap between agricultural and non agricultural wages, but this was to some extent offset by higher costs of living and less opportunities in urban areas of supplementing the incomes with farm incomes. The gap increased rapidly during the 50’s. Real wages in agriculture rose rapidly during the 60’s due to increasing commercialisation of agriculture and a simultaneous increase in the supply price of labour, but during the same period non agricultural real wages increased even faster. Thus, during the 50s and 60s the gap between agricultural and non agricultural wages increased drastically. Of course, all of the gap was not due to market imperfections. Half of it, according to Collier and Lal (1986), was due to differences in skill composition.

**The post-independence period**

The coming of Independence in Kenya in 1963 implied a change in the interracial distribution of both political power and incomes. The income structure to a large extent remained the same, but employment was no longer as systematically racially segregated. Although average incomes in the post independence period still was the highest for Europeans and the lowest for Africans, with the Asians somewhere in between, the degree of overlapping increased significantly.
With the coming of Independence there was a great need for qualified manpower in the public sector. To satisfy this the public sector increased its relative wages dramatically. Between 1963 and 1965 public sector real wages increased by 48 per cent, while they increased by merely 6 per cent in the private sector (Collier, Lal, 1986). In 1968 wages by skill were higher in the public sector than in the private sector, although private sector wages also started to increase rapidly from 1966. Another factor which continued to be of importance for the income distribution during the first years of Independence was the increase in minimum wages. For the skilled African workers, the late 60s represent a period of rapid increases in earnings. Towards the latter part of the 60s the private employees started to regain their relative earnings position. However, this trend was reversed during the 70s, when private real wages fell again.

During the first decade after Independence many smallholders did experience marked improvements. There were, however, significant differences in development within the smallholder group. There remained a hard core group of rural poor consisting of smallholders a) with little land of low potential, b) with inadequate access to off farm income or urban markets, c) which is reluctant to innovate, plus landless workers with little education and most pastoralists.

**Procedure for estimation of factor incomes 1914-1976**

In order to estimate income distribution in a consistent manner over a long period of time with a weak data base, we had to devise a robust method. It is thus the paucity of information, particularly for earlier years, which places a constraint on the choice of method. The basic principle here was to start from the national income estimate and then to desegregate this by income groups. These were broken down both by sector and race. After estimating the number of persons in each group, we estimated the average income of each group within which the income distribution is assumed to be lognormal. Information from other available sources are then used to estimate the variance of incomes in each group. It is therefore used here to distribute income receivers about the mean income. Once this is done we can count the number of income receivers in each category with an annual income in a certain range. The Gini-coefficients can then be derived for each group and any aggregation of groups. One must also estimate the size of the population and the labour force and allocate this across activities.

**Estimated changes in inequality 1914-1976**

The estimated growth rate for Kenya for the whole period between 1914 and 1976 was a very respectable 5 per cent per year. This may be an exaggeration, since the data for the pre-war period are very shaky. The growth rate may also be exaggerated because activities are shifting towards the monetary sector, where they are more highly valued than in the non-monetary sector. However, during the period between 1946 and 1976, for which the data base is better, the recorded growth rate is as high as 6.6 per cent per year (compared to 3.7 per cent per year 1914 and 1946). It therefore seems fairly safe to conclude that income growth in Kenya was quite high.

During this period the structure of incomes by source changed significantly (Table 1). We see that smallholder agriculture declined in importance up until 1950, but then its share in incomes remained practically constant. The shares of wage earnings and operating surplus stayed around the level of 1960 until 1976. However, from the 60’s to the 70’s the share of labour declined, while the share of capital increased. Structural change as measured by
changes in the sources of income was thus not that important during the 60s and 70s, while it had been quite important until the 50’s.

Table 1: Income Distribution by Source (per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Traditional Agriculture</th>
<th>Wages/Salaries</th>
<th>Operating Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>58.7</td>
<td>31.1</td>
<td>10.2</td>
</tr>
<tr>
<td>1921</td>
<td>50.1</td>
<td>32.6</td>
<td>17.3</td>
</tr>
<tr>
<td>1927</td>
<td>44.2</td>
<td>33.7</td>
<td>22.1</td>
</tr>
<tr>
<td>1936</td>
<td>40.2</td>
<td>34.0</td>
<td>25.8</td>
</tr>
<tr>
<td>1946</td>
<td>35.1</td>
<td>38.0</td>
<td>26.9</td>
</tr>
<tr>
<td>1950</td>
<td>28.4</td>
<td>37.9</td>
<td>33.7</td>
</tr>
<tr>
<td>1955</td>
<td>32.0</td>
<td>46.6</td>
<td>21.4</td>
</tr>
<tr>
<td>1960</td>
<td>27.7</td>
<td>48.0</td>
<td>24.3</td>
</tr>
<tr>
<td>1964</td>
<td>33.6</td>
<td>50.1</td>
<td>16.3</td>
</tr>
<tr>
<td>1967</td>
<td>32.8</td>
<td>49.3</td>
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<tr>
<td>1969</td>
<td>29.6</td>
<td>49.5</td>
<td>20.9</td>
</tr>
<tr>
<td>1971</td>
<td>27.2</td>
<td>50.0</td>
<td>22.8</td>
</tr>
<tr>
<td>1974</td>
<td>27.1</td>
<td>46.6</td>
<td>26.3</td>
</tr>
<tr>
<td>1976</td>
<td>28.7</td>
<td>45.9</td>
<td>25.4</td>
</tr>
</tbody>
</table>

The income shares, of course, depend on the number of people engaged in different activities as well as their income levels. The incomes of African businessmen and own account workers grew very rapidly after Independence and up until the mid-70s. Agricultural wage employees had a very uneven increase in their wages, while the wage rates of African private employees increased rapidly from the War until about 1970, but then they declined. We can see a similar pattern among public employees, although their wages jumped immediately after Independence (to be followed later by private wages) and their real; wages were more resistant during the 1970’s. When we look at the Asians, we find that own businessmen have increased rapidly ever since the 20’s with just a few setbacks. Changes in Asian wages have, over the period, been approximately as rapid as those of the African.

The gap between African and Asian per capita incomes declined slowly until Independence, but then it increased to the same level as in the beginning of the period studied (see Table 2 for the aggregate numbers). The racial income gaps remained very large, but the relative European incomes were much higher than this in the colonial period. The level of the African per capita incomes increased with the most rapid increase during the 50’s and 60’s. During the period 1970-1976 the economic situation deteriorated and African per capita incomes actually declined.

Overall inequality, according to our Gini estimates, increased up until 1950, while it fluctuated and declined slightly during the 1970’s. As has already been pointed out, the data base is weak for the early period; we must therefore be cautious about drawing too far reaching conclusions. Still, it does seem plausible that inequality did increase during the earlier period. The fluctuations in the middle period may, to some extent, also be due to data problems, but experiences from other countries show that short term fluctuations in inequality can be considerable. Between 1950 and 1955 the Gini coefficient declined from 0.70 to 0.63, while the variance in the 13 categories changed very little. This decline in
inequality was explained by the fact that smallholder incomes increased at a higher rate than those of other groups (see Table 4).

Smallholder incomes increased from 12 per cent of modern incomes to 25 per cent between 1950 and 1955, which is remarkable. However, there was also a decline in modern income inequality, particularly for Asians and Europeans, which contributed to the equalization. During the following period (1955-1960) overall inequality increased strongly again, while inequality both in the modern and the traditional sector changed very little. This was largely due to the fact that traditional incomes fell to 17 per cent of modern incomes.

Between 1960 and 1964 this gap again decreased and so did the Gini coefficient. We see that the same pattern repeats itself for the whole period up to 1976. When the modern traditional gap increases the Gini goes up and vice versa, although there is a continual increase in the Gini for the traditional sector and a decrease for the modern sector during the period for which we have the best data we find that inequality increased between 1964 and 1971 and then fell between 1971 and 1976.

Looking at the sectors, we find a long term increase in inequality in the traditional sector. This is consistent with the perception of increased diversification. When we consider the modern sector the opposite pattern emerges. Here inequality has declined over several decades. This is consistent with the view of increasing integration and homogenization of the modern sector. The latter force now seems to have a stronger impact on the Gini (as we measure it) than the former.

The fact that we do not measure income by households does, however, create a problem. Since many households have incomes from a variety of sources, the distribution over families might look different. It should be more even. The trends over time should, nevertheless, be reasonably well captured by our approach although that is difficult to prove.

Inequality for the group Africans increased up until 1974. The inequality among Asians followed a similar pattern, while European inequality showed little of a long term change.

Table 2: Percentage Distribution of Income by Race

<table>
<thead>
<tr>
<th></th>
<th>African</th>
<th>Asian</th>
<th>European</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>78.7</td>
<td>8.1</td>
<td>13.2</td>
</tr>
<tr>
<td>1921</td>
<td>66.5</td>
<td>11.7</td>
<td>21.8</td>
</tr>
<tr>
<td>1927</td>
<td>63.5</td>
<td>13.0</td>
<td>23.5</td>
</tr>
<tr>
<td>1936</td>
<td>55.7</td>
<td>18.9</td>
<td>25.4</td>
</tr>
<tr>
<td>1946</td>
<td>54.9</td>
<td>20.7</td>
<td>24.4</td>
</tr>
<tr>
<td>1950</td>
<td>48.7</td>
<td>24.8</td>
<td>26.5</td>
</tr>
<tr>
<td>1955</td>
<td>58.5</td>
<td>18.9</td>
<td>22.6</td>
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<tr>
<td>1960</td>
<td>56.4</td>
<td>22.9</td>
<td>20.8</td>
</tr>
<tr>
<td>1964</td>
<td>69.7</td>
<td>17.4</td>
<td>12.8</td>
</tr>
<tr>
<td>1967</td>
<td>70.9</td>
<td>18.5</td>
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</tr>
<tr>
<td>1969</td>
<td>72.0</td>
<td>18.6</td>
<td>9.4</td>
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<tr>
<td>1971</td>
<td>71.0</td>
<td>18.7</td>
<td>10.3</td>
</tr>
<tr>
<td>1974</td>
<td>76.4</td>
<td>17.0</td>
<td>6.6</td>
</tr>
<tr>
<td>1976</td>
<td>78.1</td>
<td>15.7</td>
<td>6.3</td>
</tr>
</tbody>
</table>
This suggests that the degree of differentiation among Europeans was of a similar magnitude over the entire period, while it increased for the two other groups. This is not surprising, since both Asians and Africans were discriminated against in the colonial period. Once the degree of discrimination declined even they could venture into new and better paying activities. This reduced discrimination therefore implied in increasing intra race inequality.

The racial gaps in incomes were reduced between 1955 and 1967, but then the income gap surprisingly increased again. One explanation might be that Asians and Europeans have been squeezed out of low productivity jobs. Their numbers have, accordingly, been reduced drastically. We thus note that the racial income gaps still are very large at about 1:30, but that the relative European incomes were much higher than this in the colonial period.

The gap in incomes between modern sector employment and traditional employment (Table 3) has stayed remarkably constant around 6:1 throughout the entire period. The gap between subsistence incomes and private modern African incomes decreased until 1955, but has since increased and is now about 1:5. Even if we do not control for education etc. these figures suggest that dualism has been a permanent feature of the Kenyan economy.

Overall inequality in Kenya increased until about 1950, but then it stagnated at a high level. The results seem to be similar, whether we use the modern traditional income gap or the Gini coefficient (Table 3) as a measure of inequality change. Inequality thus increased in all periods except 1950 55, 1960 64 and 1971 76.

The level of the African per capita incomes was increasing with the most rapid increase during the 50's and 60's. During the 70's the economic situation deteriorated and in last period African per capita incomes actually declined.

Table 3: Gini coefficients

<table>
<thead>
<tr>
<th>Year</th>
<th>Trad. All</th>
<th>Trad. Modern</th>
<th>African</th>
<th>Asian</th>
<th>European</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>0.50</td>
<td>0.33</td>
<td>0.63</td>
<td>0.39</td>
<td>0.37</td>
</tr>
<tr>
<td>1921</td>
<td>0.57</td>
<td>0.33</td>
<td>0.71</td>
<td>0.38</td>
<td>0.44</td>
</tr>
<tr>
<td>1927</td>
<td>0.58</td>
<td>0.34</td>
<td>0.71</td>
<td>0.38</td>
<td>0.46</td>
</tr>
<tr>
<td>1936</td>
<td>0.63</td>
<td>0.35</td>
<td>0.77</td>
<td>0.39</td>
<td>0.47</td>
</tr>
<tr>
<td>1946</td>
<td>0.64</td>
<td>0.36</td>
<td>0.74</td>
<td>0.40</td>
<td>0.46</td>
</tr>
<tr>
<td>1950</td>
<td>0.70</td>
<td>0.38</td>
<td>0.76</td>
<td>0.45</td>
<td>0.51</td>
</tr>
<tr>
<td>1955</td>
<td>0.63</td>
<td>0.41</td>
<td>0.70</td>
<td>0.43</td>
<td>0.47</td>
</tr>
<tr>
<td>1960</td>
<td>0.68</td>
<td>0.43</td>
<td>0.71</td>
<td>0.49</td>
<td>0.53</td>
</tr>
<tr>
<td>1964</td>
<td>0.63</td>
<td>0.44</td>
<td>0.66</td>
<td>0.51</td>
<td>0.49</td>
</tr>
<tr>
<td>1967</td>
<td>0.66</td>
<td>0.46</td>
<td>0.67</td>
<td>0.55</td>
<td>0.54</td>
</tr>
<tr>
<td>1969</td>
<td>0.68</td>
<td>0.47</td>
<td>0.66</td>
<td>0.58</td>
<td>0.57</td>
</tr>
<tr>
<td>1971</td>
<td>0.70</td>
<td>0.47</td>
<td>0.67</td>
<td>0.60</td>
<td>0.57</td>
</tr>
<tr>
<td>1974</td>
<td>0.69</td>
<td>0.48</td>
<td>0.65</td>
<td>0.61</td>
<td>0.59</td>
</tr>
<tr>
<td>1976</td>
<td>0.68</td>
<td>0.48</td>
<td>0.64</td>
<td>0.60</td>
<td>0.61</td>
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</tbody>
</table>
3. Factor Proportions, Openness and Factor Prices in Kenya 1965-2000

Introduction

For the rest of the period as described in this section I summarise results from the study (Bigsten, Durevall, forthcoming). The focus of that study is on the impact of globalization or trade liberalization on income distribution. A crucial link between policy changes and inequality outcomes is changes in relative factor prices. We provide an analysis of the long-term determination of the relative prices of the factors land, capital, and labour in Kenya.

Soon after independence in 1963 it started to pursue an import substitution policy approach to industrialization. However, because of severe macroeconomic imbalances in the beginning of the 1980s, Kenya had to embark on a series of structural adjustment programs that resulted in an uneven process of liberalization of international trade and capital flows. In 1993-1994 full-scale trade liberalization was implemented and Kenya became an open economy according to the criteria set up by Sachs and Warner (1995).

To evaluate the role of endowments and openness for the evolution of relative factor prices, we first compiled data on factor endowments and factor returns for land, capital and labour and indicators of openness for the period 1964-2000. We then used cointegration analysis and developed error-correction models for relative factor returns. In addition, the evolution of total factor productivity (TFP) was analyzed, since it may influence factor returns.

Factor endowments

Our specific factor model of trade predicts that factor abundance is a crucial determinant of the pattern of specialization and factor prices, although market distortions may make factor prices diverge from their equilibrium values. We have factor estimates for the period from 1964 and onwards. Our capital stock estimates are taken from the KIPPRA database (Ryan, 2002), while labour and land data are from World Development Indicators (2002). Using these data we have computed the endowment ratios, K/L, T/L and K/T, shown in Figure 1. The K/L ratio is very important for the pattern of specialization and the factor price outcomes. We see that the ratio increased until 1982, but that the trend then was reversed. Moreover, as expected, the capital-land ratio grows and the land-labor ratio declines continuously.

Figure 1: Relative Factor Endowments in Kenya 1964 – 2000.

Note: K/L = _____, T/L = _ _ _ _, K/T = ........ The variables have been mean and variance adjuste dto increase the readability of the graph.
The pattern of factor growth up to 1982 should according to our model have led to increasing land rents, and tended to increase wages and reduce capital rentals. And the post 1982-pattern should have generated higher capital rentals and lower wages, while land rents should have continued to increase.

**Factor markets**

After independence labor supply growth continued to outstrip formal sector job creation and the use of minimum wages to push up real formal sector wages became increasingly ineffective, private sector real wages fell. As a result, the period from 1968 onwards can be characterised as one of competition as far as the labor market is concerned (Collier and Lal, 1986). Still, some labor market controls remained until the 1990s when several major labor market reforms took place. Trade-unions were allowed to seek full compensation for price increases from 1994, and the relaxation of wage guidelines made it possible for firms and employees to negotiate wages on the basis of productivity considerations rather than cost of living indices that had earlier been the case (Ikiara and Ndungu, 1997). In addition, the redundancy laws were amended in 1994, making it easier for firms to shed excess labor.

The evolution of real wages is depicted in Figure 2. It is measured as earnings, including allowances, of employees in the private sector divided by the GDP deflator. Figure 2 shows that real return to labour increased by about 25 percent from the mid-1960s until the beginning of the 1970s. This was followed by a slow decline until 1995 when real wages started to increase rapidly, a process that continued for the rest of the decade; the growth in private sector real earnings between 1994 and 2000 was 65 percent. This increase appears to have been due to the labor market reforms (IMF, 2003). One might suspect that wage dispersion within sectors increases when controls are lifted, and it is reasonable to assume that this, in a system where it is difficult to reduce some wages, drives average wages up during a period of adjustment... When looking at the evolution of wages post-2000 we see that there was another two years of rapid increases, but then real earnings growth came down to more modest levels (3-4% per year in 2003 and 2004). It thus seems plausible to argue that the wage increase following the reform was a one-time adjustment once labour market controls were lifted.

![Figure 2: Indexes of Real Returns to Factors in Kenya 1964 – 2000.](image)

Note: Real return to capital =______, real return to labour = ?____?____?, real return to land =+____+__+. The GDP deflator was used to calculate the real values of earnings and land prices. The base year is 1982 = 1. The series for land prices is the moving average of the actual series.
During the colonial period there were land market interventions in favour of the settler community but these were eliminated at independence in 1963. Still, the land market in Kenya has remained inflexible, and it has continued to be difficult for farmers to buy and sell land in some areas. Nevertheless, the land that is actually traded has been sold at freely negotiated prices. Consequently, even if those are not full equilibrium prices, development over time should give a reasonable reflection of how the scarcity value of land has changed.

We use real land prices as a proxy for land rentals following Williamson (2002) and O’Rourke and Williamson (2002). Land prices are not an ideal proxy for the land rent, but they would reflect the return on land in a perfect market. We collected prices from agricultural land sales in two districts (Kakamega and Kiambu) and constructed indexes that are used for land rentals. The measurement of the growth rate of land prices seem to be fairly accurate since both series grow at the same speed, although their levels are very different. Figure 2 shows a smoothed version of real land prices in Kiambu, which are available for a longer period than the Kakamega prices. Real land prices, and return to land, have risen sharply during the last 35 years; over the whole period they increased fifteen fold. Hence, in our case they behave as predicted by theory, at least in the sense that they have grown faster than return to labour and capital.

The third factor return depicted in Figure 2 is the real return to capital. During most of the period covered in our subsequent analysis there were extensive capital market interventions with controlled interest rates and administrative interventions in the allocation of credit (Bevan et al, 1990; Isaksson and Wihlborg, 2002). Financial liberalisation was part of the structural adjustment efforts that started in the early 1980s, but the process was gradual and it is only recently that interest rates have approached equilibrium rates. Therefore we do not use interest rates to measure capital rentals. Instead, our measure of return to capital is derived with the approach developed by Sarel (1997). It uses the national accounts and a production function to compute the marginal return to capital. The novelty of the approach is that the calculations of the technical capital shares for the individual sectors (at the one-digit GDP level) are averages obtained from a number of other countries. The advantage of this approach is that we can correct for the classification of incomes of self-employed as capital income, something that cannot be done with Kenyan national accounts data alone. We obtain capital shares that vary between 0.245 and 0.280 over the period 1964 and 2000. Our values are in line with international averages and, for instance, close to those obtained for the Ivory Coast where data on compensation for self-employment are available (see Gollin, 2002).

As Figure 2 shows, return to capital declined continuously from 1964 to the mid 1970s; in total a reduction of 50 percent. Since 1975 it has fluctuated slightly, with an increase from 1985 to 1990, a period of stability, and a small decline after 1995.

**Openness**

Sachs and Warner (1995) constructed an openness indicator based on five variables, namely tariff level, extent of non-tariff barriers, black market premium, presence of state monopolies in exports of major crops, and whether countries had a socialist economic system. By this approach they concluded that Kenya was opened up in 1993. A recent paper by Wacziarg and Welch (2003) update their data set and redo the exercise, and they also conclude that Kenya opened up in 1993 and remained open during the rest of the 1990s (see also Ryan, 2002). It is of course not straightforward to judge when a gradual liberalization process has reached the point where the country changes from closed to open, but it is clearly fair to say that trade interventions remained extensive into the 1990s.
The policy of import substitution should have pushed up the relative price of industrial goods, and it should have had an impact on factor rewards separate from the factor endowment effect. Our theory predicts that Kenyan trade policy interventions in the 1960s tended to increase capital rentals and reduce land rentals, while we would expect the reverse effects during the 1980s and the first half of the 1990s, given relative resource endowments. Changes in world market prices would also have an effect. One of the major external events during the period was the coffee boom in the 1970s, which temporarily pushed up the returns land.

To give a good description of changes in the level or protection in Kenya we would need consistent time series on tariffs and detailed information about quantitative restrictions. What is available for part of the period are estimates of tariffs collected as shares of imports. These estimates were 13-14 percent in the mid-70s, peaking at close to 23 percent in 1982, before declining to the 13-14 percent range again in the late 1990s (World Development Indicators, 2003). However, the actual tariff rates on the books were considerably higher than what this measure shows, but some importers were able to get their import taxes waived. There were also extensive quantitative restrictions on imports, which had a large effect on domestic prices. We have no means to quantify these effects.

Given the above complications we use different variables as proxies for trade policies. One proxy measure for the impact of trade-policy reform by relating the development of domestic market prices of manufactured goods with the development of world market prices of industrial goods (converted to Kenya Shillings using the official exchange rate). More specifically, we use the GDP deflator for manufacturing in Kenya and the price index for industrial production in the UK, the latter being a major trading partner. This indicator should capture changes in the level of protection of the manufacturing sector. The development of the log of the indicator, denoted RPM, is shown in Figure 3. It provides more or less the same information as OPEN but the trade liberalization starts already in the mid-1970s and there is a small reversal after 1993.

In theory, the correct measure of trade policy is the ratio between domestic prices of exportables, that is agricultural goods, and importables, that is manufacturing goods (O’Rourke and Williamson, 2002). We denote the log of this indicator $PAPM$, measured as the ratio between the sectoral deflators. In the Kenyan context, an increase in $PAPM$ may, ceteris paribus, be interpreted as an indication of increased integration in the world economy, and vice versa. This is based on the fact that import substitution policies, which have been a dominant obstacle to international integration, aimed at increasing prices of manufactured goods relative to agricultural goods.

Figure 3 shows the evolution of $PAPM$. It remains low until 1975-77 when the coffee-boom pushes up agricultural prices dramatically. Then there is small downward correction. During the 1980s $PAPM$ changes little, in spite of a strong decline in terms of trade (not reported). This could indicate that their negative effect on $PAPM$ was counteracted by liberalization measures in a series of structural adjustment programs pushing up relative agricultural prices. The pattern of the 1980s may also have been affected by the introduction of purchasing-power-parity based pricing of agricultural goods in 1980s (Mwega and Ndung’u, 2002). In the early 1990s there was again a drought increasing $PAPM$, while the later part of the 1990s is a period of falling $PAPM$. During this period there were exogenous shocks such as falling coffee prices, and a decline in terms of trade by 16 percent between 1998 and 2000 (Economic Survey, 2003).
The recent behaviour of PAPM seems to contradict the claim that Kenya was an open economy from about 1993; it declines during the latter half of the 1990s, and in 2000 PAPM is at the same level as in the mid-1970s. However, the Kenyan relative goods prices have been strongly affected by non-policy factors; changes in goods prices in the domestic market may either be due to changes in the international goods market or to changes in domestic policies or to exogenous shocks. What we observe is the aggregate outcome of all the influences, and it is hard to separate out the effects of the various influences. Still, changes in relative goods prices should in any case have an effect on factor prices in an open economy.

**Measuring total factor productivity Growth**

Relative factor prices may also be affected by the evolution of total factor productivity. Three different approaches were used to estimate TFP growth. They all show that there was hardly any TFP growth over the period 1964–2000, which is in line with the results of the detailed study by Gerdin (1997) for the period 1964-1994. To save space, we only provide a brief summary of the results.

**Results**

For the details of the results of the analysis I refer to the full paper (Bigsten, Durevall, 2006). The main result of our analysis is that factor proportions determine relative factor prices in the long run, while openness, measured by three different proxies, seems to play a small role in the determination of factor returns (See Figures 4 and 5.) The only deviation from this behaviour occurred during the latter half of the 1990s, when wages grew rapidly. However, this was probably due to labour market deregulation; there is no evidence of productivity growth during this period. Hence, the influence of the international economy on the three factor prices considered here has been weak relative to the impact of changes in factor abundance in spite of the steps taken to open up of the Kenyan economy.
Our analysis shows that the evolution of relative factor prices was essentially determined by changes in relative resource endowments during the period 1965-2000; the wage-capital rental ratio was driven by the capital-labour ratio while the land-capital rentals ratio was driven by the capital-land ratio. We fail to find convincing evidence that that increased openness has significantly affected relative factor prices.

There was rapid growth in wages during the latter part of the 1990s that cannot be explained by resource endowments, but we do not interpret this as an effect of trade liberalization. It is not picked up by any of our openness indicators and the relative price between agricultural and manufactured goods prices actually declined over this period. The most likely explanation is that wages rose quickly because of changes in labour market regulations. The most dramatic factor price change during the period analysed was the increase in land prices, reflecting the increased land scarcity. Since much of the land in Kenya is owned by relatively poor smallholders, this may have had beneficial effects on household income distribution.
Our conclusion for the period 1965-2000 is thus that factor price changes were driven by changes in factor endowments, in spite of the removal of many trade restrictions in the later part of the period. Consequently, the changes in income inequality that have taken place in Kenya since independence have been influenced much more by the long-term process of structural change, than by changes in international economic policy. This suggests that African governments need not be so concerned about the distributional implications of their trade policy, but rather let it be decided on the basis of growth and efficiency considerations. Still, the effect of openness on factor prices may have been dampened by a lack of full integration between Kenyan and international markets. Much of the economy is not trading internationally, and even sectors that are trading may be partially isolated from external competition. This could mean that the impact of international economic integration could increase in the future if Kenya becomes more fully integrated with the world economy.

4. Policy challenges
The main aim of current Kenyan economic policy is said to be poverty reduction, that is higher incomes for the poor. The success in this endeavour will depend on growth and changes in income distribution. So what are the policy challenges (see discussion in Bigsten and Shimeles, 2006)?

Broad participation and redistribution policy
Traditionally economists have been concerned about the risk that income redistribution may be detrimental to growth. For example, if the rich are the savers, then the shifting incomes towards the poor would reduce the national savings rate. This is a concern, but there are also factors that work in the opposite direction. The most widely cited example relate to the credit market. If there are credit market failures, particularly the poor will lack access to credit, which will mean that large segments of the population may fail to realize their economic potential. It has also been argued that inequality increases the risk for macroeconomic instability and makes it less likely that the government can undertake reforms that require cooperation and social trust. The econometric evidence on all the link between income distribution and growth is somewhat mixed, but there is in any case no longer a clear view that equality hampers growth. On the whole the extent to which it does of course depends on how it is achieved.

In the debate on the consequences of redistribution for growth it has been suggested that redistribution of wealth is less distortionary than that of income. However, such redistributions, for example land reform, are hard to do except in exceptional circumstances, often involving political violence. Income transfers are easier to undertake, but they are more problematic from a growth point of view. By reducing returns to both human capital and physical capital income taxation reduces incentives for saving and investment. Still, income transfers may be desirable, if the beneficiaries choose to invest more in human and physical capital when they are better off. Transfers may also have an insurance element that protect the poor from negative shocks and make it possible for them to avoid dissaving when they are hit by a shock. Such dissaving may for example be taking children out of school

Most types of distributional policies are politically controversial and to be able to do them there normally needs to be support from powerful and wealthy groups. You could argue
that it is in the interest of the elite to see a middle class emerge, so that one might expect them to support a policy proving broad based education. This would be good for growth which would be in their interest, but it could at the same time it may undermine their power positions. On the other hand again, the emergence of a middle class could reduce social tensions and reduce the risk of expropriation. Broad based education or other measures that help broad segments of the population tend to give them a stake in society, that is makes them middle-class, are important measures to reduce the risk of conflict.

Investment in the human capital of the poor may be an example of a win-win situation, to the extent that it is be good both for growth and equity. The first round of PRSs focused a lot of attention to these kinds of social sector activities, and the new set need to sustain and deepen those efforts. Here the required policies are largely in place, but progress is held back by human and financial constraints. In the area of education there has been considerable progress, while technical skills are scarce.

**Economic and political governance**

The quality of economic and political governance is probably the main determinant of the extent to which Kenya will be able to exploit fully its growth potential and increase the incomes of the poor by affecting the incentive structure and allowing an amicable resolution of conflicts of interest among members of society (see discussion in Bigsten and Moene, 1996). Important indicators are democratic accountability, control of corruption, law and order, and policies towards private investment. To develop any country needs a stable political system, rule of law, and peace to improve economic performance directly through their impact on economic growth and indirectly through reducing investment risk, and macroeconomic distortions.

Sound fiscal and monetary policies are prerequisites for successful development, and in this regard Kenya has done reasonably well. The basis for forthcoming PRSs must continue to be a macroeconomic policy that is credible to domestic and international investors. Uncertainty is a major factor in explaining low investments in Africa, so efforts to maintain stability are very important for investment.

One important indicator of how far a country has moved towards economic take-off is whether a country is internationally competitive in areas outside traditional commodity exports. If firms are to be able to export they have to be competitive. The quality of the investment climate is a central factor. Reforms to improve market institutions such as laws, courts, business associations, lobbies, quality control, and protection of property rights and enforcement of contracts have begun, but the process has been slow. Financial institutions that provide insurance, hire-purchase/leasing of equipment and vehicles, merchant banking services, letters of credit, bonds, hedging instruments etc. are weak. Commercial and business services, e.g. in the provision of warehousing, transport, utilities, auditing, marketing, market prospecting, export promotion, product design and maintenance need to be developed.

The PRS process is sensible, that is that budgeting is done from desired ends. But the demands on the system are high and to make the process more realistic much more training is needed further down in the hierarchy of planners. Moreover, there is also a serious concern about incentives. Even if people know what to do, they may choose not to do so because the incentives are weak. Administrative reforms are underway in many
places, but this will be a very drawn out process. The main thing is to get the process right. It has worked well for the production of reports, but it has been weak when it comes to implementation. The financial monitoring, which is required by donors if they are to give budget support, has been significantly improved in many countries. The physical tracking is needed by the central planners as an input into the policy making and budgeting activities. The first PRSPs were largely expenditure focused, while it would be desirable for the new one to shift towards more serious analysis of supply issues.

The regional dimension and physical infrastructure

One aspect of development that is important for income distribution is the regional integration or the lack thereof. The Kenyan economy is characterised by large regional differences (Bigsten, 1980) and this is in the case of Kenya also politically problematic since this more or less also reflects ethnic differences. And a lot of the politics in Kenya is therefore played along ethnic lines, with detrimental effects on economic efficiency.

The regional inequality in Kenya is caused by agro-climatic conditions, weak institutional and infrastructural developments, fragmented domestic markets, and ethnic politics. Income inequality arising out of regional differences contributes an important part of overall inequality. The combined effects of agro-climatic conditions and remoteness create high vulnerability to shocks in weather conditions, prices, and policy. Among factors that can reduce vulnerability to shocks are access to basic infrastructure, and access to productive assets, including human capital. Investment in infrastructure can help integrate the economy by linking up fragmented domestic markets for goods and services as well as factors of production, such as labour. In addition, the investment on infrastructure development leads to capital deepening, which is essential for raising productivity.

By trying to integrate the whole economy one can unlock poverty traps in remote areas and reducing inequality at the same time as the involvement of also people in the peripheral regions in the growth process can contribute positively to aggregate growth.

Poor infrastructure constrains firms producing for the whole of the domestic market, but it is also a severe constraint for exporters. The problem is aggravated by delays in customs, unreliable telephone connections, frequent power outages etc. For African firms to be able to take advantage of international trading opportunities and to engage actively in the emerging system of outsourcing there must be a reliable and cheap infrastructure. Poor infrastructure and high utility costs hold back competitive production and drive up costs, thus undermining the potential for the output expansion. Excessive regulations result in entrepreneurs forming very small and informal firms rather than formal organizations that have export potential and contribute to tax revenues.

The sectoral dimension

To reduce inequality and poverty Kenya must continue the transformation its economy from a dual economy to a more integrated and modern economy. This requires a continued shift of labour from agriculture into preferably well-paying formal sector jobs. This in turn requires the creation of an economic environment that can induce investors to invest in Kenya. In recent decades the investment rate has been too low to increase the amount of capital per worker. This has meant that the number of jobs in the formal and relatively capital-intensive sector has stagnated, while the labour force increase has had to be absorbed by the informal sector. This sector can provide a livelihood for the participants, but it cannot be the basis for an economic take-off for Kenya.
In this context the policy towards the informal sector is crucial (see discussion in Bigsten, Kimuyu, Lundvall, 2004). This is where many of the new entrants to the labour market end up, and the income level is often modest. Still, this sector is probably an indispensable part of the process of structural transformation and the shift in the labour force out of agriculture. And the pace of this shift is crucially important for the sustained growth of the Kenyan economy and the eventual integration of different sectors and thereby eventually a more even distribution of income.

The informal sector absorbs a lot of labour, so it helps with the unemployment problem. Still, incomes are often low and the main emphasis of policies aimed at the informal sector should thus be to increase its productivity. This will immediately help reduce poverty and contribute to economic growth. Moreover, for African countries to take off into self-sustaining growth they need to achieve higher investment rates and increased exports. This can only be realized by the formal sector. Investments in informal firms are generally modest, and the sector hardly exports at all. Also for the economy to grow faster, publicly provided goods and services such as infrastructure, education, and law and order must be delivered. Apart from relying on foreign aid, this can only be done if the government is able to increase tax revenues. And these can only be collected from the formal sector. Therefore we argue that a long-term policy must aim to speed up the absorption of informal firms or informal sector labour into the formal sector.

What does this imply for policy making? First, on the macro-level there is a need to bring about a shift to a policy that is credible to domestic as well as foreign investors. Formal firms have been confronted with all kinds of problems in dealing with the governments such as regulatory red tape, corruption, and lack of security. Thus, part of a policy to bring about a shift of firms to the formal sector is to clean up the way the government deals with formal sector firms to reduce the incentives for firms to take shelter in the informal sector.

To bring about informal sector growth and absorption into the formal sector the government needs to design its general policies so that they are relevant also for informal firms, and design specific programmes targeting informal firms. The skill level and policy environment of informal firms need to be improved to make it possible for them to graduate to the formal sector. Informal sector projects by donors and governments in Africa have so far focused on the important issue of immediate poverty reduction, but this strategy need be complemented by supporting the informal firms to graduate into the formal sector. Capacity building efforts have so far largely neglected the needs of informal firms, but we think curriculum as well as targeting should be thoroughly evaluated. The infrastructure such as roads, electricity, and water supply is often poor, and in its efforts to improve infrastructure the government should also take into account the needs of the small informal firms.

Informal firms have difficulties in accessing to the formal credit market. This is due to their uncertain legal status, lack of proper accounts, and lack of credit rating procedures relevant to informal firms. The small size of the loans required by these small firms also means that alternative procedures for the provision of credit to such firms are desirable.

The government should also try to link up informal firms with the formal economy through for example government contracts, which could be used as an incentive for informal firms to formalize operations. Measures to stimulate demand for informal sector goods and services from the private sector could also be considered. One could try to stimulate the formation of supporting networks among informal African entrepreneurs themselves, as
well as between them and formal sector organisations and informal networks. Since the ultimate aim of the policy is to absorb the informal firms into the formal sector, there is need to work on several fronts that have potential for bridging the gap between the sectors. This kind of policy emphasis would have a pro-poor character and would contribute significantly to poverty reduction.
References


Thoughts and Notes on Inequality and Equity

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1. There are five concepts which give rise to confusion and sometimes cause sterile discussion since both the content of the concepts and their inter-relationship are often overlooked. The concepts are: a) Growth, b) Development c) Poverty, d) Equality and e) Equity

a) Growth is simply the rate of change of some measurable magnitude such Gross Domestic Product over time. It does not consider its composition or distribution. Guns give rise to growth every bit as much as sukuma wiki.

b) Development, in general, adds a distributional component but also carries the suggestion of potential since one develops towards some desired goal.

c) Poverty is measured in absolute and relative terms. There is always relative poverty even in the most affluent society since some always have more than others. In absolute terms it usually is measurable by the capacity of a person to acquire subsistence food or some necessary minimum of shelter and clothing to afford dignity.

d) Equality has usually been treated with respect to inequality where once again peoples, professions or locations are considered to be treated adversely relative to others.

e) And finally Equity deals with the even-handed treatment of those with similar traits and the just treatment of those differently endowed.

2. It is necessary to recognise that inequality is an issue even if it is not necessarily a problem. There is need therefore to understand the basis whereby inequality emerges, becomes worse, or is lessened as well as its positive and negative effect.

3. Historically, inequality has always existed in Kenya arising from the cultural
diversity which gives rise to differential rights (age-set and gender division of
labour).

4. Diversity of terrain (often associated with consequential agricultural or pastoral
activities) has given rise to differences in wealth forms (land and/or cattle).

5. Immigrant communities, (ranging from 10th century Arabs to 19th century South
Indians via Zanzibar and Europeans – excluding 16th century Portuguese who seem
to have left no cultural effect,) brought different wealth forms and objectives.

6. The dual economy does not necessarily mean that one is better than the other. They
have different objectives and perceptions of risk and only through time, does one
envy the other. It is interesting to note that many in the formal economy have an
idealistic attitude towards the seeming leisure and security of the traditional
economy. They often misinterpret the risks that the others face.

7. All that notwithstanding, it is clear that inequality in income and/or wealth are
major incentives for dynamic change in a society. In fact, economics relies on the
rewards to specialisation, division of labour and comparative advantage among
other characteristics of individuals and economies to give rise to efficiency.

8. Where inequality is addressed through taxing or nationalizing the wealth of the rich
it removes the incentive since profit and wealth are sought as a reward for effort.
Furthermore, experimentation always carries additional risks but often yields non-
Marginal (step function) benefits.

9. Since inequality of one type or another seems to be completely natural, the
questions arise as to how much inequality is acceptable and what types of inequality
can be not only tolerated but espoused.

10. There seems therefore, to be a confusion in the discussion of inequality. On one
hand there are the differences in ownership and control of resources while on the
other hand there is a question of unequal rights which limit the capacity of one
group relative to some other group to access markets (broadly defined including
inheritance) which lead to ownership and control of resources.

11. This could broadly be expressed in stating that there are two relevant categories of
inequality: inequalities in what one has and inequalities in what one can do with
what one has.

12. In consequence any policy changes should address legal issues (again broadly
defined to include social praxis) affecting access rather than the symptoms which
are the outcome of constrained decisions (what one has – or lacks – is usually
treated as poverty rather than inequality.)

13. Markets (as opposed to bilateral trading) are all artificial constructs governed by
pragmatic laws (rules) of contract and respect for ownership (even if limiting use).
Recourse to remedy, in the event of infringement, is always expressed even if only
negatively.

14. For markets to function trust is necessary since one does not wish to incur the
transactions cost of verification of quantity, quality, and other often difficult to
establish characteristics. The idea of trade between those giving up food in
exchange for other types of goods requires a different type of trust. If one specialises
in a non-food product one has to be confident that adequate food will be available at
an affordable price in a timely manner. The insecurity arising from the threat of
starvation often leads to what is perceived by outsiders as inefficiency.
15. Markets reallocate resources. This does not necessarily mean that they are allocated efficiently or to the benefit of the people as a whole. The wealthy can sway the outcome of a bargaining process either directly through bidding or through side payments to other participants. It is therefore critical to understand the allocation of resources including wealth which will generate a flow of resources in the future. Critically the control of social capital which gives rise to laws and rules defends or undermines the ownership and control of the other resources. In other words rules-based allocations almost always precede market-based ones.

16. The markets for resources that one would need to look at are a) money: for transactions, precautionary, speculative, b) inventory, c) time, d) human capital: health, physical attributes, education, information, e) social capital: societal roles, membership of clubs (including age-sets, ethnic groups, etc), f) physical capital, g) environmental capital: non-homogenous land with respect to scenery, accessibility, soil, rainfall regime, propinquity, etc.

17. Institutions make, revise and enforce laws and rules. In general, the rules specify the requirements for membership and penalties (including eviction) for infringement. While there is no necessary equality of membership, those who are members partake of benefits which outsiders could only access at some higher transactions cost.

18. A lot of the inequality arises from ownership of economic rents that come from institutional capture. When one has captured an institution one can then rewrite its rules and regulations (laws) to ensure membership satisfies one’s own objectives. This is, effectively, an outcome of some revision of social capital.

19. Restrictive practices legislation which is meant to constrain abusive use of resources – which are always scarce relative to the desires for them – are themselves an outcome of control over legislative processes even informal ones.

20. Since there are inequalities that are natural (including natural monopolies) laws are necessary to control the magnitude of surplus that can be extracted and, maybe, limits or directions on the uses to which the surplus can be put. At present the question of Corporate Social Responsibility Audits would appear to be addressing this.

21. Clearly what is at issue is the differential rates of depreciation of human and social capital. Those with education tend to benefit from the formal sector and abandon their investment in traditional social capital (harambee, extended family) which gave rise to the necessary insurance in the precarious traditional lifestyle.

22. Individualism purchases insurance through a market. It leads to people who disinvest in traditional social capital since the individual perceives that the cost of supporting a clan as disproportionate to the benefits he or she acquires or are promised.

23. To the extent possible, reform of laws should improve access to information and remove discrimination with respect to movement and ownership and then leave individuals to make decisions. Despite the fact that decisions most probably will not lead to equality in ownership of resources.

24. Control regimes have, in general, been introduced so as to provide social benefits where private benefits from market allocation would not be welfare maximising. Nevertheless control regimes in general, work through licensing as a way of
allocating the goods and services that pass through some market rather than prices, hence control of the licensing procedure gives rise to rents and therefore inequality.

25. Legislation which is permissive or compliant allows those with market power to exploit that power. Competition is seldom available where initial endowments are seriously skewed with respect to equality. Moreover, there is the classical asymmetry where potential losers in a proposed reform are both well organised and fully aware that their benefits are under threat, whereas potential winners are usually unorganized and/or ill informed or even ignorant, of the potential gains they will receive should the reform be implemented.

26. It can therefore, be understood that inequality does not necessarily diminish the dignity of unequal persons; in fact, the equal treatment of unequal persons can constitute an injustice just as serious as the unequal treatment of equal persons.

27. To the extent that complaints about inequality stem from mere envy they do not need to be addressed. It is only where poverty lowers both the dignity and the survival capacity of some individual that changes become necessary. To the extent that the poor have the capacity to change their state in life, but choose not to due to risk averseness or other social objectives, there is no reason to revise laws which may impose social costs in a discriminate manner on those behaving in ways which merely are diverse by defining them as illegal.

28. Efficiency is a pejorative word in the equality debate. Differing objectives – or different views of an outcome – have bedeviled the whole of history. Paternalism (whether colonialism, feudalism or gerontocracy) always says that a right, but imposed, solution is better than the risks inherent in free, responsible choices by those who are considered by the rulers to be not as wise!

29. The conference is on equity which is NOT identical to equality. Equity covers impartiality and fairness where the latter concept allows discrimination between the marginalised or disadvantaged and those that are relatively privileged.

30. Kenya is a poor country in the sense that its resources, as currently employed, do not generate adequate surpluses to rapidly enhance the well-being of everybody. Unfortunately, unless high rewards are paid to critical skills and to complementary capital employed the country will experience brain-drain and capital flight. This will further delay the capacity of the nation to grow. Such risks signal adverse economic environments and must therefore be construed as a critical problem suggesting that remedies to inequality, if not inequity, must be delayed.

31. The problem of inequity is that partiality in access to justice is an ethical problem. It may not undermine an ostensible efficient resource allocation.

32. The long term problem arising from inequitable treatment of Kenyans which may or may not be associated with inequality, is that the gulf between those who benefit and those who are marginalised will widen giving rise to a long term cost which will have to be met sometime in the future. They say, a stitch in time saves nine, hence addressing a not too critical problem in the present may well save future generations.
Income Inequalities in Kenya
The Basic Issues

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Outline

- Definition of income and its composition
- Sources of Income
- Income distribution
- Measurement
Definition of income and its composition

Definition
Income is the total amounts of all payments of any nature paid to or on behalf of or for the benefit of an economic agent.

Composition of Income

Major categories of income composition:
1. Salaries & wages, overtime payments, commissions, bonuses, tips, gratuities,
2. Self employment income
3. Amount of employed insurance benefits
4. Worker’s compensation payments
Composition of Income Contd

5. Old age security
6. Pension, allowance, benefits and annuity, alimony, separation, maintenance or support payments
7. Gains from investments
8. Interest income
9. Value of assets which do not produce interest income

Sources of Income

- Income Producing Assets
- Non-Income Producing Assets
- Other sources of income
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### Income Producing Assets
- Farm Property which produces income
- Real Estate
- Savings account, annuities, Guaranteed Investment Certificates, stocks or shares, bonds, debentures, mortgage, loans, notes, term deposits
- Business interest which produces income

### Non-Income Producing Assets
- Life Insurance
- Registered Retirement Savings Plan.
- Real Estate
- Investments in other non income producing assets
- Business asset which does not produce income
- Non-interest bearing bank accounts
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Other sources of income

- Employment
- Self-Employment
- Tips, gratuities
- Vacation Pay
- Insurance Payments
- Workers Compensation Payments
- Payments from Official Guardian or Public Trustee
- Separation Payment
- Alimony Payments, Support Payments (for spouse or child)
- Support from relatives or other sources
- Mortgage Income
- Immigration remittance
- Student Grants

Income distribution

Distribution problems correspond to different divisions of income according to

- Groups
- Classes
- Regions
Figure 1: Total mean monthly incomes by regions

Figure 2: Mean monthly Non-agricultural income by region
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**Figure 3: Mean monthly agricultural income by region**

There are two bases for division of income into the three groups identified above.

- Functional distribution
- Personal distribution
Functional distribution

which is the division of income according to the relative importance of functions performed by factor inputs of goods and services.

- Income to labour (human capital)
- Income to property
- Proprietor’s income

Figure 6: Mean monthly income to labour by regions

[Graph showing mean monthly income from wages/salaries by province]
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Figure 7: Mean monthly income to property by regions

Figure 8: Mean monthly proprietor’s income by region
Personal distribution

This involves division of income by size or by size brackets of economic units or population groups.

Size distribution

- Occupational distribution
  - different industries
  - different occupational groups
- Geographical or regional distribution
- Racial distribution
- Distribution by sex

Measurement

Measures of inequality fall into two categories

- Positive measures
- Normative measures

In Kenya, the most popular representation of income inequality, particularly in official sources is the Gini coefficient
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Raising quality in measurement

- Household surveys
- Comprehensive coverage of population
- Comprehensive coverage of income sources

Figure 9: Mean monthly income from pension by regions
Gender Inequalities in Kenya

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What do we know!

- WOMEN ARE MORE THAN MEN (Population)
- Phenomena of feminisation of poverty
- Vulnerability and risk to HIV & AIDS…more grandmothers as caregivers
-More women, especially young women are unemployed(279,503),(506,530)
- Less number of women in decision making
- Intersection of gender, class, age, livelihoods that place many women in disadvantaged situations
- Women continue to live with violence and trauma
Some statistics! On Gender Inequalities

- 88.1% of men are literate compared to 78.5% WOMEN
- 93% of women in North Eastern province have no education
- In 2002; ONLY 79 women elected as councilors out of 2 140
- 18 women MPs out of 210 (2002 elections)
- Formal employment 28% women; 71.9% men
- HIV & AIDS prevalence for 25-29 age group: 13% women and 7.3% men
- 48.9% of women had experience gender based violence since age 15
Women’s Human Rights Instruments & Commitments!

“almost basket-full”

- Declaration on the Elimination of Violence Against Women
- Convention on the Elimination of All Forms of Discrimination Against Women & its Optional Protocol to CEDAW
- Declaration on the Protection of Women and Children in Emergency and Armed Conflict
- Nairobi Forward Looking Strategies, 1985
- Beijing Platform for Action, 1995
- Draft Protocol on Sexual and Gender Based Violence in Great Lakes Region, 2006
- Millenium Development Goals
- IGAD Gender Policy
- East African Community draft Strategy on Gender and Community Development

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HUMAN RIGHTS PRINCIPLES

- Universality
- Non-discrimination and equality
- Inter-dependence
- Participation
- Accountability
- Respect for the rule of law
  - Women’s rights are human rights….Vienna 1993
Nyaradzai Gumbonzvanda
Regional Programme Director-Eastern Africa

30 years - promoting women’s rights and empowerment

Why continued gender inequalities

- Awareness and knowledge NOT translated to change in behaviour, attitude and practice for reduction in gender inequalities
- Inadequate legislation or available legislation not implemented
- No adequate instruments of accountability to gender equality outcomes as core variables for economic and political governance
- Communities, women and marginalised not empowered enough (economically and politically) to demand accountability
- Embedded patriarchy that intrinsically informs and perpetuates negative cultural attitudes and traditions, that reflects in policy and law
- Lack of REAL political commitment to address gender related inequalities as manifested by resource distribution (BUDGETS), many pending gender related bills
- Absence of deep gender analysis in economic governance tools that inform political choice. For instance sustainability of community care policies premised on capacity of woman within a poor household.

Recommendations

- Higher evidence of political will to reduce gender inequalities and empower women through, resources (BUDGETS) & Legislations
- Increase Opportunities, Capacities and Resources to Women (empowerment)
- Technical tools for growth must integrate “transformational indicators” for improved life at household level
- Accountability at personal and institutional levels --- I.e performance contracting
- Continued advocacy for rights protection and end to impunity
Regional Inequalities in Kenya in the Context of Decentralization and Devolution: Dynamics and Policy Options

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1. Introduction
The subject of inequalities has been a major problem for many countries and their systems of governance. In the recent past the world’s attention has been focused on poverty, which is one of the common ways in which the inequalities manifest themselves. Developing strategies for poverty reduction is a subject that is now exercising the minds of many. Equitable distribution and redistribution of nature’s bounty and the fruits and benefits of development are being considered as some of the strategies. The UNDP has even been forced to redefine development so that it is no longer measured solely on the basis of economic growth. Rather, development is now seen as incorporating the concept of redistribution.

Kenya is not an exception. Like many other countries in the world it is faced with this tricky question of inequalities and has to devise strategies for combating it. According to the Society for International Development, “today, Kenya is ranked among the 10 most unequal countries in the world and the most unequal in East Africa. For every shilling a poor Kenyan earns, a rich Kenyan earns 56 shilling!” This reality notwithstanding, the subject of inequalities has for a long time received little attention in Kenya. Public debate and serious research on the subject have been rare and slow in coming. Not so any more ever since the Society for International Development drew to and

focused the attention of the country on this subject. A few years ago the society launched research efforts in this very sensitive area and drew the attention of the public to the subject by releasing its first report in which the reality and devastating effects of inequalities in Kenya were reported. It is now acknowledged that inequalities in our society are a reality that takes different dimensions and manifest themselves in various ways.

At the dimensional level it is possible in Kenya to talk of things such as gender inequalities; regional inequalities including provincial, district, constituency and urban-rural inequalities; generational inequalities and class inequalities. The manner in which the inequalities manifest themselves sometimes varies depending on the dimension involved and some of the manifestations are interlinked and interdependent in terms of causal connection. For instance, from a regional dimension one can talk of uneven development of the country in terms of provision of infrastructure. This will lead to inequalities in terms of access to services such as education, health care, employment opportunities etc. When one talks of the gender dimension, then for women, these problems are exacerbated in addition to their being denied participation in governance and other important decision-making processes.

This paper will focus on two very important issues; namely one, regional dimensions of inequalities and two, the governance and constitutional dimensions of inequalities. The following are some of the issues it will raise and seek to investigate and address. What exactly are the regional dimensions to inequalities in Kenya? In which ways are these inequalities manifested in different regions in the country? What are some of the key and fundamental factors in Kenya’s socio-economic and political history that have led to the regional inequalities we observe in Kenya today? What connection is there between governance and in particular the system of governance and inequalities? What prospects does decentralization, decentralized planning and devolution hold in terms of promoting equitable development in Kenya, and in increasing participatory democracy? What is the basic design of such a decentralized system and how can it build on the existing decentralized planning processes and constituency-based development planning and implementation?

2. The meaning and manifestations of regional inequalities

As already noted the focus of this paper is the regional dimension of inequalities in Kenya. An understanding of this perspective calls for an evaluation of the geographic features and divisions of the country for administrative and development purposes. As will be seen in later parts of this paper, Kenya as a country is a creation and result of the imperial and colonial adventures of the western countries during their scramble for Africa. What is Kenya today was then carved out as one of the British colonies.

Geographically, it covers an area of 583,000 square kilometres. Of this area, only 17% is arable land. Nearly 80% of the country is arid and semi-arid land (ASAL). The ASAL suffers increasing desertification. Since independence, the country has for administrative purposes been divided into eight provinces. According to the 1999 Population and Housing Census Report, the respective territorial size and population of the provinces were as follows: Nairobi province, with an area of 696 square kilometres and a population of 2,143,254; Central province, with an area of 13,220 square kilometres and a population of 3,724,159; Coast province, with an area of 82,816 square kilometres and a population of 2,487,264; Eastern province, with an
area of 153,473 square kilometres and a population of 4,631,779; North Eastern province, with an area of 128,124 square kilometres and a population of 962,143; Nyansa province, with an area of 12,547 square kilometres and a population of 4,392,196; Rift Valley province, with an area of 182,539 square kilometres and a population of 6,983,036; and Western province, with an area of 8,264 square kilometres and a population of 3,358,776.

The country is also divided into districts, divisions, locations, and sub-locations. For electoral purposes, the country is divided into 210 constituencies with each electing a single member of parliament.

From these figures, it is obvious that there are huge differences in both the population and the geographic territorial sizes of the different regions of the country. Using these figures, it is often emphasised that demographic characteristics of a country ought to inform the resource allocation to different regions of the country. That population size should be an important determinant of the resource distribution among different regions if resource allocation is to remain equitable. As such, areas with high population density should be allocated more resources.\(^4\) It is also often argued that in drawing the geographic units for political representation that only population distribution should be considered. Taken at face value, these arguments are sound. But on closer scrutiny, resource allocation based on population sizes alone would be misleading and would result in inequalities. The geographic areas in which those populations area distributed are also an important factor that must be considered alongside the population sizes. Firstly, the delivery of services to a people spread over a very large geographic area may be more expensive than doing the same to a people concentrated in a smaller area. Secondly, the fragile nature of the ecosystem in some of the regions may also make the delivery of certain services more expensive.

Further, the above population distribution also has some ethnic element to the extent that certain provinces are associated with certain ethnic population groups. For instance, Central province is perceived as a Kikuyu area; while Nyansa province is predominantly a Luo area and Western province is predominantly Luhy. Others are predominantly Islamic while some are Christian. For instance, North Eastern and Coast provinces are predominantly Islamic. This aspect of the population distribution is a very important one and should make the quest for equalization very urgent. This is because if neglected, the regional gross economic inequalities can easily acquire an ethnic and religious dimension and lead to ethnic or religious based political conflict and civil strife.\(^5\)

The concept of inequality revolves around the uneven distribution of resources whether they be material or service resources. Inequality is a function of distribution of resources. People talk about inequality because some are being given better treatment than others. Regional inequality in Kenya therefore, means the differences in the distribution of resources there are, among the different geographic administrative units the country is divided into. It means the differences among the regions and/or provinces or districts. But it may also be assessed in terms of the differences between the urban and rural areas. Of particular interest are the management, distribution and investment of public finances. Are some regions getting more public finances for investment than others?

These inequalities manifest themselves in various ways. First, there are the differences in the distribution of income. Some provinces like Nairobi have higher incomes than others. Second, this disparity in income is informed by yet another

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\(^5\) The Institute for Economic Affairs in its “The Little Fact Book: The Socio-Economic and Political Profiles of Kenya’s Districts”, comments on this issue in the following manner: “Kenya is among the 10 low income countries with great inequality. Addressing such inequalities is important for the country partly to avoid interregional conflicts that such disparities can easily provoke. Gross economic inequality is the principal universal cause of political conflict and civil strife, more so if, as is invariably the case, it mirrors a country’s social cleavages of social class, race, religion and tribe.”
disparity; namely, the uneven distribution of the income generating opportunities and activities such as employment opportunities. Once again Nairobi, Rift Valley and Central provinces are said to have a higher share of the formal employment opportunities as compared to other provinces. This is perhaps because of their having a higher distribution of urban areas. There is also uneven access to land as well as home and land ownership. Given that some land is arable while some is arid and semi-arid, the differences in the type of land in different provinces can be a source of regional inequalities. Differences in the access to important infrastructure, such as water and electricity; education opportunities; health care services; and facilities for the administration of justice are another manifestation of the inequalities. But can the system of governance and the government play a role in the development of these regional inequalities? And can they play a role in trying to combat them?

3. The emergency and role of the institution of governance
In trying to investigate the governance and constitutional dimensions of inequalities and to establish the nexus between them, one must commence with a scrutiny of the very theory of governance. One must seek to understand the origins of the theory and concept of governance. When, how and why was the concept and institution of governance introduced into the lives of human beings? What necessitated the emergence of the institution of governance and its various and conspicuous aspects of organised and/or political society, law and government? What was the purpose for the introduction of these institutions? Before we talk of a people and their inequalities we must ask the question of how in the first place the said people became a people. These questions are necessary because most scholarly inquiries begin at a point where the existence of these institutions is presumed. When this is presumed then the conceptualization of governance and the constitution as an instrument that organises governance misses out on some of the most important aspects that may bring clarity in governance and its role in trying to reduce the inequalities among its people.6

Elsewhere I have observed that to be able to effectively answer these questions, one must ask yet another very fundamental question: What is the purpose of human life on earth?7 Quite a number of scholars, in their attempts to answer this question have posited that the purpose of human life on earth is survival and self-preservation. Survival and self-preservation are presented as things that are natural, instinctive and universal in all human beings, regardless of age, race, gender, geographic location or any other differential factors. They are therefore inherent in all human beings in equal measure. As a consequence, every human being is endowed with a natural will and power to survive and preserve one-self. J.M. Finnis8 asserts in this regard that;

“These surveys entitle us indeed, to make some rather confident assertions; All human societies show a concern for the value of human life; in all, self-preservation is generally accepted as a proper motive for action, and in none is the killing of other human beings permitted without some fairly definite justification.”9

Finnis takes his argument a step further and notes that because of the urge for survival and self-preservation, all human societies regard the procreation of a new human life as in itself a good thing unless there are special circumstances. Additionally all societies teach their young members to learn how to avoid danger.

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6 Rarely is it realised that the state and the institution of governance ought to play a central role in the management of a country’s economics. The role of government in taking proactive policy decisions is often ignored. SID in its report, Pulling apart notes thus about Kenya: “But while inequality is a visible and significant phenomenon in Kenya, it has an uncannily low profile in political, policy and even scholarly discourse. For this reason, a number of questions come to mind: is our skewed development pattern an outcome that has been beyond our control or a product of policy choices we have made in the past? Is there any causal relationship between inequality and other trends in public affairs such as the ethnic-based politics, patterns of crime, and so on?”
9 J.M. Finnis, op. cit., P205
And many treat the bodies of dead members of the group in some traditional and ritual fashion different from their procedures for rubbish disposal.\(^\text{10}\) Another scholar that has had to mention the issue of self-preservation as being the purpose of human life is Thomas Hopes.\(^\text{11}\) In his Leviathan, he notes that there is nothing a human being does that may not be a help unto him and contributes to the preserving of his life against his enemies. Indeed, he adds, in the original state of nature, every man has the right to everything; even to one another’s body, which leaves man in a state of insecurity.\(^\text{12}\)

John Locke adds his voice on this subject of survival and self-preservation being the main purpose of human life.\(^\text{13}\) He however emphasizes that every human being has a duty to do everything within his means to survive and preserve himself. In his relationship with other beings, a human being has a duty, indeed a right to punish those others who interfere with his ability to preserve himself. John Locke emphasizes the equality of human beings in terms of their being endowed with the will and power to survive and preserve themselves. In the quest for self-preservation, they are endowed with the power to protect themselves against the injuries and attempts of other men as well as judge and punish those who threaten and interfere with their self-preservation, even with death where the circumstances demand. He states the following in this regard:

“Man being born, as has been proved, with a title to perfect freedom and an uncontrolled enjoyment of all the rights and privileges of the law of nature, equally with any other man, or number of men in the world, hath by nature a power not only to preserve his property – that is, his life, liberty, and estate, against the injuries and attempts of other men, but to judge of and punish the breaches of that law in others, as he is persuaded the offence deserves, even with death itself, in crimes where the heinousness of the fact, in his opinion, requires it.”\(^\text{14}\)

John Locke regards self-preservation as being so important that he extends the duty to preserve one-self to a level where one is not even allowed to take his own life. An attempt to take ones own life is regarded as a crime for which one must be punished. This is perhaps the basis of the crime of attempted suicide. In organised societies, Locke argues, the law places a duty on one to preserve, not only oneself, but also the lives of others. He invokes religious arguments and points out that we are made to last at the pleasure of the maker and not of one another. Regarding these two aspects, John Locke convincingly argues that;

“But though this be a state of liberty, yet it is not a state of licence; though man in that state have uncontrollable liberty to dispose of his person or possessions, yet he has not liberty to destroy himself, or so much as any creature in his possession, but where preservation calls for it. The state of nature has a law of nature to govern it, which obliges everyone, and reason, which is that law, teaches all mankind who will but consult it, that being all equal, and independent, no one ought to harm another in his life, health, liberty or possessions; for men being all the workmanship of one omnipotent and infinitely wise maker; all the servants of one sovereign master, sent in to the world by His order and about his business; they are his property, whose workmanship they are made to last during His, not one another’s pleasure. And being furnished with like faculties, sharing all in one community of nature, there can not be supposed any such subordination among us that may authorize us to destroy one
another, as if we were made for one another’s uses, as the inferior ranks of creatures are for ours. Everyone as he is bound to preserve himself, and not to quit his station willfully, so by the like reason, when his own preservation comes not in competition, ought he as much as he can preserve the rest of mankind, and not unless, it be to do justice on an offender, take away or impart the life, or what tends to the preservation of the life, the liberty, health, limb or goods of another.}\(^{95}\)

These cogent arguments do seem to make it abundantly clear that the purpose of human life on earth is survival and self-preservation. But as John Locke has pointed out above, there are very many activities that tend to the preservation of human life. Among them access to resources is the most important.

**The centrality of resources in self-preservation**

Central to the project and process of self-preservation is the ability by every human being to have access to resources. In order to preserve themselves, human beings must as of necessity have access to certain material and even service resources. They require resources such as food, water, health care services, shelter and even service resources. The list of the resources required expands as human society keeps developing from one stage and state to another. In this regard, it is noted that the required resources were abundant and easily available so that it was possible for each member of the society, relying on his own natural will and power to have access to the resources and be able to survive and preserve oneself. Because of the abundance of resources, even the concept of rights and ownership did not exist. There was no mine and yours. Instead, human beings had limitless and unhindered access to the available resources. In this connection, and while talking about how the concept of fundamental rights and freedoms emerged, Professor Paras Diwan\(^{16}\) has quite ably argued that;

“\[The primitive man had no notion of fundamental rights, though he did have a number of limitless freedoms which no civilized man can ever boast of. He had the freedom of movement, the absolute freedom of movement. In a world, which had no national frontiers and consequently no system of passports, permits or visas, the man could move all over the world, but then, it was the freedom of roaming into the wilderness and therefore had no meaning, no significance. He had the freedom of speech and expression, he could talk himself hoarse. But at a period when man had not yet developed political institutions, this freedom had no real utility. He also had the absolute and anarchic freedom of sexual relationship. But in a society where refinement did not exist, this freedom merely indicated his closeness to other animals. Thus, he had all possible and conceivable freedoms, but in the primitive society these freedoms had no meaning, no relevance. Freedoms and liberty in an unorganized society are freedoms and liberty in wilderness. The fact of the matter is that in that society the social need for liberty and freedoms did not exist.\]”\(^{17}\)

In these circumstances the life of man was rudimentary and very basic. One did not require the assistance of the other. One did not need a family, organized and/or political society, law and government. As such human beings lived in solitude rather than in organized and/or political society. Nobody was charged with the responsibility of looking after the welfare of the other.\(^{18}\) Everybody was for himself and only god was for the rest. Indeed it is correct to assert that in this age of abundant

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15 John Locke, op. cit., p. 158
16 Paras Diwan, “Indian Constitutional Law” p. 27
17 Paras Diwan, op. cit., p 27
18 Fathers would not take responsibility for the welfare of the children they fathered. They would father move on as if nothing had happened. There was no society law and/or government placing family responsibilities on them. Even women acted out of maternal instinct and not societal responsibility. They also could if they chose just abandon the newly born babies to vest for themselves and move on like men, without attracting any societal sanctions. Indeed, today because of poverty, these primitive tendencies have started cribbing back in the form of the increasing number of men who want to father children without taking responsibility as well as the increasing number of women who when confronted with the reality of having to bring up the children alone abandon such babies and disappear without trace.
resources, the social need for the institution of governance did not exist. But then how did this social need come into existence? What exactly triggered the social need for the institution of governance and its related and most conspicuous aspects of organized and/or political society, law and government?

The social need for the institution of governance
As already noted above, access to resources is central to the project and process of survival and self-preservation. However, because of the free, easy and unlimited access to resources, including the sexual resources, the growth rate in the human population increased very fast producing a very large human population. The expanded population coupled with the fact that nobody was charged with the responsibility of taking care of the available resources as well as the wasteful consumption on the part of the members, pressure was put on the available resources which started reducing. The reduction led to an imbalance between the demands of the human population and the available resources with a greater leaning on the side of a deficit in the resources. The reduction in the resources necessitated competition among human beings for the diminished resources. The competition became so stiff and mindless that it reduced the life of man to survival for the fittest. It was a situation in which everyone for his own survival and self-preservation was required to rely on his own personal strength and power. And because no one was required to take responsibility for the welfare of the other, the situation turned in to a state of a war of every man against other men in which the life of man became solitary, nasty, brutish and short. Thomas Hobbes quite convincingly describes this situation in the following terms;

“Whatsoever therefore is consequent to a time of warre, where every man is enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength and their own invention shall furnish them withal. In such condition there is no place for industry; because the fruit thereof is uncertain; and consequently no culture of the earth; no Navigation, nor use of the commodities that may be imported by sea; no commodious building; no instruments of moving such things as require much force; no knowledge of the face of the earth; no account of time; no arts; no letters, no society; and which is worst of all, continual fear and danger of violent death; and the life of man, solitary, poor nasty, brutish and short.”

This was a situation under which only the strong and fit could survive. There was no communal responsibility and no justice for that matter since the concept of just and unjust had not yet been invented. Everybody relied on his own passion and reason and did not care what happened to the other. Thomas Hobbes argues that in this life of “warre”, everyman was against every other man and nothing could be unjust. The notions of right and wrong, justice and injustice and even mine and yours, did not have a place in this kind of society. It was a state in which there was no common power and no law for all these are qualities that can only relate to men when living in society and organized society for that matter and not when they are living in solitude. It is a condition in which every man has that which he can get, and for so long as he can keep it. It is a condition in which, Thomas Hobbes argues, man is placed by nature though he has a possibility of coming out of. He says;

“And thus much for the ill condition which man by mere nature is actually placed in; though with a possibility to come out of it, consisting partly in the passions, partly in his reason.”

19 Thomas Hobbes, op. cit., p.156
20 Thomas Hobbes, op. cit., p. 158
According to J. J. Rousseau, this state of affairs continued to worsen until a point was reached when the obstacles to continuing in a state of nature were stronger than the forces, which each individual could employ to the end of survival and self-preservation. The original state of nature, therefore, could no longer endure; the human race would not survive unless it changed its manner of existence and approach to survival and self-preservation. But given that some are endowed with more power than others and therefore more fit than others, it became obvious that there were those who were weaker and could not in this state of affairs be able to access the reduced resources so as to exercise their natural will to survive and preserve themselves. The weaker members would simply perish. For these the existence of a stronger force became necessary. Indeed, it was realised that nobody even the strong would live their lives in peace and be able to survive and preserve themselves. As such it was realised that this state of affairs was unacceptable and could not be allowed to endure. It had to be changed.

It is at this point in the life of man that it was deliberated, reasoned and decided that this state of affairs could not be allowed to continue but that it had to be changed. After consultation and negotiation, all therefore agreed that because of the universality of the natural and instinctive will of man to survive and preserve himself, every single human being had a right to survive and preserve oneself. As such each has a right to access a share of the reduced resources since it was recognised that such access to resources was central to survival and self-preservation. The agreement arrived at was that man had to move out of a life of solitude into a life of society; organised and/or political society for that matter. First, they agreed to live in groups that became the institution of organised society. This was done through a process that involved human beings agreeing to surrender their individual powers and strength in to a common pull to create a common power to be used for the benefit of all. J. J. Rousseau while enunciating his social contract theory describes this process as follows;

“Such a concentration of powers can be brought about only as the consequence of an agreement reached between individuals. But the self-preservation of each single man derives primarily from his own strength and from his own freedom. How, then can he limit this without, at the same time, doing himself an injury and neglecting that care which it is his duty to devote to his own concerns? This difficulty in so far as it is relevant to my subject can be expressed as follows: Some form of association must be found as a result of which the whole strength of the community will be enlisted for the protection of the person and property of each constituent member, in such a way that each, when united to his fellows, renders obedience to his own will, and remains as free as he was before. That is the basic problem of which the social contract provides the solution.”

In this connection, man had to give up his hitherto abundant freedom and live in community for his own survival. Thomas Hobbes also makes reference to this social contract theory and emphasizes the need for man to move into society. He insists that no man is under a duty to give up his own powers and strength if the rest are not willing to the same. In surrendering their individual powers to create a strong common power, he observes, human beings were informed by the need and foresight of their own preservation.

Having invented a life of organised society, the next realisation was a recognition of the fact that as the bible says, where two or three are gathered he shall be in midst of
them, in the theory of governance, where two or three are gathered they become a society and are bound to step on each others’ toes. As such they need a Jesus in the midst of them in the form of law and government to regulate the manner in which they deal with each other. Where two or three are gathered, there is need for rules of engagement which are to be used to regulate how the members of the society are to deal with one another. And these rules must be formulated and enforced by someone. Similarly, the common power must be placed in the hands of someone for purposes of its management, exercise and use so as to serve the welfare of the people. These then necessitated the introduction of the institutions of law and government. In this context the constitution and constitutional law therefore are identified, singled out and defined as that law which seeks to organise governance. It is a law that seeks to manage the common power known as state power, created by human beings in their quest for survival and self-preservation. It seeks to define, distribute and constrain and inhibit the use of state power to ensure that it is being used to serve the objectives that necessitated its introduction.

The common power which human beings produced through this process is what has become known as state power, which incorporates the concept and institution of governance. The common power was to be used for two very important purposes: firstly, it was to be for the proper management and development of the reduced resources to generate more so as to be enough for all the members of the society that had just been established through the process of a social contract; and secondly, it was to be used for the equitable distribution and redistribution of those resources among all the members of the society. The common power was to be used to hold down the strong so that even the weaker members of the society could be able to have access to their due share of the resources.

This analysis leads to some very interesting and instructive conclusions about the emergence of the institution of governance that will be very useful in trying to use governance to address the problem of inequalities, not only in Kenya but also in any other society. These conclusions are as follows:

One, that the institution of governance and its related and most conspicuous aspects of organised and/or political society, law and government were introduced not as ends in themselves but as means to an end. The end is identified as the service of the welfare of the people, through the proper management and development of resources and the equitable distribution and redistribution of the resources. As such, it is emphasised that the institution of governance in nature and origin is economic. For this reason, it is important to realise, emphasise and always remember that political society is economic society. It is therefore not advisable to try and draw an artificial distinction between politics and economics. Political business is in fact economic business. By extension of this notion, it can be said that the business of governance generally, and of political society, law and government in particular, is economic in nature. In other words, it is the proper management and development of the resources as well as their equitable distribution and redistribution among the members of society.

Two that the institution of governance and its related and conspicuous aspects of organised and/or political society, law and government in origin and nature is interventionist on behalf of the members and particularly the weaker members of the society. The institution is based on the principle of solidarity among the human race that come together with a view to sharing and assisting the weaker members of society. It seeks
to move away from a system of individualism based on everybody for himself to a system of solidarity in society based on the philosophy of everybody becoming his brother’s keeper.

Three that the institution of governance and its related and conspicuous aspects of organised and/or political society, law and government are in origin, nature and purpose utilitarian and egalitarian. Its introduction was meant to serve a certain utility in the lives of human beings. Part of its utility was to ensure equitable distribution of resources. Ensuring equity is therefore at the centre of any governance system. As observed under the interventionist head, governance intervened when the life of man had been reduced to survival for the fittest. Consequently, the reality of inequalities can only be as a result of failed governance.

Four, that the process leading to the emergence of the institution of governance was based on reason, deliberation, consultation and negotiation. This being the case, one needs to note that a system of government that is lacking these qualities is most likely to fail in the quest of ensuring equity. It is no wonder therefore that many democratic systems are associated with reason, deliberation, consultation and negotiation. In such system decision-making processes are based on deliberation, consultation as opposed to discretion. When man lived in solitude and relied on himself, discretionary approaches were appropriate because he did not have to consult anybody. However, when man moved out of a life of solitude into a life of organised society, discretionary approaches became obsolete. Indeed the very reason of moving out of solitude was to avoid the dangers man had been exposed to due to non consultative decisions. As such the process of moving out of solitude into society was informed by and based on reason, deliberation, consultation and negotiation. Therefore, government must as of necessity be based on consultation and negotiation and not discretion. As will be demonstrated later, decentralized systems of government provide better infrastructure for consultation, negotiation and participation than the centralized systems which tend to encourage and rely more on discretion which encourages patronage.

Five, if these observations are borne in mind, then it follows that a clearer understanding of both constitutional theory and constitutional architecture and design will go a long way in ensuring the putting in place of a good system of government that can secure equity. Architecture and design then become very crucial questions. What then has been the state of our governance systems in the past that has led to the reality of inequalities in Kenya? Could our past governance systems have deviated from this theory and understanding of governance?

4. The colonial and post independence foundations of the Inequalities

*The colonial phase*

Having concluded that governance is very crucial in our efforts to understand the cause of regional inequalities in Kenya, this part examines the role of both the colonial and post colonial governance system, and investment and development strategies and policies. As a state, Kenya is a creation of the western world’s colonial adventure and policy. In the scramble for and division of Africa in to spheres of influence, Kenya came under the control of the British, first, as a territory managed on behalf of the British government by the Imperial British East Africa Company; second, as a British protectorate and third, as
This scramble for Africa was not based on philanthropic motives, aimed at establishing governance systems that are informed by utilitarian and egalitarian philosophies. These would have perceived governance as being aimed at the proper management and development of resources as well as the equitable distribution and redistribution of the same among the members of the society concerned, which in this case would have included the colonised peoples of Africa whom the colonisers preferred to refer to as the natives. Rather, the scramble was informed by imperial and colonial policies, which were based on conquest and subjugation of the colonised natives. The overall purpose of this imperial scramble was that the western countries and industry were in search of cheap sources of raw materials and ready markets for their manufactured goods, which they could easily subject to monopoly. For this reason, the British colonial approach was that of a centralised system of governance based on control rather than a decentralised system based on participation. Everything would be controlled from a centralised point of command.

In Kenya therefore, the cause of the current regional inequalities and disparities can largely be traced back to the governance, development and investment policies of our past governments, both colonial and post-colonial. The British colonial’s governance, development and investment policies were aimed at serving the markets back home in Britain and white settlers in Kenya. They were not meant to serve the general Kenyan populace, whose majority were natives. Firstly, since the markets back home and the white settlers were interested in certain sectors of the economy only as opposed to other sectors, the investment policies targeted the sectors that were of interest to the imperial search. The other sectors which were not of interest to the markets back home and the white settlers were not candidates for investment and development.

Secondly, since most of these sectors were agriculture based, land being the platform upon which agriculture is based was targeted in these policies. It was zoned in terms of agro-ecological zones or areas. Some areas were identified and zoned as high potential, some as medium potential and others as low potential. At the political and governance level, African natives were pushed out of the high and sometimes medium potential zones to pave way for the white settlers. At the development and investment level, policies and resources for development and investment in terms of infrastructure were deliberately directed to these identified white zones. Infrastructure such as roads, bridges, electricity and piped water was put in these high and medium potential areas as opposed to the low potential areas.

Thirdly, the low potential areas which were turned into African reserves to which most of the African natives were pushed were only useful in the colonial development and investment project and strategy as places for sourcing cheap labour. This labour once produced and prepared in whatever manner would be uprooted and taken to the high potential areas for use for the benefit of the markets in Britain and the white settlers in Kenya. In these African reserves the Christian missionaries with their gospel of turn the other chick became very important in the preparation of these natives into more subservient labour. The labour once prepared would be moved to the high and medium potential zones to serve the interests of the white settlers. A perception was then created of low potential areas being merely grounds for the production and preparation of labour, while the other areas were the consumers and users of such labour. Migrations from these low potential to high and medium
potential areas in search of employment set in. For this reason no serious development and investment comparable to what was being done in the white areas was done in these African reserves.

Fourthly, in the colonial economic set up the white man’s education prepared one into becoming a high potential human resource as compared to those who had not received such education. For this reason the movement of such educated people to high and medium potential areas was a cause of further regional disparity and inequality in the sense that this robbed the low potential zones of their high and medium potential human resources which they badly needed for the development of their own areas. In addition, since most of the schools during this period were being established by the Christian missionaries, who found the regions that were predominantly Islamic more resistant to Christianity, missionary schools were hardly established in the pre-dominantly Islamic areas. Because of this pre-dominantly Muslim areas became marginalised in an economy that had more opportunities for people with the white man’s education as compared to any other system of education such as the Islamic Madras system.

Fifthly, these developments informed and encouraged the emergence and growth of major urban areas within and around these high and medium potential areas. In particular, after the colonial government administration head quarters were put in Nairobi, Nairobi started developing as the main industrial and commercial centre. The consequence was that even when a little local manufacturing was introduced as opposed to sending all the raw materials to the factories back in Britain, most of these factories were located in and around Nairobi and the other urban centres in the high and medium potential areas. The concomitant of this development was that any low potential area that sought to enter into the production of raw materials would have to do so for the purposes of feeding the manufacturing factories in Nairobi and the other major urban areas in the high and medium potential areas. In most such cases the cost of transportation would be passed on to the farmers in the rural areas whose income would be fundamentally reduced. The worst aspect of this would be that the farmers in the low potential areas would be exporting employment opportunities to the high and medium potential areas.

All these factors combined and conspired to ensure that the regional distribution of employment opportunities, infrastructure, and access to professional services such as health care was not even. The rural areas would work to produce professionals such as doctors and lawyers but they would not benefit from the services rendered by such professionals as most of them would move to the high and medium potential areas where their services would be well remunerated. This centralisation of many things had the effect of uneven distribution of the purchasing power and the markets which were also centralised around Nairobi. More money therefore circulates in Nairobi and its environs than the other far flung places. The result is that it becomes easy and more profitable to do certain businesses in Nairobi than in any other place.

The overall result of all these was that by the time the colonialists were leaving the country upon attainment of independence, regional disparities and inequalities that required correcting had already been entrenched. In the circumstances, it was genuinely hoped that independence would bring about different approaches to governance that would fundamentally address and redress this problem.

The post-independence phase

Although the hopes of many people were that the post-independence governments...
would seek to deconstruct the colonial edifice of governance and put in place a new system and structure that would address this problem, this was never to be. Instead, the founding fathers had different ideas and notions of independence and governance. They intended to retain the colonial centralised system that would allow them almost absolute discretion in decision making as opposed to the decentralised system which creates room and infrastructure more conducive to deliberative, consultative and negotiative approaches to decision-making. As such, the independence government inherited the entire colonial system and structures. Although at the governance and constitutional level, the departing colonial masters helped our founding fathers to put in place an independence constitution that was based on and aimed at a certain measure of decentralisation, within a few years of independence this constitution was subjected to numerous amendments whose effect was to abandon the decentralised system and revert to the colonial centralised system of control, command and patronage.

The process of making this constitution divided the country into two competing camps. The Kenya African Democratic Union (KADU), which was pushing for a decentralised system that would have led to the deconstructing of the colonial edifice; and the Kenya African National Union (KANU), which was strongly opposed to decentralisation and wanted to retain the centralised system. The KANU group had its own strange notion of governance which seems to suggest that all they were interested in was to inherit and enjoy the unlimited and untrammeled powers, hitherto enjoyed by the colonial government and Governor-General. They do not seem to have been interested in understanding and adopting systems of good governance. Professor G. Macharia Munene describes the divide between the two competing camps in the following manner:

“The main political protagonists were the Kenya African National Union (KANU) led by Jomo Kenyatta and the Kenya African Democratic Union (KADU) led by Ronald G. Ngala; most of the Europeans and Asians supported KADU’s position. The two argued over the merits and demerits of Majimboism (regionalism), and of centralism. KADU held the initiative, and advocating a programme that was based on fear of majority rule, demanded regional autonomy within a federated state. It called for six regions each with power over the armed forces and finance. It wanted a two chamber legislature in which the Upper House would represent the interests of regions and would have equal power to that of the Lower House.”

As observed by Macharia Munene, the Europeans and Asians supported the KADU position of a decentralised system. Perhaps this was because they very well knew that the centralised system that had been used by the colonial system lacked sufficient mechanisms of checks and balances and was basically designed as a mechanism for oppression. It was a system that was lacking the mechanisms for good governance. They must have therefore believed in the honesty, clear understanding of governance and commitment to good governance on the part of freedom fighters in their struggle for independence. They were wrong. KANU, which had majority support among the innocent and unsuspecting public in Kenya but lacked majorities among the delegates at Lancaster House in London, took a tactical retreat and accepted the proposed decentralised constitution which they did not believe in and had every intention of abandoning once they were elected into government. Kenya therefore attained independence with a group of leaders who had no intention of implementing the independence constitution and of deconstructing the colonial centralised control system. Macharia Munene says the following in this regard:
“KANU, with little chance of its constitutional desires prevailing at Lancaster House, and confident of its electoral popularity in Kenya, did the politically expedient thing and accepted the Majimbo constitution. The acceptance was meant to enable KANU leaders to assume power as soon as possible without believing in the document they had accepted. According to Odinga, Kenyatta told KANU delegates ‘to reach a settlement’ if they did not want to have government ‘snatched from our hands... We might be forced to accept a constitution we did not want, but once we had the government we could change the constitution.’

It is thus clear that on the way to independence, the people in the potential government did not believe in the constitution under which they were expected to work. Once in power, they had no intention of honouring the constitution and they made this clear during the May 1963 elections that led to internal self government. When in April 1963 Ngala suggested that Ngei become the Governor-General as provided for by the Constitution, Mboya angrily dismissed the idea. ‘Mr. Ngala must understand that Kenya does not require a Governor-General,’ Mboya stated, ‘but a president of the Republic of Kenya who KANU has already said will be Jomo Kenyatta.’ To Kenyatta, KADU was simply undemocratic and yet it had managed to impose itself on the country through the 1962 Majimbo constitution.

KANU, Kenyatta stated, wanted independence quickly and for that reason it had accepted a defective constitution which it planned to change as soon as it achieved power. ‘Rather than submit to indefinite delays to our independence,’ he wrote, ‘KANU agreed to a modified form of regionalism to serve for the period of internal self-government.’ Claiming that KANU was not dogmatic and that it would retain the Bill of Rights, he asserted: ‘...to go into independence with an unpopular constitution of the complexity of that about to be introduced is asking for trouble. It is ridiculous to expect such a novelty of a document to be a workable blueprint, virtually incapable of being amended.’

Confident of winning the election, Kenyatta discussed his post election plans. He stated: ‘armed with a popular mandate, the government will go to London shortly after the elections to tell the British government what sort of Constitution Kenya wants for independence. That will be no time for imposition. It is we who shall live in Kenya, not they.’

One of the things in the proposed constitution which Kenyatta was not happy about was the very high percentage of votes that was required in both houses of Parliament to amend the constitution. 75% and 90% majorities had been required and Kenyatta thought this would hinder his stated intention of changing the constitution through amendments to what they wanted. He therefore promised that this would be among the issues to be sorted out once they were elected in to power. And sure to their expectation and promise, KANU won the elections and the Kenyatta regime refused to implement the constitution but instead, embarked on a process of quickly changing it to what KANU wanted. Macharia Munene ably describes the events in the following manner:

“KANU won the election easily which enabled Jomo Kenyatta to become Prime Minister on June 1, 1963 with a cabinet of 13 ministers. His speech outlined his hopes, as he said, ‘Independence will give us an opportunity to work unfettered

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29 G. Macharia Munene, op cit., pp.57-58
for the creation of a democratic African Socialist Kenya.' He said that the ‘Marxist theory of class warfare’ had no relevance to Kenya’s situation and warned that ‘attitudes which were appropriate when we were fighting for independence have to be revised. An all out war by the trade unions now could only be waged against their own government and fellow citizens.’ Looking in to the future Kenyatta asserted that, ‘Independent Kenya will adopt a republican constitution because we believe this is a form of government appropriate to our conditions and meaningful to our people.’

In that speech are to be found germs of future behaviour. First, the government would not be fettered with unnecessary restrictions. Second, the constitution will be changed. And third, the new African government would not tolerate dissension and political agitation. The African government, therefore, would not tolerate criticism, and would change the constitution as it deemed fit.

Kenyatta’s aim of negating the Majimbo constitution was resisted by KADU. David Lemomo, a KADU official and reportedly the Secretary General of the Masai United Front, wrote to Duncan Sandys, Secretary of State for the Commonwealth and Colonies, on August 31, 1963, accusing KANU of having ‘failed to implement the Regional Constitution as clearly stipulated by the tripartite agreement reached at Lancaster House between the British government, KANU and KADU.’ He called for the postponement of the date of independence, which had been fixed for December 12, 1963, in order to give KANU time to implement the constitution. Since KANU had not implemented the regional constitution, Lemomo argued, it had ‘forfeited all legal pretensions to the right for ruling the people of Kenya. What was supposed to be a nationalist government has in fact been turned into a constitutional monster—a tribal mouse brandishing imperialistic claws at the peace loving non-KANU African tribes of Kenya.’

Lemomo and other KADU officials had reason to be apprehensive. KANU Secretary General Tom Mboya made it clear that he had no time for majimboists or any other critics of KANU. He ordered newspapers banned because they did not give Kenyatta prominence and he threatened to curb freedoms of speech and press after December 12, 1963. He warned the opposition that it would face ‘the full rigour of the law’ if, as he said, it served ‘no useful purpose and is a luxury we are not going to tolerate. We can not afford it.’ Mboya was not going to tolerate those in opposition making ‘fiery’ speeches or ‘trying to set up a regional authority as a government.’ As Lemomo had charged, KANU was not ready to honour the Majimbo Constitution.

Kenyatta had sought a final constitutional conference and this was granted in September 1963. At that conference, KANU insisted on increasing the power of the central authority while KADU and its European allies wanted to safeguard ‘the interests of minorities’. Under the guidance of Duncan Sandys, the central government was given power to control the police at all levels so as to avoid the possibility of any region having excessive force. The public Service Commission was consolidated into one, instead of having several independent bodies, with powers to post people anywhere in the country. And to provide ‘some element of

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30 G. Macharia Munene, op cit., pp. 58-60
flexibility’, the percentage requirements in constitutional amendments were lowered to 75% vote in both houses of Parliament. This flexibility, however, did not affect the category of ‘entrenched rights of individuals, Regions, Tribal Authorities or districts’ whose amendments continued to require 75% of the vote in the House of Representatives and 90% in the Senate. The concessions given to the government increased KANU’s power as Kenya prepared for independence with a modified Majimbo constitution.”

Consistent with this stated intention the Kenyatta regime subjected the constitution to numerous amendments until it completely lost its identity and any pretensions to a decentralised system. By the time the Moi regime took over and openly promised to follow in the footsteps of Kenyatta, the independence constitution was no longer recognisable. It had already acquired the centralised features of the current constitution. This refusal by the Kenyatta regime to implement the independence constitution, clearly demonstrates a refusal to deconstruct and dismantle the colonial governance system and constitutional structures that had put in place the system of regional inequalities. Had the constitution been implemented, would the face of Kenya be different in terms of regional equity? It has variously been argued that a decentralised system of government in the form of majimbo was tried in Kenya but it failed. It is hoped that this paper has clearly demonstrated the falsehood of this assertion. Decentralization or federalism was not given a chance. It was rejected and offloaded even before it had been tried. Granted that the constitution had its own limitations at the level of architecture and design, had it been honestly implemented with a commitment to sorting out any problems along the way, the history of Kenya would perhaps be different today.

The above evidence clearly demonstrates either a lack of sound appreciation of constitutional theory and theories of good governance and their relationships with constitutional architecture and design or an outright refusal by a leadership that was not committed to giving the people a good system of governance but instead, was simply pursuing power. For instance, Kenyatta’s rejection of the idea of a governor-General who would share power with the Prime Minister, particularly when it had been agreed that an African Governor-General be appointed is difficult to comprehend. More so particularly because the system that was being suggested is what was given to the Canadians and Australians when they attained their independence from the British and the two have been able to develop the system into successful democratic systems. They now have governor-generals who do not owe allegiance to the British Monarch. Similarly, Kenyatta’s declaration that he would give Kenya a republican constitution is not borne out by the constitution that resulted from his government’s amendments to the independence constitution.

In addition to inheriting the colonial system at the constitutional level, the independence government took inheritance at the development and policy level. Rather than seek to reduce the disparities, the government adopted development and investment policies that helped to increase the regional disparities. Sessional Paper No. 10 of 1965 on “African Socialism and its Application to Planning in Kenya”, which seems to have been completely mixed up and confused in terms of the vision vis-à-vis the application and/or architecture and design for the achievement of this vision, shows that our government either knowingly or unknowingly adopted the colonial governance, development and investment policies that had started the entrenchment of regional disparities. While in its opening pages the paper sets out a vision with
egalitarian objectives, the means for the achievement of this egalitarian vision which the paper adopts in its later paragraphs seem to do the complete opposite. In its opening paragraphs the paper sets out the vision in the following terms:

“1. With independence, Kenya intends to mobilize its resources to attain a rapid rate of economic growth for the benefit of its people. Under colonialism the people of Kenya had no voice in government; the nation's natural resources were organized and developed mainly for the benefit of non-Africans; and the nation's human resources remained largely uneducated, untrained, inexperienced and unbefitted by the growth of the economy.

2. Kenya is in a period of multiple transition set in motion by the attainment of independence. We are in transition from a subsistence to a monetary economy, from an economic dependence on agriculture to a more balanced growth, from a development of natural resources for others to a development it human and natural resources for the benefit of the people of Kenya. The progress wanted can not be easily won and it can not be achieved by reverting to pre-colonial conditions. The best of Kenya's African social heritage and colonial economic legacy must be reorganized and mobilised for a concerted, carefully planned attack on poverty, disease and the lack of education in order to achieve social justice, human dignity and economic welfare for all.

3. The major economic mobilization and reorganization of resources that these transitions imply can not be realised without planning, direction, control and co-operation. We are bound to ask ourselves where we are going and how we will get there. It is in answering these questions that this paper has been prepared.

Objectives of Societies

4. The ultimate objectives of all societies are remarkably similar and have a universal character suggesting that present conflicts need not be enduring. These objectives typically include—

(i) political equality;

(ii) social justice;

(iii) human dignity including freedom of conscience;

(iv) freedom from want, disease, and exploitation;

(v) equal opportunities; and

(vi) high and growing per capita incomes, equitably distributed.”

Having set out the vision as including egalitarian objectives, the paper surprises one when it comes to the means it adopts for achieving this vision. These means are to basically continue with the colonial approaches of inequalities. Most shocking is paragraph 133 which is on “Provincial Balance and Social Inertia.” The paragraph emphatically states that:

“One of our problems is to decide how much priority we should give in investing in less developed provinces. To make the economy as a whole grow as fast as possible, development money should be invested where it will yield the largest increase in output. This approach will clearly favour the development of areas having abundant natural resources, good land and rainfall, transport and power facilities, and people receptive to and active in development. A million pounds invested in one
area may raise net output by £20,000 while its use in another may yield an increase of £100,000. This is a clear case in which investment in the second area is the wise decision because the country is £80,000 per annum better off by so doing and is therefore in a position to aid the first area by making grants or subsidized loans.”

This paragraph clearly indicates that our independence government did not only adopt the colonial development and investment policy, but also perfected the policy by extending the concept of zoning beyond land, to cover even people. High, medium and low potential people in terms of their receptiveness to and activeness in development were identified and this played a major role in deciding where and where not to invest. What is even more disappointing is the suggestion in this paragraph that the government should invest tax payers’ money in a high potential area in priority over a low potential area, but after profits have been made in the high potential area, the low potential area should be aided by the high potential area by way of loans. Whether subsidized or not, there is absolutely no justification in giving investment money to other areas in the form of loans.

Further, our government adopted and perfected the colonial policies that had encouraged the migration of human resources from low potential to high potential areas or regions. They even invented a weird idea of developing the people without necessarily developing the environment in which they live. How this is possible is difficult to comprehend. Paragraph 134 of the Sessional Paper provides in this regard as follows:

“The purpose of development is not to develop an area, but to develop and make better off the people of the area. If an area is deficient in resources, this can best be done by—

(i) investing in the education and training of the people whether in the area or elsewhere;

(ii) investing in the health of the people; and

(iii) encouraging some of the people to move to areas richer in resources; and of course

(iv) developing those limited resources that are economic.

With education and training and some capital, the people of a Province can make the best of limited resources. If the potential for expansion is small, medical services, education and training will qualify the people to find employment elsewhere.”

One wonders whether this Sessional paper would have successfully been passed by parliament in a well designed decentralized system. The approach of this paper continued the system of disparities which has created room for Nairobi to suck resources from all other corners of the country to itself. With a centralized system in place Kenyatta is reported to have one time ordered that the Asian businessmen who were doing business in small towns should go to big towns and leave the small towns to the Africans. Many Africans were very happy about the order but after the Asians left, growth in some of those towns has stagnated to date. What was not realised at the time was that the Asians would move with their investment money which amounted to capital flight from the small towns to the big ones. Secondly, the local people were being denied an opportunity of interacting with these businessmen from whom they could learn the art of business. Had this not happened, would the situation in these peripheral areas be different?

5 The promise of decentralization and the previous attempts in Kenya

As already noted the constitution is the law that seeks to organise governance. The
greatest challenge of the contemporary world is the making of the correct choice in the organisation of governance. It is the challenge of how best to define, distribute and constrain the use of state power. Various architectural and design options have been tried. Often the dichotomy of the centralised and the decentralised is considered. On the one hand the centralised system takes the single dimensional approach which seeks to define state power and organise governance from a single dimensional approach. This is a horizontal approach that is sometimes referred to as unitary. This approach is based on a centralised power with the organisation being based on centralization of both political and economic power in a single central government possessing all autonomy and controlling all matters in the state. The power is centralised in two different ways. First, power is centralised in a single individual, in the case of Kenya, the president who is then able to control all the political and economic affairs of the state. He is enabled to play a major role in the management and development of resources as well as the distribution and redistribution of the resources. This then subjects a country’s system of management and development of its resources as well as the distribution of the same to the discretionary decisions and whims of one person. Second, power may be geographically centralised in one area, in the case of Kenya, Nairobi. All activities, whether they be governmental, administrative, legislative judicial, executive, commercial, educational, military and so on are centred around such place. This then gives Nairobi an opportunity to suck resources from all other corners of the country to itself. This is normally in the form of brain-drain and capital flight. The consequence is normally severe regional inequalities in the country as is the case in Kenya.

Centralised systems of governance have been criticised for tending towards centralisation and concentration of power in one centre of power as well as being based on control mechanisms which tend to inhibit democratic practices and participation as well as separation of powers. The effect of constitutionalism is also unduly reduced since such systems tend to detract from some of the mechanisms of constitutionalism.

On other hand, there is the multi-dimensional approach to the definition of state power and organisation of governance, which combines both a vertical and horizontal definition of state power and organisation of governance. This system is said to provide double security for the rights and welfare of the people by providing a double mechanism for the securing of the values of good governance such as republicanism, constitutionalism, democracy, separation of powers and power sharing. It also enhances participation and deliberative, consultative, negotiative and consensual approaches to governance. This multi-dimensional approach forms the foundation of federal systems which are founded upon decentralisation and devolution of power. Well designed, this system moves away from centralisation and concentration of power.

**Defining decentralisation, devolution and federalism**
At times the terms decentralisation, devolution and federalism are used interchangeably. Yet a clear understanding of the concept calls for some attempt at their definition that brings out whatever differences there may be among them. A proper approach to the definition of these terms is to relate and compare them to each other; for instance, comparing devolution to federalism on the one hand and decentralisation to devolution on the other. The approach has to be a progressive one which begins with devolution and ends with federalism. But devolution itself has to be approached from a progressive standpoint, beginning with decentralisation and then coming to devolution.
Decentralisation is not easily defined. But it takes many forms and has several dimensions. Indeed, a wide variety of institutional structures are encompassed by the term decentralisation. Generally however, decentralisation involves the assignment of fiscal, political, and administrative responsibilities to lower levels of government. It involves the division and distribution of governance responsibilities among different levels of government; among a national central level and lower levels of government. There can be different categories and variants of decentralisation based on the degree and extent to which the decentralisation goes. Scholars have identified deconcentration, delegation and devolution. Deconcentration and delegation are mild forms of decentralisation which do not involve serious governments below the central one. Instead, units of administration are established by the central government which the central government uses to facilitate its own administration at lower levels. Such units are viewed as mere agents of the central government which takes all the decisions and has all sovereignty. Lower units are not autonomous co-ordinate governments with their own sovereignty and acting upon their citizens directly but merely agents of the centre that are subject to instructions and direction from the centre. Devolution on the other hand is a more extensive form of decentralisation which involves the creation of autonomous or semi-autonomous lower level governments that are co-ordinate with the central one and do not take instructions from the centre. They have their own constitutionally assigned geographical, institutional and functional sovereignty or jurisdiction. Jennie Litvack, Junaid Ahmad and Richard Bird have brought out these distinctions in the following manner:

“One widely used distinction is among deconcentration, delegation, and devolution.(Rondinelli:, 1981 and 1989). Deconcentration occurs when central government disperses responsibilities for certain services to its regional branch offices. This does not involve any transfer of authority to lower levels of government and is unlikely to lead to the potential benefits or pitfalls of decentralisation. The decentralisation that has occurred in many unitary countries is actually deconcentration, since independent local governments (which are legally accountable to local constituents) do not exist and local field offices of the central government are simply used to improve the efficiency and effectiveness of service delivery. This is the case in many East Asian countries and until recently, was the rule in Eastern European countries (Kornai, 1992). Deconentration can also exist for some functions in federal countries when the central government maintains a strong interest in ensuring delivery of a particular service.

In contrast the central issue for both delegation and devolution relates to the balancing of central and local interests. Delegation refers to a situation in which the central government transfers responsibility for decision-making and administration of public functions to local governments, semi autonomous organisations that are not wholly controlled by the central government but are ultimately accountable to it. These organisations usually have a great deal of discretion in decision-making. This form of decentralisation can be characterised as a principal agent relationship, with the central government as the principal and the local units as the agent. From this perspective the main design issue is to ensure that the self interested agent (the local government or semi autonomous organisation) faces incentives that induce it to act as closely as possible in accordance with the wishes of the principal (the central government).
Finally, devolution, a more extensive form of decentralisation, refers to a situation in which the central government transfers authority for decision-making, finance and management to quasi-autonomous units of local government. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions.”36

In its report on devolution of powers, the Constitution of Kenya Review Commission after looking at this particular definition noted that Kenyans were neither looking for a deconcentration because this had been tried before but without success, nor were they looking for delegation. The failed District Focus for rural Development was a form of deconcentration. The widely discredited provincial administration is a form of delegation.

The report then concluded that Kenyans were asking for devolution.

On the other hand, a federal system of governance is said to be one in which one creates two or more levels of governance that are co-ordinate and not subordinate to each other.

It is a system based on shared governance at the national level and self governance at the local level. It is a technique of political and/or governance organisation that permits action by a shared government for certain common purposes together with autonomous action by regional and local units of government for other purposes that relate specifically to maintaining their distinctiveness.

According to Professor Ronald L. Watts:

“There has been much scholarly debate about the definition of federalism. For the sake of clarity we may distinguish three terms; ‘federalism’, ‘federal political systems’, and ‘federations’. Federalism is basically not a descriptive but normative term and refers to the advocacy of multi-tiered government combining elements of shared-rule and regional self-rule. It is based on the presumed value and validity of combining unity and diversity and of accommodating, preserving and promoting distinct identities within a larger political union. The essence of federalism as a normative principle is the perpetuation of both union and non-centralisation at the same time.

Federal political systems and federations are descriptive terms applying to particular forms of political organisation. The term federal political system refers to a broad category of political systems in which by contrast to the single central source of authority in unitary systems, there are two (or more) levels of government thus combining elements of shared-rule through common institutions and regional self-rule for the governments of the constituent units.”37

What many scholars emphasis is the idea of a distribution of authority among two or more levels of government? The basic idea is that both sovereignty and law-making competence are distributed between central and constituent units. According to Professor Dick Howard, “the two levels of government then become co-ordinate, neither, in constitutional theory, being altogether subordinate to the other.”38

The reason the two levels of government are said to co-ordinate is that each one of them is created by an external and independent source. None is created by another level of government and none is a mere agent of the other exercising delegated powers from the other. The independent and external source that creates each one of them is the

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36 Jennie Litvack, Junaid Ahmad and Richard Bird, Rethinking Decentralisation in Developing Countries, (The World Bank, Washington, D.C., 1998) pp. 4-6
37 Ronald L. Watts, Comparing Federal Systems, (The school of policy studies, Queen's University, McGill Queen's University Press, 1999) p. 6
constitution. If any were to be created by another level of government then the system would cease to be co-ordinate and become subordinate making one level of government superior to the other.

Following the lines of the relationship between decentralisation and devolution, federalism is almost similar to devolution, the only difference between them being based again on the issue of degree. Federalism is therefore a form of devolution but of a more extensive nature.

In trying to deliver devolution or federalism the greatest challenge one confronts and has to surmount is that of being able to properly and clearly conceptualise and understand both the constitutional theory of devolution or federalism and at the same time conceptualise and understand the constitutional architecture and design that can be adopted to deliver the theory. Indeed, the biggest problem in Kenya has been our failure to properly and fully grasp these issues. The past experience of our country suggests that we have accepted the principle of devolution but we have failed to reap its fruits because we have failed to properly understand its theory and difference from the other lesser extensive forms of decentralization as well as the issue of architecture and design. A number of examples in our past experience will attest to this fact. First, we attempted to devolve by way of what was called district focus for rural development. This failed because we assigned planning functions to neither entities that were not autonomous nor semi autonomous. They could not therefore plan for the district without interference from the central government. We also assigned to the district development committees planning functions without giving them the requisite finances to implement their plans. Often the committees would send their plans and the proposed budgets to the central government through treasury, who would in turn fundamentally reduce the budgets making it impossible for the district committees to implement their plans. Those who believe in performance and results oriented management systems emphasise the need to link the planning processes to the budgetary processes. This ensures that people only plan for the money they are sure they have or are going to get.

Second, our current local authorities have also failed to deliver as a system of devolution. They are not autonomous and act on the instructions of the central government through the minister for local government. Even the LATF money that is being given to them can not be a sufficient measure to make them truly a vehicle for devolution. The allocation of the LATF money does not have any serious mechanism for financial equalisation which would be very useful in addressing the problem of regional inequalities. The LASDAP planning system is also not working since it is solely under the control of the councillor.

Even the recent constituency Development found if not founded on a sound basis of knowledge on matters of theory and architecture and design will not deliver proper devolution that can address the problem of inequalities. To start with the constituency is not a constitutional unit for devolution which has clearly defined governance functions including development functions. The constituencies are electoral units for electing members of parliament. What has been done in this case is that we are allocating development funds to an entity that has not been assigned any clearly defined development functions. What if a constituency were to spend its funds on a function assigned to another level of government and for which that level has received funds. There have been reports of some constituencies spending their money to repair police vehicles at local police stations yet the ministry in charge of internal security also receives funds with a vote for the maintenance of police vehicles.
In trying to use devolution to address the problem of regional inequalities, the question of the management, distribution and investment of public finances becomes important. In more broad terms this will fall within the ambit of what may be conceptualised as the fiscal and financial power of the state. Therefore, the organisation, management and distribution of the fiscal and financial power of the state become very important governance questions. Once again this is one area which at the constitutional theory level has not been properly conceptualised and understood leading to poor choices at the architecture and design level.

**The fiscal and financial power of the state**

Often, orthodox constitutional scholarship and constitution-making approach the question of the configuration of state power from a narrow and misleading institutional point of view. This approach configures state power in institutional terms of the three organs of state; the legislative, executive and judicial organs. Constitution-making from this approach ends up seeking to organise, distribute and constrain the use of only three powers of the state. This then leaves out perhaps the most important power of the state; the fiscal and financial power. When this happens, at the horizontal level, the financial power is normally taken over and monopolised by the executive arm of the state. At the vertical level, centralised systems normally allow the central level of government to monopolise this power. The consequence in these circumstances is that decisions involving the management, distribution and use of public finances are taken on the basis of unilateral discretion which leads to regional imbalances in the distribution, use and investment of public finances. The lower levels of government are then left at the mercy of the executive and the national or central level of government. The sharing of the public finances is therefore not done on the basis of consultation and negotiation among the different levels of government. It is done by the central level of government at its own discretion, thereby encouraging patronage and gross imbalances in the development of the different regions of the country.

For success in this area, contemporary constitutional scholarship and constitution-making should approach the configuration of state power from a power/function point of view. This will involve first seeking to identify all the powers or functions of the state before seeking to create the institutions that exercise those powers and perform those functions or before distributing those powers and functions among the different institutions of governance. If this is done then the fiscal and financial matters of the state will be identified as very important powers of the state. The power is then distributed in such a manner as to avoid leaving it to the exclusive or excessive control of the executive and/or the central level of government. When the financial power of the state is properly conceptualised, three distinct aspect of this power are identified. These are the power to raise revenue; the power to administer revenue; the power to spend revenue; and the power to control and audit revenue. These four aspects of the financial power of the state must be very well understood and properly designed if a balanced development of the country is to be achieved. In trying to understand and design this power, the question of financial equalisation becomes paramount. Success in this regard will depend a lot on the philosophy of governance a country adopts. At the comparative level, Germany has settled for a governance philosophy that seeks to secure uniformity of living conditions for all citizens wherever they are in the territory. Article 72 of the Basic Law when addressing the question of concurrent legislation, refers to this philosophy in the following manner:
“(1) On matters within the concurrent legislative power, the Lander shall have the right to legislate so long as and to the extent that the Federation has not exercised its legislative power by enacting a law.

(2) The Federation shall have the right to legislate on these matters if and to the extent that the establishment of equal living conditions throughout the federal territory or the maintenance of legal and economic unity renders federal legislation necessary in the national interest.”39

Similarly, article 106 when dealing with apportionment of tax revenue at sub-article (3) refers to the philosophy of uniform living conditions in the following manner:

“Revenue from income tax, corporation tax and turn-over tax shall accrue jointly to the Federation and the Lander (joint taxes) to the extent that the revenue from income tax is not allocated to the municipalities pursuant to paragraph (5) of this article. The Federation and the Lander shall share equally the revenue from income tax and corporation tax. The respective shares of the Federation and the Lander in the revenue from turnover tax shall be determined by federal legislation requiring the consent of the Bundesrat. Such determination shall be based on the following principles:

(1) The Federation and the Lander shall have an equal claim to funds from concurrent revenue to finance their necessary expenditure. The extent of such expenditures shall be determined with due regard to multi-year financial planning.

(2) The financial requirements of the federation and the Lander shall be coordinated in such a way as to establish a fair balance, to avoid excessive burdens on taxpayers, and ensure uniformity of living standards throughout the federal territory.”40

Canada adopted a governance philosophy that is similar to the German one but renders it in such manner that in addition to capturing the concept of a welfare state that seeks to reduce disparity in opportunities, it enjoins the government to ensure that all Canadian citizens are given reasonably comparable public services at reasonably comparable tax rates. This philosophy of governance is entrenched in the constitution, which at section 36 deals with “Equalisation and Regional Disparities” and provides as follows:

“(1) Without altering the legislative authority of parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, parliament and the legislatures together with the government of Canada and the provincial governments, are committed to-

(a) promoting equal opportunities for the well-being of Canadians;

(b) furthering economic development to reduce disparity in opportunities; and

(c) providing essential public services of reasonable quality to all Canadians.

(3) Parliament and the government of Canada are committed to the principle of making equalisation payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.”41

The primary impetus behind this government philosophy in both Germany and Canada was the general belief that the general population, regardless of their territorial position, had essentially undifferentiated demands and expectations.
regarding their social conditions. Uniformity therefore becomes a powerful norm permeating all relationships between, and actions of both levels of government.

Inherent in this German and Canadian philosophy of governance are a number of things worth noting.

(i) The concept of mutual assistance and solidarity among citizens generally and the various regions in particular. The regions that have a high monetary capacity become willing to assist those with a low capacity. This indeed, is the very basis of the concept of both vertical and horizontal equalisation. In the case of horizontal equalisation, monetary transfers from regions with high capacity are made to those with low capacity.

(ii) The concept of insurance on the part of the richest regions. The basis and motivation for this horizontal equalisation transfers is the need to insure for the future. This is because the fluctuations in the economic dynamics are sometimes very unpredictable. Sometimes regional economic circumstances can rapidly change, particularly with new technologies, so that regions that hitherto had high revenue capacity switch places with those which had low capacities. Regions initially perceived as poor may suddenly discover some hidden lucrative natural resources like oil. On the other hand international prices for commodities coming from richer regions may collapse and lead the region into economic ruins. As a result equalisation could be considered by regions with higher capacity as an insurance against a future reversal of their economic position.

(iii) The concept of redistribution of resources as an overall value in the governance process. The reality in most countries is that differentials in the natural endowment of natural resources, historical factors such as imbalanced past investment and development policies, fluctuations in the economic dynamics and in the commodity prices and disparities in the revenue bases and capacities among different regions of a country will always be with us. As such a governance philosophy that seeks to secure uniformity of living conditions or seeks to provide the citizens with comparable public services at comparable tax rates, cannot achieve this unless it seeks to reduce some of these disparities through redistribution mechanisms.

(iv) The concept of equalisation when seeking to achieve uniformity of living conditions for all citizens through redistribution. Equalisation is the best mechanism that has so far been developed. Because of this, Germany and Canada have highly developed financial equalisation mechanisms. Similarly, Australia and Switzerland have also developed and keep reviewing their equalisation mechanisms. Many other countries too have elements of equalisation in their decentralised systems.

Because of this governance philosophy, these countries have found out that less decentralisation or devolution of the power to raise revenue with more decentralisation or devolution of the power to spend revenue works very well. For this reason the national level of government is assigned the taxing power in the areas of the major taxes such as, income tax, corporation tax, value added tax and customs and excise, which are then used for equalisation purposes by way of distribution to the different units at the devolved level of government through all manner of transfers. The national level of government raises revenue but that revenue does not wholly accrue to it. It accrues to both the national level and the devolved levels of government. The reason for doing this is to avoid increasing rather than reducing the disparities among the regions.
On the other hand, the governance philosophy adopted and traditionally emphasized by the United States of America contrasts sharply with this German and Canadian philosophy. The American philosophy emphasizes the autonomy of the states and the freedom and liberty of the states and individuals to do as they please. The autonomy and individual initiative of the states are regarded as higher values.

Inherent in this governance philosophy is the concept of competition in its much unhindered form leading to massive disparities among not only the individual citizens but also among the states. This philosophy has no room for the concept of mutual assistance and solidarity, insurance, distribution and equalisation. Indeed, the Americans have not developed any serious mechanisms for financial equalisation. They, for the first time, tried to formally introduce equalisation only in 1972. But they later abolished it for the states in 1981 and for the cities in 1986.

Because of this philosophy of the autonomy of the states, the route taken is to assign functions to each state and then require each to raise its own revenue that can enable it to discharge its responsibilities. Under this approach, there is more decentralisation of the power to raise revenue than the power to spend. This kind of approach may lead to extreme competition that may destabilise the necessary economic stability and equilibrium. This approach ignores the reality of some states having a higher tax base than others. In such circumstances, securing uniform living conditions would lead to high disparities in the tax rates.

Given the utilitarian and egalitarian conceptualisation of governance already discussed, the German and Canadian governance philosophy lend itself as the correct approach for not only Kenya but also any other country that wants to seriously address the problem of regional disparities and inequalities. What therefore remains for discussion is the architecture and design question.

6 The devolution design question

In designing devolution, a number of things have to be done. These are; the creation of the levels of government; the assignment of governance functions and/or competencies; the allocation of funds for the performance of the functions; the creation of the institutions of governance at each level of government; and finally the organisation of the inter-governmental relations. The promise of devolution is that it seeks to put in place a system that tries to reduce discretion in the decision-making processes and replaces it with reason, deliberation, consultation and negotiation. The design of devolution must therefore seek to reduce the opportunities for discretion. A good design therefore will seek to make most decisions to be shared and will also put in place the necessary institutional arrangements as infrastructure through which the parties can share in the making of such decisions.

When discussing the definition of devolution or federalism, it was emphasised that one creates two or more levels of government that are co-ordinate and not subordinate to each other. The co-ordinate nature of the governments was said to be coming from the constitution which creates them. As such, the first one of the most important design question is whether the power to amend the constitution should be a discretionary function unilaterally exercised by one level of government or a shared function to be exercised by all the levels of government on the basis of consultation and negotiation. If it were to be a discretionary function then the level of government with the power to amend
the constitution would be in a position to, through amendments to the constitution adversely adjust the constitutional position and status of the other levels. It could even use this power to abolish the other levels. This approach would make the levels of government become subordinate rather than co-ordinate thereby completely abandoning the very theory of devolution. The correct design option therefore would be to make the constitution amendment power a shared function, to be shared among all the levels of government. This would force the two levels to consult and negotiate over any proposed amendments.

If this approach is taken then the next design question will be: through which institutions will the different levels share in this power? Since the legislative power of the state is the one that plays a major role in the amendment of the constitution, a correct design would be to create a legislature that has two components. One component; which belongs to the central level of government and represents national interests; and another component, which belongs to the devolved levels of government and represents regional interests. What this means is that at the heart of devolution design is the concept of a bicameral legislature because it is part and parcel of the very theory of devolution.

From this stand point, it is obvious that what we have in the form of local government can not meet the standards of devolution. They are not constitutional creatures but rather statutory ones. The local authorities are mere agents of the national level and can not be consulted nor involved in decisions that affect their very existence. By an amendment to or repeal of the Local Government Act, parliament can adjust the position of the local authorities or simply abolish them. The minister for local government on other hand can by the stroke of the pen dissolve a council of any local authority. A look at the Draft Constitution of Kenya 2004 (Bomas Draft) shows that reasonable efforts had been made to deliver proper devolution. The draft provided for a bicameral legislature. It also ensured that the power to amend the constitution would be shared between the national and devolved levels of government. Article 303 required that any proposed amendment to the constitution be passed in either of the two houses of parliament. This was however tinkered with in the Proposed New Constitution of Kenya of 2005, which abolished the idea of a second chamber of parliament. Secondly, the creation of the regions and the districts in the constitution would ensure that any proposed increment or reduction in the number of regions and districts would require an amendment to the constitution. With a second chamber of parliament, such would again necessitate consultation and negotiation among the different levels of government. This then ensures the protection of the regions and the districts. The Bomas draft had once again provided for this at article 5(2). But this was again tinkered with in the proposed new constitution which turned this from being a constitutional matter in to a legislative matter. It turned it from being a shared function into being a unilateral function performed by the national level of government at will.

Apart from the constitution amendment power being shared, legislation at the national level of government is also made a shared function. This legislation would include the passing of the budget bill that divides revenue vertically among the different levels of government. This would ensure a consultative and negotiated process of sharing public finances. This would remove the patronage that encourages regional inequalities. In the Bomas draft, this was provided for by article 251 which dealt with the division and appropriation of revenue bills. The article required that such bills be passed by both houses of parliament. This would then give the senate which would represent the devolved levels of government to negotiate for an equitable share for the devolved governments.
The division and appropriation of revenue bills would themselves have been prepared on the recommendations of a representative revenue allocation commission. All these were once again changed in the proposed new constitution.

7 Conclusion
The discussion in this paper has clearly shown that Kenya is a country of extreme regional inequalities that are calling for redress. It has also been disclosed that the governance systems can and have played a role in the development of these inequalities. At the historical level the colonial governance system has been seen as having contributed immensely to the development of these inequalities. The post independence governments of Kenya have also been found to have contributed. Centralisation has been the main element in this governance systems that has created a conducive environment for regional inequalities. As such, decentralisation in the form of devolution has been suggested as a solution. However, the success of this solution is not assured unless there is a proper conceptualisation and understanding of both constitutional theory and constitutional architecture and design. Indeed, it has been observed that the failure of the previous attempts at decentralisation as a means for equitable development of the country have failed because there was a lack of a proper and conceptualisation and understanding of these two areas.

As away forward therefore, both short term and long term solutions can be pursued. As a short term measure, there is need to redesign measures such as the constituency development fund by defining it in the constitution. The constitution can be amended to create the constituency as a constitutional level of governance with constitutionally defined and assigned governance and development functions. The constitution can also provide for more democratic governance institutions that are not controlled by the members of parliament as is the case with the current committees. These would then be charged with the responsibility of performing the constituency governance and development functions as well as accounting for the use of the funds allocated to each constituency.

In the long term however, the solution to the Kenyan problem of regional inequitable development lies in the adoption of a proper system of devolution which is based on a correct choice of architecture and design. It must be a design that creates serious regional government that era given meaningful institutions such as the senate through which they can share in and participate in decision-making at the national level.
Introduction

“Statistical data available indicate that by 1960 the poverty level in Nigeria covered about 15 percent of the population and by 1980 it grew to 28 percent. In 1985 the poverty level was 46 percent and it dropped to 43 percent by 1992. By 1996 the Federal Office of Statistics estimated the poverty level at about 66 percent”. (NAPEP:2001)

The above statement contains ingredients which make the study of poverty in Nigeria require intensive reference to historical studies of her colonial political economy, combined with a grave skepticism about the quality of data used to underline propositions about her economic condition. It is, for example, doubtful that only 15 percent of Nigeria’s population came out of colonial rule without the burden of economic prosperity, while victims of two decades of post-colonial economic governance numbered as high as 66 percent in 1996.

Ylonen, by contrast, insists that “creating poverty and inequality” was a “control mechanism in favour of the colonizer” (Ylonen: 2005:1). We should, in this view, expect larger numbers of Nigeria’s population being classified as victims of poverty when colonial rule came to an end. The statement also draws attention to the paradox of increasing levels of impoverishment among Nigerians (as from the 1980s), despite inflows of foreign
exchange earnings from oil exports unlike many African countries whose economies were depleted by escalating oil import bills. This paper will explore the long legacy of the political economy of poverty in Nigeria, as well as Nigeria’s record of responding to poverty by throwing creative policy reflex at the problem; an element which has remained a constant theme in governance in Nigeria since independence in 1960.

Colonialism as creator of poverty

The Ahmadu Bello University’s school of historical research has documented initiatives by Frederick Lugard (as chief colonial military ruler in Northern Nigeria) which provoked massive economic dislocation and impoverishment. These included: (1) directing community leaders (“Emirs”) to conscript thousands of able-bodied men to to work on construction of roads, the Lagos – Kano, Zaria – Bauchi, Zaria – Gusai, Zaria – Enugu railway lines; government office buildings and accommodation for British Officials; cutting grass for feeding horses used by police and cavalry; and digging for tin in the Jos – Plateau area. Undertaken as unpaid forced labour, it did not provide incomes to compensate victims for lower agricultural yields resulting from not planting, weeding and harvesting at optimum farming periods. (Tukur: 1979).

Mangvwat has emphasized the impoverishing effects of British colonial prohibition of traditions of iron-smelting by Birom blacksmiths. Incomes from selling their industrial products ceased, while those who had used their implements for agricultural production and for commerce now had to purchase substitutes at higher costs in British currency. (Mangvuat: 1985). Mohammed’s study of the Royal Niger Company documents interventions by British Colonial officials through imposing new and additional taxes on local textiles at gates to markets, thereby making imports from Manchester cheaper and more competitive. (Mohammed:1985). The discriminatory taxes turned local buyers away from local industrial products thereby throwing producers into unemployment and poverty.

The cumulative effects of these elements of colonial economic warfare severely weakened the capacity of communities to cope with drought and resultant famines. Kano, for example, lost between 25 to 50 percent of its population to the 1911 – 1914 famine. A British administrator wrote thus:

“The Striken people tore down the ant-hills in the bush to get all the small grains and chaff within these storerooms... The great city of Kano drew the starving thousands from the country in the faint hope of scouring in the streets or markets to pick up what they might, or beg the charity of townsfolk. They die like flies on every road”. (Illiffe: 1992:157)

Across Northern Nigeria, communities had to pay two layers of poll tax: that imposed by life British, and “Jangali”; and shares of agricultural produce paid to local rulers (“Emirs” and his clientele network of title-holders down to village officials). These taxes often forced males unable to pay to migrate in search of work or to escape the shame of not being able to feed their families. Migration, like forced labour in Igboland, “often left women to support their children”, while not having the physical strength to cultivate as much land as husbands had been able to do to ensure adequate levels of agricultural produce; or supplement household produce by offering “their labour at times of planting and harvesting in return for payments in yams which enable them to make up the
deficiencies in their own farm outputs”. (Iliffe: 1992: 152). Inequality took root as salaried officials began to fare better.

Colonial economic policy was characterised by the state injecting rural credit and bank loans on a discriminatory basis, favouring white miners and business classes. Lack of agricultural insurance policy schemes for peasant farmers meant that declining incomes tended to escalate. Tukur reports that surpluses earned by agricultural marketing boards which sold cocoa, groundnut, palm produce and cotton in the international market were loaned to local governments in New Zealand but not to Nigerian producers of these export crops. In the 1930s, in the face of cash hunger “people pawned their crops and children or sold their livestock, grain, pots, and even their Korans to pay their taxes”. Many peasants also entered into permanent cycles of debt which involved selling their harvests to repay debts taken during the pre-harvest “hungry months”. Local rulers exploited political immunity provided by British overlordship and used local police terror to expropriate land, livestock, women and cash from the populace, thereby establishing material roots of inequality.

Post-colonial governance and poverty
The anti-colonial struggle in Nigeria was never marked by a countrywide, massive, and sustained mobilization of the economic and political frustrations of the rural majority. In northern Nigeria, a British colonial officials colluded with traditional feudal rulers to disrupt and block populist campaigns across the region by Nnamdi Azikwe and his political party, the National Convention for Nigeria and Cameroon (NCNC). Azikiwe’s local ally, the Northern Elements Progressive Union, NEPU, and its regional co-travelers were subjected to brutal repression, imprisonment, death by being thrown into water wells, etc. The specific demands of peasant farmers never assumed the advantage of generating concrete policy proposals and programmes which would be backed by their vigilant supervision of government performances in the post – 1960 period.

The cross-regional challenges faced by regional political elites in the North, the East and the West (from election campaign forays by each other across regions), generated defensive search for legitimacy from peasants. In Western Nigeria, the Yoruba elites in Action Group combated political inroads by the Igbo – led NCNC by implementing a short-lived novel micro-credit scheme for rural and urban poor. The northern and eastern regional governments initiated agricultural loan schemes, free vaccination for livestock as well as demarcations of grazing and seasonal migration routes, respectively, as means of winning electoral support. In Northern Nigeria, this process was truncated by a constitutional engineering fraud of guaranteeing 50 percent of seats in the Federal parliament to those elected from the Northern Region. This was combined with an indirect electoral college system which saw to it that candidates elected at ward levels would be shut out at a higher electoral college dominated by local official nominated by government officials.

“...the British imperial state... designed a constitution that gave serious concessions to Northern elites. The parliamentary model that was proposed was modulated by a system of proportional representation in which the Federal parliament would be dominated by the ethnic group with the largest population”. (Ylonen: 2005:52).
The competitive regional governments, whose run was terminated by the military coup of January 15, 1966, had not yet reversed the regime of severe poverty in rural economies.

Their anti-poverty rhetoric had not been translated into:

i) effective infection of credit and industrial inputs into tilling, planting, harvesting and processing;
ii) construction of rural roads for evacuation of produce to urban or peri-turban markets;
iii) tackling creeping desertification, and soil erosion;
iv) investing in crop genetics and improved seed varieties for the take-off of a “green revolution”;
v) effective local industrial fabrication or manufacture of implements, as well as products from rich regional bio-diversity resources.

The promises of both anti-colonial and competitive civilian electoral politics were terminated before the rural impoverished all across Nigeria could exploit them as windows to growth and wealth-creation. However, a bureaucratic and political class had already started using the state to engage in corrupt transfers of public funds into private assets. Each regional government had witnessed transfers of earning from exports of agricultural produce into political campaign funds and personal pockets. Inequality was consolidating along lines of officialdom initiated during the colonial period, and never challenged by a political revolution similar to that of China’s 1949 socialist policies, let alone the 1966 Cultural Revolution. The peasantry in Nigeria was, as during colonial political and economic dictatorship, continued to be effectively excluded from this process.

Post-civil war governance and poverty
Nigeria came out of the 1967 – 1970 civil war with oil money draped around the triumphant federal flag. Between 1970 and 2000 oil revenues completely turned heads and hearts of Nigeria’s rulers away from agriculture as a foreign exchange earner and rewards of elite status. In 2000, oil revenue was 20 percent of GDP; brought in 98 percent of foreign exchange, and 83 percent of budget revenue. Oil was a product yielded by a technology sweated for by offshore brain-power and imported into the country by multinational oil companies which shielded their costs from Nigeria’s elite anxieties for demanded exertions. The income earned also came directly into the hands of the political elites without the inconvenience of being seen and handled by the rural majority. It was, therefore, politically safer than taxes extracted from rural farmers, an economic technology which, by the late 1930s, had earned British colonial officials and produce-buyers (the Lebanese and Syrian traders) much resentment and political hostility among Nigerian farmers.

The negative effects of oil’s supremacy were several and with high capacity for generating generalized impoverishment. To begin with, agricultural export products lost their seductive charm. As an example, in 2006, Cocoa production had declined considerably as most harvests came “from obsolete varieties and overage trees”; and yield was “stagnant at around 180,000 tons annually; 25 years ago it was 300,000 tons”. (Wikipedia: 2006:1)
The production of groundnuts, oil palm, cotton and gum Arabic suffered severe declines at a time when successive military rulers (1967 – 79, 1983 – 1999) did not need the electoral support of peasant farmers to shoot themselves into power and keep that power. Military rule also blocked the potential for peasant farmers developing political skills for making effective demands for their share of oil revenues.

The poverty and political weakness which for Nigeria’s peasantry had characterized colonial dictatorship, also came to characterize successive military dictatorships. Likewise, just as forced or voluntary migration under colonial rule had taken productive labour out of agriculture, the stagnation and deepening poverty under military rule also drove able-bodied youths into migrating to urban areas:

“Migrant labourers often came from the poorest strata... labour migration was a means of survival open only to the able bodied. As in South Africa, the poorest were often those who could not migrate. The boys go off, even the girls follow and the cripples remain to cripple the town”. (Iliffe: 1992: 151)

In a 2002 study of Osun and Abia State, rural communities we met gathered in village town halls, were dominated by elderly men and middle-aged widows.

In 1974 the military government of General Yakubu Gowon (1960 – 1975) introduced the “Udoji Awards”; a new salary scale for government workers. The new personal incomes were immediately diverted into massive inflows of consumer goods ranging from electric fans, tinned juices to toothpicks. A major mark of increased social status became the consumption of agricultural produce, notably: rice from Thailand and the United States; frozen beef and poultry from Uruguay, Argentina and Brazil; tinned beef from Holland, etc. Elites who played the game of polo imported racehorses from Argentina.

In the health sector, oil money was harvested by adopting capital-intensive curative measures which allowed for importations of expensive equipment for hospital-based care. The cheaper “primary health care” doctrine would triumph only after 1986 after the Structural Adjustment Policy of the IMF (adopted by General Babangida’s regime in 1986), had terminated expensive state-financing of social services. The primary health care policy did not, however, inject funds into the development of the herbal pharmaceutical sector, thereby directing new investments and generating income into the hands of rural practitioners of herbal medical care.

The fisheries, poultry and dairy sectors of consumption continued to ignore the millions of local poultry (as well as fisheries sector) as targets for receiving the vast oil revenues being earned by the Nigerian economy. The dairy consumer market has continued to effectively ignore the over 4 million local cattle which Nigeria’s nomadic rearers hold. The Lake Chad waters have increasingly dried up thereby undermining fish markets reaching the urban markets in the South East, while a fish-pond economy sector has continued to grow in the informal sector since 1999 to serve urban consumers.

The Gowon regime also saw the emergence of corruption based on federally generated funds. The late 1950’s and early 1960s had witnessed high profile cases of regional elites expropriating funds earned from marketing boards selling regionally produced export crops. Dudley had noted “traditional rulers” in Northern Nigeria using positions in state para-statals to commit fraud involving large funds. (Duddy: 1975)
The short-lived regime of General Muhammadu Buhari (1983 – 1985) was marked by incredibly high prison terms (up to 350 years) it imposed on government officials accused of corruption. By 1999 corruption would be a priority matter for the new Olusegun Obasanjo government:

“There is a rising disquiet over the cost of corruption related to both domestic and external resources. Poverty reduction programmes are very often undermined by a lack of public accountability and corrupt practices that exclude bonafide beneficiaries from programme processes... Corruption stymies investment and growth and misdirects public resources. It systematically redistributed and money to manipulate the system. It acts as a regressive tax, felt most harshly by small businesses, micro-enterprises and the poor. It erodes confidence in the institutions of state and is associated with organized crime. For taxpayers, corruption erodes the quality of public services financed with their money”. (Final Report: 2003:84).

The report (which was financed by the Ministry of Finance), found that 44 percent of respondents believed that “patronage” (Public officials hiring their friends and relatives into official positions) severely affected the quality of governance in Nigeria. 34 percent felt that way about “the Central Bank mishandling funds”; where 35 percent felt that way about “bribe for presidential decisions on private interests”.

Figures of up to 70 billion US Dollars stolen and stored abroad by Nigerian Officials, have been uttered by government officials. What has not been estimated is the value of funds turned into cement and building materials for residential houses in urban areas. What these funds have shared in common since the 1970s is the criticism directed against some policy measures by the Obasanjo administration, namely:

“...the government continues to fund huge capital investment programmes such as the Abuja Stadium at a cost of about N40 billion, National Identity Card Programme and a host of others that have limited impact on employment generation and hence poverty alleviation. Another example of priority setting which is not oriented towards poverty alleviation is the 2002 budget, in which defence and sports were allocated N47.8 billion and N15 billion, respectively, while agriculture and health received N4 billion and N14.8 billion respectively (Civil Society Coalition: 2004:32) emphasis added.

The agricultural sector has had the peculiar trait of not attracting “corruption money” into it to enhance productive investment. The fact that President Obasanjo’s offer of farmland and access to loan funds to white farmers who are fugitives from President Robert Mugabe’s land redistribution policies in Zimbabwe, have not drawn nationalistic outrage from the ruling classes, underlines this trait and its negative effect on national food security. The link between poverty and inequality has, thereby, remained unaltered in Nigeria’s agricultural sector.

There are indications that, since 1999, states such as Cross River (with a vigorous palm seedling and pineapple production and planting programme) and Kebbi State with a vast peasant-based “Fadama” (river-valley dry season farming) programme, may well be reversing the legacy of denying oil revenue funds to the agricultural sector as a means of ensuring mass-based economic justice based on wealth creation and internal accumulation.
Corruption has in the last three decades led Nigeria into a massive debt trap, and hemorrhage of oil revenues. The crisis of the debt-bleeding was that it was not based on funds rooted in Nigeria’s production wheel. The bulk of it was its mirage character being a mathematical virus because “a large part of it consisted of interest and repayment areas” which kept multiplying in quantity independent of the absence of production in the economy directly tied to it. In 2001 the debt total was $30.9 billion; by 2003 it had grown to $32.9 billion.

The debt repayment burden combined with collected effects of corruption to paralyse the power-generation sector of the nation’s infrastructure. The manufacturing and service sectors, especially the small and medium scale enterprises (SMEs) have faced the burden of unpredictable damage to their equipments (due to power fluctuations), long delays between power supply; and purchasing generators and diesel fuel to ensure self-sufficiency in electricity supply.

These costs, combined with crippling competition by cheap products dumped or smuggled into Nigeria (from the European Union, American, Indian, Chinese, Korean and Japanese markets), have forced closures and retrenchments of workers into unemployment and deepened poverty. Wages of 10 to 15 percent of costs of production have helped some firms to struggle on.

It has been argued that the road transport lobby has exploited Nigeria’s culture of corruption to continue the colonial policy of blocking the expansion of Nigeria’s rail transport sector. A lucrative vicious circle has been on since the 1970s in which:

(i) bulk products such as petroleum, steel rods and grains are transported by tractors on roads which;
(ii) easily break up, lose their asphalt covers and breed huge potholes, which
(iii) breed irritating snail-speed driving and horrendous accidents; which with appropriate inducement of the media
(iv) will process into demands for roads reconstruction contracts;
(v) which contracts are awarded to the interests who oppose the use of rail transport to haul bulk products (Abba: 1984).

Road transport has yielded enormously lucrative contracts to companies which construct roads in inverse relationship to their reach to peasant farmers to enable them find cheap access for their agricultural produce to richer urban markets; and for the urban to have access to food at lower costs. Out of a total of 80,500 km, only 15,000 is asphalted and often in constant need of repairs; gulping finds which could be loaned out as credit to rural agro-industrial sector and to urban based SMEs.

Successive Nigerian governments have denied themselves the benefits of borrowing from Japan’s strategy of raising “strategic savings” for loaning to collectively selected “strategic” manufacturing, commercial and transport enterprises run by individual entrepreneurs, under strict supervision by highly talented and conscientious officials of the Bank of Japan, the Ministry of Finance, the Ministry of Trade and Industry to ensure use of invested funds in such a way that enterprises make high returns and expansion. Strategies for achieving collective national savings for onward transfers into targeted enterprises have been lacking. The nationalistic orientations which fueled Nigeria’s state
capitalism soon after the end of the civil war, was corrupted and cannibalized into what El-Rufai has called individuals turning parastatals into private cows for milking for private accumulation. (Okello: 2004:10). Jerram has drawn attention to the cultural imperative that: "Most Japanese companies are presented as the cumulative efforts of many individuals rather than the creation of a single person: “Ibison:2006).

The generalized and prolonged regime of poverty and deepening collapse of levels of subsistence all across Nigeria, has often been at the root on urban communal conflict. Mandeley’s report (based on other conditions), can be a useful guide here:

“... the poor have insufficient land to grow food and can go hungry even when there is food in the market place”. (Madeley: 1991: 3)

Where there are impoverished urban communities marked by ethnic and religious identities different from those of groups which display for sale food items and other consumer goods in the market spaces, the urge to use violence and civil disorder as currency for ‘purchasing’ desperately needed goods can be impossible to resist. Intergroup conflicts which have hit Kano, Kaduna, Jos, Maiduguri and Lagos between 1999 and 2006, may be plausibly traced to communal mobilization of poverty; albeit as cover and tools for intense struggles for political power among elites. Losers of looted and/or burnt-down commodities and capital assets, are by these conflicts thrown down ladders of inequality on which they are struggling to get off.

**Anti-Poverty Initiatives**

Nigeria has a rich record of creative establishment of structures and institutions for combating household or group poverty. The following narrative is instructive and considerably comprehensive:

“Over the years, the government has introduced numerous financial – assistance schemes for SMEs. The Nigerian government’s efforts to assist SMEs began with the Industrial Development Bank Ltd. (NIDB) in 1962 and has continued with the creation of several other institutions such as the Nigerian Bank for Commerce and Industry (NBCI). Moreover, until recently the government required commercial and merchant banks in the country to allocate a stipulated minimum of credits to preferred sectors including the SMEs. The Rural Banking Scheme, another major initiative started in 1977, focused more specifically on increasing credit to the agricultural sector and rural SMEs.

The National Economic Reconstruction Fund (NERFUND) was set up to assist SMEs in adjusting to the Structural Adjustment Programme (SAP). The NERFUND provided relatively long term loans (5 – 10 years) to SMEs at concessional rates of interest. Between 1990 and 1998, NERFUND disbursed $144.9 million (Foreign Exchange Component) and N681.5 million (Naira Component) to support 218 projects. Moreover, the government obtained a World Bank Assisted SME II Loan Project to complement other sources of funding for SMEs. The facility involved credit lines of $270 million to be made available to SMEs through eligible participating banks. In addition the government established a community banking scheme in 1991 with the objective of promoting rural development”. (ADB:2004/2005:374).
Maduagwu has cited the figure of 2 billion naira (equivalent of 200 billion naira in 2000) as the cost of President Shehu Shagari’s “Green Revolution” agricultural development (and presumably poverty reduction) of 1979 – 1983. General Ibrahim Babangida’s DFRRI project (1986 – 1993) gulped N1.9 billion, about N80 billion (in 2000 value of the currency) :without Nigerians benefiting from them”. The administration of General Sani Abacha’s “Family Support Programme and the Family Economic Advancement Programme (FEAP) “gulped over N10 billion tax payers money at a time... Abacha was retrenching helpless civil servants” (Maduagwu” 2000:2)

Igbuzor, Walker and Matin have linked current “poverty reduction” programmes to “the ascendancy of neo-liberal ideas that emphasize the need for higher levels of aggregate economic production the capping of public expenditure, and which warn of the moral hazard of welfare dependency”, (Walker & Matin:2006:80). To promote productivity by the poor in Bangladesh, for example, micro-finance loan schemes now “serves 10 million people”.

Pycroft and Butterworth insist that the National Economic Empowerment and Development Strategy (NEEDS), launched in 2001, is:

“Nigeria’s home grown poverty reduction strategy... (which) establishes a bold agenda for far-reaching institutional reform that challenges the existing status quo and directly confronts many of Nigeria’s vested interests, both within and outside government”. (Pycroft & Butterworth:2005:13)

The two-step approach to fighting poverty which NEEDs emphasises consist of:

(1) breaking up taproots of poverty in Nigeria’s evolution of her polity, economy, ethno-religious structures and exploitation of geography; and

(2) creating a central body to coordinate elements in activities of ministries, parastatals and social services which impact on fighting poverty, as well as creating an institutional structure with a mandate for implementing anti-poverty programmes.

The first step is probably politically the most dangerous and daring theme of governance by the Obasanjo administration. Its key elements include:

- privatization of the state capitalist sector;
- fighting corruption and culture of defrauding public resources with impunity; thereby
- creating the environment for enhancing good governance;
- incorporating NGOs and CSOs as partners in exploiting environmental opportunities for pushing institutions of governance to achieve high levels of performance and accountability.

Privatization denied clientele networks whose members constituted top management of government-owned banks, companies, parastatals and agencies continued access to, and sharing out for personal enrichment, their budgets and earnings. The process of breaking up the economic teeth of ethnic or religious clienteles inside government institutions has opened up windows for institutional performances in ways which are expected to enhance wealth creation, job creation, and the rule of law. The fact that there are major losers since the process started in 1999, may well have made the polity prone and vulnerable to ethno-
religious violence traceable to defensive reflexes by interest groups whose interests are threatened, undermined and blocked.

A corollary of privatization has been fighting corruption. Most of the enterprises slated for privatization were severely crippled by past corruption. As an example, the Managing Director of the Bank of the North was arrested and accused, among other crimes of lending naira to members of his family. The administration of the Federal Capital territory exposed 3,000 “ghost workers” and claimed to, each month, save 18 million naira from being stolen as salaries for these non-existent workers.

Combating corruption by arresting and prosecuting high profile bureaucratic and political figures is meant to contribute to a culture of society benefiting from the power of the rule of law. The boarding up, confiscation and destruction by huge and regular bonfires by officials of National Food and Drug Administration and Control, NAFDAC, has both severely reduced expired and “fake” drugs from Nigeria’s pharmaceutical market, and deflated the commercial benefits of cynical, unscrupulous breaking of the law.

A bold element of creating the environmental pillars of good governance has been the decision by the Minister of Finance to publish in the media, monthly allocations to each of the 36 states and the Federal Capital Territory, Abuja, from the federal pool of funds collected by the Central Bank from oil revenues, VAT, customs duties and penalties. Civil Society groups are being empowered by government and donor agencies to monitor the use of these funds in relation to poverty alleviation.

Donor agencies and the government are also empowering committees of the National Assembly to invigorate their oversight functions. On 24 April, 2006 the Speaker of the National Assembly openly challenged the accuracy of claims by the official heading National Poverty Eradication Programme, NAPEP, that the rate of poverty had fallen from 70 percent to 54 percent:

“The National Coordinator of the National Programme on Poverty Eradication (NAPEP) Dr. Magnus Kpakol, had earlier said that the level had dropped from 70 percent in 1999 to 54 percent in 2005 ... But (Speaker of the House of Representatives Aminu Masari) said that the statistics quoted by the NAPEP coordinator, when compared with what obtained in reality, were not true, adding “I don’t known, how and where he got his statistics”. (The Guardian, Thursday April 17, 2006, p.80)

A 2004 evaluation of the performance of NAPEP by a “Civil Society Coalition for Poverty Eradication (CISCOPE) had claimed that in some states, monies released for the payment of participants in NAPEP projects: “were piled up in some private accounts to yield interest for such officials first”. (CISCOPE:2004:29). At the 2006 conference on poverty alleviation (organized by the House Committee on Poverty Alleviation), the Speaker may have been provided with alternative data by civil society activities.

Corruption in Nigeria has been blamed on high dependency on oil revenues. Severe stresses in the polity, including an epidemic of military coups, have been linked to inter-elite competition for monopolistic control of these funds at the federal centre. As a reform measure, NEEDS has directed attention at the development of solid minerals, agriculture (particularly cassava production) cultural products for export (particularly home-videos
by “Nollyhood”), and gas production as sources of foreign exchange earnings. These products (particularly cassava and solid minerals) occur across a wide spectrum of states and would thereby channel the hunger for wealth among Nigeria’s elites and owners of SMEs away from the federal centre. With the centre losing its lucre, the roots of ethno-religious conflicts (which impoverish its immediate victims, encourage capital flight and refusal of foreign capital to come into the economy), would be severely crippled. This strategy also demands orientation among the elite of focusing on production of wealth rather than on sweat-free collection of rent from oil and bureaucratic political posts.

The second step of the NEEDS strategy is the creation of NAPEP and funding its programmes as well as policy body, the “National Poverty Eradication Council (NAPEC)” whose mission is to “co-ordinate the poverty reduction related activities of all the relevant Ministries, Parastatals and Agencies”. The strategy lists 14 government ministries which are regarded as “core poverty alleviation” entities because of the impact of their activities. They are partnered by 37 “core poverty alleviation institutions, agencies and programmes”. (See Appendix; 2 and 3). NAPEP’s mandate is to plan and coordinate the relevant activities of these governmental structures. CISCOPE, however, found it necessary to emphasize in their report that: “NAPEP’s supervisory role over the Ministries and Agencies should be strengthened to enhance its efficiency and effectiveness”. (CISCOPE: 2004:30). It is a top-down programme which the federal government has gotten states to adopt as “SEEDS” blueprints.

Lessons

There are two main lessons to be learnt from Nigeria’s political economy of poverty.

The first is the need to avoid Nigeria’s failure to exploit the years of centralized military governance to integrate centralized control of political power with mandating local governments and village spaces to undertake effective industrial production, commercial, banking and distributive activities animated by the objective of achieving fast growth and the realization of levels of income found in developed economics. Virmani has seen much merit in what China did in this regard as a result of exploiting a window of opportunity provided by the 1966 cultural revolution to be creatively experimental and pro-local in its economic governance:

“At the start of reforms in late 1970s, China had on administrative system that combined a high level of centralization of policy making with a relatively decentralized system of governance and production.

The lowest level of government the township and villages has a level of autonomy that was greater than in democratic India with a free and competitive agricultural sector. Similarly the level of production decentralization was much greater than in the USSR or Eastern Europe, partly due the disastrous Maoist experiments in decentralizing manufacturing of steel and other capital intensive goods to the local level”. (Virumani:2005:50)

In this regard, the decision taken by Kenya’s members of parliament to vote increased allocations to constituency funds, offers a window of opportunity for highly committed leadership to take to the lowest level of government, a new culture of economic responsibility for locally based and prosecuted growth which would be a major departure from colonial and post-colonial records of governance. Poverty alleviation would, thereby
assume a participatory feature which is rooted in tertiary levels of economic initiatives previously located in central government agencies.

The second lesson for Kenya to learn from the Nigerian experience is that of reversing its volume of capital flight. In the period 1970 – 1996 Kenya sent out 26.8 percent of her GDP, totaling 815.1 million US$ as capital flight, while the corresponding figures for Nigeria were 367.3 percent and 86,761,900 US $, respectively. The Economic Commission for Africa, ECA, blamed corruption as fuel behind that capital flight:

“In 1970 – 96 roughly 80 cents of every dollar that flowed into (Africa) from foreign loans flowed out as capital flight in the same year, suggesting widespread debt-fueled capital flight. Debt-fueled capital flight occurs when funds borrowed are re-exported as private assets”. (ECA:2003:21)

Capital flight exacerbates the debt burden by exporting its productive dynamism while debt retains its internal expansion through the workings of compound interest. Both dynamics deepen poverty and the inequality which tends to be associated with it.(SID:2004:24)
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Federal Republic of Nigeria, National Poverty Eradication Programme (NAPEP)


Appendix 1

This document titled National Poverty Eradication Programme (NAPEP), provides strategies for the eradication of absolute poverty in Nigeria, through the streamlining and rationalization of existing poverty alleviation institutions and coordinated implementation and monitoring of relevant schemes and programmes at all levels of Government.

After considering the Ahmed Joda Panel Report (1999) and Professor Ango Abdullahi Committee Report (2000) the core Poverty Alleviation Ministries are:

i. Agriculture and Rural Development,
ii. Education,
iii. Water Resources,
iv. Industry,
v. Power and Steel,
vi. Employment, Labour and Productivity,
vii. Health
viii. Women Affairs and Youth Development
ix. Works and Housing
x. Environment,
xi. Solid Minerals Development,
 xii. Science and Technology,
 xiii. Finance, and
xiv. National Planning Commission

The identified core poverty alleviation institution, agencies and programme are:

i. Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB),
ii. Universal Basic Education (UBE),
iii. River Basin Development Authorities (RBDA),
iv. Small and Medium Industries Development Agency (SMIDA),
v. National Bank for Industry (NBI),
vi. National Electric Power Authority (NEPA)
 vii. National Directorate of Employment (NDE),
 viii. National Primary Health Care Development Agency (NPHCDA),
 ix. Federal Mortgage Bank of Nigeria (FMBN),
 x. National Centre for Women Development (NCWD),
 xi. Raw Materials Research and Development Council (RMRDC),
 xii. Nigerian Mining Corporation (NMC),
 xiii. National Youth Service Corps (NYSC),
 xiv. Urban Development Bank (UDB),
 xv. Environmental Sanitation Boards (ESB),
 xvi. National Agency for Science and Engineering Infrastructures (NASENI),
 xvii. Women and Youth Development Centres (WYDC),
 xviii. Nigerian Telecommunications (NITEL),
In view of the fact that poverty in Nigeria is widespread and multi-dimensioned, the Federal Government seeks to ensure that all activities and programmes of the line Ministries and Agencies are effectively coordinated. In addition, government also seeks to ensure policy continuity, existence of appropriate institutional framework and sustainability of all the programme. Accordingly, government established the National Poverty Eradication Council (NAPEC) to co-ordinate the poverty reduction related activities of all the relevant Ministries, Parastatals and Agencies. NAPEC is mandated to ensure that the wide ranges of activities are centrally planned, coordinated and complement one another so that the objectives of policy continuity and sustainability are achieved.

The poverty reduction related activities of the relevant institutions listed above are classified into four, namely:

i. **Youth Empowerment Scheme (YES)**
   YES deals with capacity acquisition, mandatory attachment, productivity improvement, credit delivery, technology development and enterprises promotion

ii. **Rural Infrastructure Development (RIDS)**
   RIDS deals with the provision of potable and irrigation water, transport (rural and urban), rural energy and power supply

iii. **Social Welfare Services Scheme (SOWESS)**

iv. **Natural Resource Development and Conservation Scheme (NRDCS)**
   NRDCS deals with the harnessing of the agricultural, water, solid mineral resources, conservation of land and space (breaches, reclaimed land etc) particularly for the convenient and effective utilization by small scale operators and the immediate community.

From the Ahmed Joda and the Professor Ango Abdullahi reports, the identified propriety public actions for the various relevant sectors are as follows:
Appendix 2

Establishment of a conducive environment
- Reorientation, introduction, advocacy and publicity;
- Good democratic governance;
- Security;
- Conducive environment for local production; and
- Larger public expenditure on services and infrastructures.

Employment and Wealth Generation
- Registration and maintenance of data on the unemployment and employment opportunities
- Registration and development of training and skills acquisition centres;
- Youth Information Dissemination Centres; and
- Development of the Unemployed and Resettlement Programmes.

Agriculture and Food Security
- Upland Farm Development;
- Irrigation Land Development;
- Grazing Land Development;
- Strategic Food and Seeds Reserve Development;
- Farm Roads/Rural Roads Development;
- Supply of Agricultural Inputs;
- Agricultural Credits;
- Agricultural Extension Services;
- Agricultural R & D;
- Preservation and Storage;
- Agricultural Products Processing; and
- Marketing of Agricultural Products and Prices Stabilization.

Water Resources
- Dams Development;
- Pumping/Water Treatment;
- Boreholes development;
- Ringwells Development; and
- Livestock Water Points Development

Energy
- Urban Electrification;
- Rural Electrification;
- Rural Energy Sources Evaluation; and
- Solar Energy Utilization.
Healthcare
- Immunization Programme;
- Treatment of Malaria and Typhoid
- Treatment and Control of the Diseases of the Poor;
- Treatment and Control of STD and HIV/AIDS;
- Development of Primary Healthcare Centres;
- Child Nutrition Development;
- Mother care programme; and
- Anti-drug abuse development.

Gender Development
- Social and welfare development for women; and
- Rehabilitation of destitute and the disabled.

Industry
- Promotion and Development of Small and Medium Industries;
- Acquisition and Development of Indigenous Technology
- Credits for Small and Medium Industries; and
- Industrial Extension Services.

Environment
- Tree planting and Greening Programme;
- Plantations and Forest Reserve Development;
- Erosion Control; Desert Encroachment Control;
- Prevention Environmental Degradation; and
- Garbage Collection and Disposal.

Transport and Shelter
- Construction and Maintenance of Trunk A Roads;
- Construction and Maintenance of Trunks B and C Roads;
- Development of Water Transport;
- Railways Development;
- Provision of Urban and Rural Transport Facilities;
- Urban Housing Development;
- Rural Housing Development; and
- Provision of Credits for Housing Development.

Communication
- Development of Urban Telephones;
- Development of Rural telephones;
• Development of Postal Agencies; and
• Provision of Internet Connectivity.

**Education**
• Primary Education;
• Secondary Education;
• Technical Education; and
• Special and Informal Education

**Recreation and Public Facilities**
• Development of Markets;
• Development of Motor Parks;
• Development of Television Viewing Centres;
• Development of Game Reserves;
• Development of Amusement Parks and Gardens; and
• Development of Sporting Facilities.

The entire poverty eradication programme of the country shall therefore be centered on youth empowerment, rural infrastructures development, provision of social welfare services and natural resources development and conservation for which details are herein provided. The mandates and targets for each of the schemes have been provided and an institutional structures has been established for the purpose of better coordination, effective implementation by the various relevant line ministries and agencies, and monitoring.
1. Introduction
Speaking in South Africa’s parliament in 1998 in the debate on the report of the Truth and Reconciliation Commission, (then-Deputy) President Thabo Mbeki argued that

“material conditions ...have divided our country into two nations, the one black, the other white. ...[the latter] is relatively prosperous and has ready access to a developed economic, physical, educational, communication and other infrastructure...The second, and larger, nation of South Africa is black and poor, [and] lives under conditions of a grossly underdeveloped infrastructure... (Mbeki, 1998)

This paper examines the nature of the divide to which Mbeki pointed and the reasons for the limited response to it during the post-apartheid era since 1994. The paper argues that this response can be understood only through an historical analysis of the transition to democracy. Section 2 provides an overview of inequality, poverty and economic growth in South Africa and their trends during the past ten years. Section 3 briefly examines the historical roots of inequality in colonial conquest and patterns of capitalist development resulting in the apartheid system. Section 4 argues that the democratic transition in 1994 emerged from a two-decade ‘crisis’ during which economic and social changes occurred
which shaped both the form of the transition through negotiations as well as post-apartheid policy and institutions, which resulted from an accommodation between the ANC and business. Section 5 spells out how policies, institutions and ideas in post-apartheid South Africa reflect the outcome of the transition and have shaped the trends described in Section 2. Section 6 concludes by examining current approaches to addressing inequality in South Africa, and the constraints upon them.

2. Inequality in South Africa today

(i) Inequality and poverty indicators

Unofficial estimates suggested South Africa was amongst the two or three most unequal countries in the world during the 1980s, with a Gini coefficient of about 0.67 remaining relatively stable between 1975 and 1991 (see Table 1). The first official estimates of the Gini coefficient in 1995 placed it much lower than the earlier estimates at about 0.56, deteriorating to 0.59 in 2000. Later careful re-estimation by Hoogeveen & Özler (2004) using official data, suggest only a small decline over the five-year period, though the values of 0.57 and 0.58 respectively were close to the official figures. Comparisons of distribution before and after 1994 are bedevilled by the lack of official data or estimates for the earlier period, and the unreliability of the early official estimates after 1994, as the statistics agencies went through a learning curve.

Nonetheless, the overall picture suggests that inequality within the population as a whole was more or less stable during the last 20 years or so of the apartheid period, and also since 1994, with income shares shifting from both rich and poor groups to the middle classes. Table 1 shows the steady shift since 1975 in the distribution amongst quintiles, away from the top and the bottom two quintiles to the middle classes (second and third quintiles). The top ten percent of households received 46.8% of income in 1995 and 45.2% in 2000, a 3.5% drop. The bottom forty percent received 7.3% in 1995 and 6.1% in 2000, an 11% drop. In 1995, households in the top quintile had incomes which were more than 7.63 times the incomes of households in the lowest quintile, but by 2000, the ratio had dropped to 5.78 (Stats SA, 2002a).

Though the level of inequality is uncertain, as indicated by the large disparities in Gini coefficient estimates before and after 1994, there is wider agreement that inequality within the four (apartheid-defined) race groups has risen steadily since the mid-1970s. Looking at race groups separately, Table 1 shows that distribution amongst both Whites and Africans deteriorated markedly between 1975 and 1991, using unofficial estimates. Official estimates have suggested that the intra-race Gini coefficients were, like the overall Gini, much lower than had been thought, but the group coefficients reflect a “significant increase” in inequality amongst Africans after 1994. (Stats SA, 2002a, 48; Hoogeveen & Özler, 2004). Table 2 shows the significant deterioration of intra-race inequality after 1975 more clearly. The share of the bottom two quintiles amongst Africans dropped by about two-thirds from 12.3% in 1975 to 4.5% in 1996, while that of the top decile rose by about three-fifths from 32.5% to 51.3%. Amongst whites the shift was similar, the top decile gaining about eight percentage points of total white income as they increased their share from 25.9 percent to 34.8 percent, equivalent to the drop in the share of the bottom two white quintiles from 18 to 10 percent. The lower half of the table shows that Africans substantially increased their presence amongst South Africa’s rich during the two decades from 1975 at the expense of whites. Since 1994, a systematic process of ‘black economic empowerment’ (BEE) – focussing especially on affirmative action in the labour market
and ownership transfers of equity in the capital market – has accelerated the upward mobility of the black middle classes, especially managers and professionals (as distinct from entrepreneurs).

Turning to poverty, 11.3% of the population were living on less than $1 a day in 2000 and 34.4% of the population on less than $2 a day (Stats SA, 2005), while the GDP per capita in 2002 was US$4013 (current prices). Bhorat (2003a) estimates that in 1999, 32% of households in South Africa were below a poverty line of US$251 per month per household (1995 prices), equivalent to US$81 per month per individual. Using the same poverty line, the poverty gap was 13%.

Not surprisingly, race is a significant determinant of both poverty and inequality. Based on a household poverty line of US$220 per month in 1999, 52% of the African population was poor while 95% of poor people were African, though Africans were only 79% of the population as a whole (Woolard, 2002; Bhorat et al, 2000).

Inequality and poverty also depend heavily on employment status. Wages account for 66% of inequality across all households and remittances and state transfers for 28% inequality. Only 22% of people living in poor households were employed. (Bhorat et al, 2000, p16). Nearly a third of the working age population is not economically active, and less than 40% is in employment. In 2003, the ‘narrow’ unemployment rate in South Africa was 31.2%, defined as the proportion of economically active people who had actively sought work during the previous four weeks. On the ‘broad’ definition – those who want to work but have become discouraged from actively looking – unemployment was 42.1%. Unemployment rates differed markedly amongst racial groups, 47.8% of Africans being unemployed on the broad definition compared with only 9.9% of whites (Statistics SA, 2002c). Only 63.6% of the employed were in the formal non-agricultural sector, with 7.5% in formal (commercial) agriculture, and 28.3% in the informal sector (unregistered businesses) and domestic service.

Gender inequality is also extreme, the disastrous legacy of South Africa’s migrant labour system which involved men going to work in the cities and mines, leaving women and children in the rural areas. The poverty rate amongst female-headed households is 60 percent, double that for male-headed households, due to the concentration of female-headed households in rural areas and their fewer working age adults. Women’s unemployment rate is far higher men’s: 46.4 percent amongst all women (men: 35.3 percent), and 53.6 for rural women (men 42.2 percent). Wages for those women who are employed, are also well below those of men: in 1995, the ratio was 78 percent but was estimated to have dropped steeply to 66 percent by 2000 (StatsSA, 2002b).

The HIV/AIDS pandemic has been a major factor moving South Africa backwards in its efforts to achieve the MDGs, particularly those dealing with health and education (Goals 2, 4, 5, 6). An estimated 11.4% of South Africa’s population was HIV-positive in 2002 (HSRC, 2003, p46). Life expectancy has declined precipitously from 62 years in 1990 to 47 in 2001, and infant mortality increased from 73 per 1000 live births to 85. There has been a drop in the primary enrolment rate linked to HIV/AIDS and the increase in the number of Aids orphans in the country, estimated to be 660 000 in 2001 (World Bank, 2003b). The data suggest that all socio-economic groups are at risk, not just poor people, but of course the impact of the disease varies considerably with socio-economic status, since poor people are far less able to cope with the associated costs and loss of income.
(ii) Redistribution
Since 1994, the fiscus, and its expenditure side in particular, has been used very effectively as an instrument of redistribution. This continued the pattern which had begun to emerge during the decline of apartheid from the mid-1970s. Before then, whites received well over 50% of all social spending while on a per capita basis African social spending was about 12% of whites’. African expenditure began to rise initially in response to increasing political instability from 1976. Between 1990 and 1993, it accelerated sharply as the apartheid government desperately tried to buy black support for the forthcoming universal franchise election. In these transition years, per capita spending on Africans rose by 40% while spending on whites, Indians and Coloured people dropped by 17%, 21% and 10% respectively (see Table 3). After 1994, the rise in African per capita spending continued, and by 1997, racial spending allocations were in line with population shares.

Between 1993 and 1997 overall per capita social spending (health, education and welfare, plus housing and water) increased by 23.8% in real terms. But there was significant redistribution across income and racial groups. The lowest income quintile experienced a per capita spending increase of 28%, and the next two quintiles 56% and 31% respectively, while the top quintile dropped by 20% (Van der Berg, 2001b). The impact of social spending on inequality has been significant. Taking only earned income into account, the Gini coefficient for the population as a whole for 1995 is 0.68. Taking taxes into account reduces this to 0.64, and taking transfers and other social spending into account, the Gini drops again to 0.44 (van der Berg, 2002). Nearly half of all social spending goes to social services, with education receiving the biggest single share, though social security has increased most proportionally.

3. Apartheid & the historical roots of inequality
Inequality in South Africa is rooted in military conquest and political exclusion, which took a colonial and racial form, and was buttressed by continuing repression of political and social organisation. Conquest began in the 1650s with a Dutch shipping outpost which became Cape Town, and continued via gradual expansion into the interior, especially after Britain took over in the early 19th century. The country was a patchwork of basically autonomous indigenous and settler societies until mineral deposits were discovered – diamonds in 1867 and gold in 1887 – This raised demand for unskilled labour and the need for political control, and by 1902, contemporary South Africa and its neighbours were under British imperial control. The peace settlement following defeat of the Boer settler republics inscribed racial discrimination into the foundations of the new South African state constituted in 1910.

Inequality was deepened by the pattern of economic growth and development after the mineral discoveries. The forced labour regime in mining established the migrant system which was the foundation for racial discrimination in the labour market and in the workplace. Mineral surpluses were increasingly channelled to domestic growth rather than remitted abroad and from the 1920s, manufacturing development was the focus of policy: tariff barriers were introduced, large-scale iron and steel and energy works were established by the state to supply the mines, and foreign multinationals entered to sell into white consumer goods markets. Import-substitution of labour-intensive consumer goods and intermediates accelerated after the 1933 currency depreciation when the international gold standard collapsed, and again with the shipping disruption during the Second World War.
After 1945, there was expansion of capital-intensive production for the domestic market of both consumer durables (autos, electrodomestics) and heavy intermediate goods. This helped to build political support amongst urban whites, whose rising living standards widen the racial gap. Permanent legal residence for Blacks in the urban areas was restricted by ‘pass laws’, but urbanisation proceeded nonetheless, though increasing capital-intensity and limited labour absorption meant open black unemployment from the late 1960s. The resource base financed imports of investment goods via mining exports, and the fixed gold price in the Bretton Woods international monetary system stabilized export revenue. Strong long-run growth occurred in the 1950s and 1960s, in contrast to most other commodity exporters. At the start of the 1970s, the manufacturing sector had not become internationally competitive, import dependence was high and the cost structure inflexible (Kaplan, 1991). Declining manufacturing profitability contributed to a decline in long-run growth from the 1970s, when the international economy slowed down following the oil shock of 1973 and the collapse of Bretton Woods. This economic crisis was one of the impulses for the political transition to democracy (Gelb, 1991).

Inequality affected black access to the factors of production, land, labour and capital.

(i) Land

Native Land Acts of 1913 and 1936 restricted land ownership for Africans to specified areas, initially covering about 8% of the country’s land area and then extended to about 13%. This laid the foundation for the ‘bantustan’ system, which attached rights of political representation for Africans to these areas. In the early 1990s, whites owned 86 percent of agricultural land and produced 90% of agricultural value-added. White rural areas supported a population of 5.3 million people, equivalent to 16.2 hectares per rural resident. White commercial agriculture had developed on the basis of limited competition because of restrictions on black land ownership, and was further assisted by substantial state support from the 1930s (marketing boards, subsidised credit and generous rural infrastructure and extension services). By contrast, 13.1 million Africans lived in the bantustans on 17.1 million hectares, less than one hectare per person. Though some black commercial farmers did emerge, most farming was for subsistence but was inadequate and the bantustans were net food importers. The World Bank concluded that the bantustans “should be viewed as labour reserves, not even as the subsistence sector of a highly dualistic agricultural system.” (1994, p22) In the urban areas, the Group Areas Act of 1950 restricted property ownership rights to specified areas for each racial group, and African home ownership was ruled out.

(ii) Labour

A migrant labour system with a strict colour-bar within the job hierarchy was established early on to support the mines and influenced the labour dispensation through the 1980s, as well as the gender imbalance in the rural areas. Despite the ‘pass laws’ which tied urban residential rights to employment, a settled semi-skilled urban African working class slowly evolved from the 1920s and industrial growth led to one-third of Africans being urbanised by 1960. Open African unemployment rose from the late 1960s as capital intensity in industry increased. African trade unions had no legal rights within the industrial relations system until 1979, though workers organised nonetheless and there were intermittent periods of strikes and union activity.
After the Second World War, white women moved out of the labour force into the home and were replaced by African males, but white men continued to benefit from racially preferential recruitment policies introduced in the 1920s for low-skill public sector jobs. White real wages rose steadily especially after 1945, in the context of systems for collective bargaining, social welfare and consumption subsidies and housing credit, and supporting suburbanisation and mass consumption of consumer durables produced domestically.

Access to labour skills was also racially-based. Church-based schools were available to African children until the 1950s, when the apartheid government introduced ‘bantu education’ focussed on limited technical and vocational skills and instruction in the vernacular. African children were concentrated in the lower grades (Christie & Collins, 1984, p 178). Though per capita spending on African education increased from the mid-1970s, the educational system remained very poor. In 1989, the African pupil:teacher ratio was 38:1 compared with 17:1 for whites, while 52% of teachers in the African school system were underqualified. Not surprisingly, Africans’ pass rate for the school-leaving exam was 41% compared with 96% for whites (Hofmeyr & McLennan, 1992, p176). At the post-secondary level, blacks were excluded from established English-language universities from the 1950s, and admitted only to segregated ‘bush colleges’ set up in the 1960s.

(iii) Capital

‘Market forces’ limiting black access to finance were reinforced by legislation, including the Group Areas Act which explicitly restricted property ownership by blacks to specified parts of urban areas. Later regulations prevented black entrepreneurs from owning more than one business, from establishing companies or partnerships, or owning business premises even in ‘black’ areas. African firms were further restricted to certain markets, only 25 activities – mainly retail supply of food and fuel – being allowed before the restrictions were partially relaxed in 1976. These restrictions limited blacks’ collateral options, while entrepreneurial risk was increased by insecurity of urban tenure. As a result, black-owned urban firms were tiny and sectorally concentrated: a 1990 survey found that 70% were in commerce and trade, and only 17% in manufacturing, about half the proportion elsewhere in Africa. The average firm had only 2.1 workers, and more than half the firms were younger than three years (Riley, 1994). In 1994, blacks owned only about 0.1% of the capitalisation of the Johannesburg Stock Exchange, while black management in white firms was estimated to be 4% in 1990.

4. The political economy of crisis and transition

The origins of post-apartheid policies – which have been unable to resolve the legacy of the apartheid of employment, poverty and inequality – are to be found in the ‘economic crisis’ starting during the 1970s, in which a structural slowdown in economic growth with economic and political problems reinforcing each other and ultimately leading to the transition to democracy in 1990. The slowdown was triggered by the global recession following the collapse of the Bretton Woods monetary system and the 1973 ‘oil shock’. Spontaneous wage strikes and student uprisings led to capital flight in 1976, and forced government into relaxing many of the restrictions on urban blacks. The growth slowdown continued into the 1980s after a brief respite when the gold price rose over $800 in 1980-1. GDP growth dropped from about 5.5% in the 1960s to 3.3% in the 1970s to 1.2% in the 1980s, fixed investment dropped from more than 25% of GDP in the 1970s to about 18% in the mid-1980s and TFP growth in manufacturing dropped from 2.3% per annum in the
1960s to 0.5% in the 1970s and -2.9% during the first half of the 1980s. An international anti-apartheid campaign calling for trade sanctions and disinvestment gained momentum as political upheaval increased during the early 1980s. In 1985 international creditors recalled South African public sector debt after the government declared a state of emergency. The consequent capital outflows required for debt repayment tightened the balance of payments constraint on growth, since investment depended on capital equipment and intermediate goods imports. The resumption of growth thus depended on restored access to international capital flows, which in turn depended on an acceptable political settlement. For this reason, economic pressures played an important part in shifting South African business shifted by 1989 to support democratisation via constitutional negotiations.

The sectoral and distributional impact of economic decline were very uneven. Macroeconomic policy favoured mining exports, while raising manufacturing import costs, lowering profitability and raising debt and bankruptcies. Despite the problems in manufacturing, the most capital-intensive sub-sectors – chemicals and basic metals – continued to expand their capital stock until the early 1980s, driven partly by public sector investment aiming at energy and oil self-sufficiency. Like mining, financial institutions enjoyed a short-term profit boom as mergers and acquisitions rose and foreign corporations disinvested. Ownership concentration in South Africa increased, and with it the economic power of big business: in 1990, six conglomerates centred on mining and finance controlled companies with 80% of the market capitalisation on the Johannesburg Stock Exchange.

At the household level, the extreme between-race inequality characteristic of ‘grand apartheid’ was moderated somewhat, but greater class differentiation led to increased inequality within race groups after 1975, as noted above. Unemployment was unofficially estimated at 20.8% in 1980 (having risen from 11.8% in 1970 and the number of Africans in formal employment grew by only 1.9% in the 1970s and 1% in the 1980s. Job losses were primarily amongst unskilled workers in manufacturing and construction. In contrast, blacks who had some education and skills benefited: technical and white-collar occupations increased as a proportion of the proportion of the labour force in all sectors, and tertiary sectors’ share of employment increased. The number of Africans in ‘middle class’ occupations grew at more than 6% per annum, nearly trebling between 1970 and 1987 when 19% of employed Africans were in middle class jobs and Africans comprised nearly a quarter of the middle class, with Coloureds and Indians another 18%.

Like big business, the growing economic presence of the urban black middle class led to increased political power, as professional and business bodies, media and cultural organisations were set up. Though part of the urban black middle class, existing black business was a small and weak group with limited influence even within the nationalist movement, as a result of the apartheid constraints it faced. Far more powerful was the trade union movement which grew from the spontaneous strikes of 1973, and – given apartheid conditions – saw its role as extending beyond the workplace into community and political arenas. It was complemented in mobilising skilled and semi-skilled African workers by urban community organisations, women’s and students’ groups. In sum, a new black civil society emerged from the late 1970s. The exiled nationalist movement, the ANC, provided strategic focus to support internal political opposition, while also mounting low-key armed struggle and leading international boycott pressures.
As the 1980s proceeded, interdependency grew between black civil society and the white power structure outside the state (as well as foreign agencies), who provided financial, intellectual and strategic resources. The repressive actions of the state led to increased interdependency rather than breaking the links across the racial divide. Black leaders' concern for their organisations' survival repeatedly reinforced this interdependency, and persuaded black leaders to accept that white organisations has a place in a democratic South Africa. This also implied some degree of acceptance of whites' property rights. Meanwhile whites, especially big business, slowly recognised that black working and middle classes could not be incorporated into economic institutions and productive systems in a sustainable way, unless full political rights were also extended in an open-ended process. Organisational interdependency broadening the objectives and lengthened the time horizons of both black and white organisations. An important expression was the 1989 campaign against the use of state repression in industrial relations: for the first time, black trade unions and white big business campaigned together on a common platform emphasising basic rights for both sides, and forced the apartheid state to back down. This was a major step towards a non-racial democracy via a negotiated transition and negotiations started months later.

The need to regain access to international financial markets to relax the foreign exchange constraint on growth reinforced the shift in sentiment in favour ending racial authoritarianism amongst powerful and influential whites outside of the state. An opportunity to break the deadlock arose with the appointment of a new president, FW de Klerk, in 1989, who had limited support inside state structures, especially in the military and police which had increased their power during the 1980s. De Klerk, looking outside the state for political backing, was able to move well ahead of his own political party in early 1990 to lift the ban on exiled political organisations and initiate negotiations with them towards a democratic constitution. The black opposition including the exiled movements had little choice but to agree to negotiations, since the politically weak white state nonetheless had substantial military power so that there was no foreseeable prospect of an armed struggle victory.

The fact that the transition took the form of negotiations, rather than an overthrow of the apartheid state, reflected the prevailing balance of class power following years of uneven economic decline. But this balance also defined the possibilities and limits of the negotiated outcome. At the outset there was consensus over little more than the need to end racial exclusion and put in place a constitutions which defined citizenship in an inclusive way. The start of formal political negotiations gave an immediate impetus to the existing debate about post-apartheid economic policy, and there was a proliferation of conferences, workshops and meetings which amounted to an informal and decentralised negotiating process on economic issues.

The start of negotiations shifted the political balance strongly towards the emerging black middle class which provided the leadership of the nationalist movement, by providing this group with new political resources in the form of enhanced capacity to engage in economic policy processes. Nonetheless, the economic debate was not a tabula rasa in which all options were equally likely or possible: all sides faced an imperative to address the major problems which had characterised the two decade-long ‘crisis’ leading up to the transition. Foremost amongst these were the need to urgently revive growth, which required increases in both foreign capital inflows and domestic fixed investment. Given the exclusion during the 1980s of South Africa from international trade and capital flows,
access to foreign capital inevitably lay with re-entry to (rapidly globalising) international financial markets, while raising domestic investment in the short term meant establishing business confidence amongst domestic and foreign investors in the private sectors. A further issue was the need for manufacturing industry to improve its low productivity and import dependence, dating back to the 1970s.

The challenges facing a resumption of investment and growth shaped the economic debate between 1990 and 1994, and naturally impacted significantly on how the challenge of addressing inequality was addressed. Black national movement leaders quickly acknowledged the growth and investment imperatives facing South Africa, and moved to reassure domestic and foreign investors while also insisting on the need to address apartheid’s distributive legacy for reasons of social and political legitimation. A redistributive priority articulated early on by the ANC involved deracialising the ownership and management of the existing large corporate sector, notwithstanding that this affected “the sanctity of private property” (Mandela, 1990). The ANC was also mindful of the threat posed by ‘macroeconomic populism’ to the sustainability of its own long-term project, as illustrated by the fate of the Unidad Popular government of Chile in 1973 and the Sandinista government of Nicaragua in the early 1980s.

Thus an accommodation – or ‘implicit bargain’ – soon emerged in the context of the informal economic negotiations between the ANC and white big business focussed on macroeconomic (price and fiscal) stability, re-integration of trade and finance into the international economy, and also ‘capital reform’ to deracialise ownership and management in private as well as public sectors. Policy specifics were significantly influenced by the prevailing international conventional wisdom: in the early 1990s, for example, trade and capital account liberalisation and low fiscal deficits were a sine qua non for international capital inflows, and issues of sequencing were not yet on the agenda. In the context of a four year long transitional period and a decentralised policy debate, with the ANC increasingly a ‘government in waiting’ while the existing state (many of whose officials were very active participants in the debate) became increasingly incoherent and disorganised, there was considerable space and autonomy for policy initiatives to proliferate with little central political or technical co-ordination.

The debate was also over-determined by two ‘initial conditions’, that is, structural features of the economy. One was the size and composition of the existing capital stock, dominated in manufacturing by capital-intensive materials processing (basic metals, chemicals, pulp and paper), and the second was the overwhelming proportion of assets controlled by the existing (white) owners of capital, a group which retained substantial power. These facts made South Africa’s transition different from others where capital assets were either physically destroyed – by war – or politically defeated - by revolution – or forced to depart from the economy – by decolonisation. As a result of this difference, there were limits on how quickly output and technology could change, and on the scope and pace of ‘capital reform’, that is, the transformation of ownership away from the total monopoly of whites.

‘History’ and ‘institutions’, then, played a critical role in the economic debate. As a result, the basic needs framework which won wide support across the ANC and its allies in the trade unions and which was elaborated as the core of its election manifesto in 1994 (ANC, 1994), nonetheless was not able to be implemented in a substantive way. The framework centred on small and medium manufacturers selling labour-intensive consumer goods
into low-income domestic markets, in principle synthesising the interests of the poor and the black middle classes, since a class of black entrepreneurs would develop as the strategy unfolded. One problem was that a new set of technology, labour and output choices would be required in production, and this could at best evolve slowly. Relatedly, even far-reaching positive discrimination in the post-apartheid capital market would only impact on asset ownership shares by race in the longer-term.

Thus notwithstanding its attractiveness in principle in terms of directly attacking inequality, the basic needs approach was unfeasible in the economic and political circumstances which the new democracy faced. It would require far-reaching challenges to property rights such as breaking up the major conglomerates and shifting substantial productive assets into the public sector, it was unlikely to avoid substantial macroeconomic instability and it did not address manufacturing’s external vulnerability. All of these were at odds with the substantial need for investment finance, including from the international markets.

By contrast, affirmative action policies in the high skill segments of the labour market promised to transform racial ownership and management of existing corporations more rapidly and accelerate the black middle class' access to economic power, while transfers or sales of equity by existing white corporations would do the same for ownership shares. The pace of change in the racial structure of economic power was inevitably a priority, given the extreme concentration of assets, both racially and economically. But its consequences were to push down the agenda policy to accelerate the formation of new productive assets under black ownership, and tilt the balance within the black middle class as it evolved, away from entrepreneurs and small and medium size businesses to financiers, managers and professionals in the corporate sector.

In addition, the existing capital stock was biased towards an export-led growth strategy, focussing especially on capital-intensive resource-based materials processing. Not surprisingly, a World Bank analysis at the time noted that “the industrial policy of the past four decades ....helped create competitive capability in relatively capital-intensive activities [which] would disproportionately be the beneficiaries [of outward-oriented policies] ....South African manufacturing might be an engine of growth, but not of (direct) employment creation. Such an outcome may be the best that can be achieved” (Levy, 1992, 50; emphasis added).

The ANC’s political strategy prior to taking power emphasised stability, including the need to reassure whites to prevent a flights of capital and skills. It agreed to establish a Government of National Unity with the previous ruling party as junior coalition partner, and its approach to economic policy was shaped by the same considerations, with the central bank governor and minister of finance from the prior regime retaining their positions. Detailed policy formulation to implement the ‘implicit bargain’ started well before the 1994 elections, with ANC officials increasingly included as constitutional agreement was reached and elections drew closer. As noted though, there was little policy co-ordination. Nonetheless, by the end of 1994, contractionary monetary policy had lowered inflation to single digits, fiscal deficit targeting had been explicitly adopted, central bank independence was enshrined in the Constitution, commitments on trade liberalisation had been formally agreed in the GATT, legislation had been passed opening banking and the Johannesburg Stock Exchange to international participation, capital controls on non-residents removed while a gradualist approach to those on residents was
in place. Capital ownership reform had started in 1993 with the first transfer of unissued equity to selected black beneficiaries by a major insurance company. Thus, within seven months of the election, the economic policy shift was well underway and effectively ‘locked in’, since policy reversal would have resulted in a massive loss of confidence, capital flight and increased costs of access to external capital.

5. Addressing inequality after apartheid

(i) Economic policies and growth performance

Until 2005, South Africa’s economic growth performance was insipid at best. Between 1994 and 2003, GDP growth averaged 2.8 percent per annum. With population growth of 2 percent, per capita income growth was only 0.8 percent per annum. Between 1990 and 2002, there were significant shifts in the composition of output, as mining and manufacturing shares declined, while services increased, transport and communications and financial services growing particularly strongly. Within manufacturing, labour-intensive sectors (food & beverages, textiles & clothing and footwear) grew slowly, at only 0.2% per annum, while basic metals, wood products and chemicals were the fastest-growing sectors, the former two growing over 4% per annum (Kaplan, 2003). The shift to more capital-intensive sectors was linked in part to international trade, as the share of exports of capital-intensive sectors rose as did import penetration in labour-intensive sectors (from 55.5% to 67.5% in 1993-7), squeezing domestic production and employment (Edwards, 1999).

A World Bank review (Lewis, 2001, p46-7) argued that there is “some evidence to suggest that trade liberalisation and increased trade ...have induced a structural change in production towards capital-intensive sectors... South Africa has a low and declining share of exports that use unskilled labour, and a high share using more skilled labour”. This is a counterintuitive outcome given the abundant supply of unemployed and unskilled labour. Nonetheless, the output and export shifts have reinforced labour market segmentation. Employment grew most rapidly in sectors where output grew fastest – financial services, transport and communications and construction – but these sectors together employ only one-fifth of formally-employed labour. There has also been a related ‘skills twist’ with the major gainers being managerial and professional categories and the biggest decline amongst unskilled workers. The main driver of unskilled employment decline in employment has been labour-displacing technical change (Edwards, 1999).

Economic performance during the first decade of democracy has not been effective in addressing inequality. Indeed it would not be going too far to label the pattern of growth as ‘unequalising’, since viewed in isolation economic growth has contributed to raising inequality. The underlying determinants of performance lie in the policy framework implemented during the transition, reflecting the ‘implicit bargain’ as discussed above. But domestic and international developments after 1994 also played a part. Investor uncertainty has been heightened by an unstable external macroeconomic environment. Like other emerging markets, South Africa has been unable to avoid volatility associated with capital flow reversals, and macroeconomic trends have been dominated by three foreign exchange crises, in 1996, 1998 and 2001, characterised by significant capital outflows and exchange rate depreciation. In the wake of each crisis, capital inflows, especially in portfolio form, have been strong, and from 2002, the currency has been overvalued, with equally damaging effects on domestic output and investor certainty.
A different but related issue emerged in 1996 when ANC leaders, responding to the first forex crisis, chose to explicitly exclude their labour movement allies from the formulation of the Government’s ‘Growth, Employment and Redistribution’ (GEAR) policy statement. GEAR included few new policies but was intended to reinforce the credibility – for investors – of government’s commitment to macroeconomic stability in order to reverse the capital outflow. Insulation of macroeconomic decisions from popular political pressures was in line with prevailing reform orthodoxy. However, since organised labour was part of the ANC alliance, its exclusion resulted in chronic and open political infighting within the governing alliance. This heightened uncertainty about policy stability and predictability and was counter-productive for investor confidence, with coordination failure keeping the economy in a low growth ‘equilibrium trap’. According to firm surveys in 2000, socio-political factors continued to hold back investor confidence, with high inequality and its social consequences increasing anxiety about political shifts within the alliance leading to radical changes in economic policy and the income distribution regime (Gelb, 2001c).

On the credit side, there has been considerable success in lowering the fiscal deficit even while spending has risen in real terms, in entrenching a low inflation rate, especially since an inflation-targeting regime was instituted in 2000, and in improving international credit ratings. But many observers across the spectrum argue the macroeconomic policy has emphasised price stability and financial strength at the expense of output (and employment) growth, given the inconsistent signals to producers from interest rate and exchange rate fluctuations. Macroeconomic policy and trade liberalisation have also been at odds, reflecting the failure to co-ordinate or sequence liberalisation policies during the transition.

Thus, despite profitability and productivity improving significantly since 1994, private capital formation has been weak, averaging 10.6% of GDP during the recession between 1990 and 1993, and rising only to 12.1% between 1994 and 2003. By comparison, it was above 13% in 1982, and 14% in 1988 despite the foreign debt standstill externally constraining growth.

Trade policy has reinforced the capital-intensive bias in production. Tariff liberalisation began in 1994 after the GATT Uruguay Round was finalised, but was accelerated by the new government faster than the agreed schedule. Liberalisation has simplified the tariff structure and lowered protection levels, but the trade regime continued to reflect an anti-export bias after the elimination of export subsidies in 1997, nor does it support upstream machinery and equipment sectors (Lewis, 2001). Sectoral duty drawback programmes for exporters have been put in place in two sectors – autos and apparel – but have been successful only in the former, where processed materials components (leather seats, catalytic converters) have been a significant share of exports. Trade policy has contributed to employment losses, via technological change to enhance export competitiveness, rather than increased import penetration following tariff liberalisation (Edwards, 1999; ILO, 1999). On the other hand, greater import penetration and re-invigorated competition policy have helped to entrench lower inflation.

(ii) Redistribution
Redistribution since 1994 has taken different forms for the major classes within the black population: the professional and managerial middle classes, black owners of small firms, organised labour and the poor, employed and unemployed.
For the professional and managerial middle classes, as noted, the process of ‘black economic empowerment’ (BEE) has focussed on affirmative action in the higher categories in the labour market and transfers of share ownership from large white corporations to selected black individuals and consortia. Discussion in the early 1990s developed prototypes for collective and individual approaches. The former aimed to mobilise blacks’ existing financial resources through ‘stokvels’ (rotating savings and credit associations) and pension funds for investment in existing and new assets, while the latter emphasised the promotion of black entrepreneurs via conventional SMME strategies such as market creation via linkages, and access to credit. Transfers of assets to the very small group of established black entrepreneurs was also included amongst objectives for racial transformation. A typical approach was NAFCOC’s (National African Chambers of Commerce) ’3-4-5-6’ plan, proposing that within ten years, listed corporations should have 30% black directors; 40% black share ownership; 50% black suppliers for production inputs; and 60% black management.

From 1993, individual corporations began to implement share transfer schemes, pre-empting government intervention. Black beneficiaries were selected by the vending corporation and the transfer was funded by debt provided by the vendor, secured against the company’s future earnings, so that loan repayments assumed growing dividends and rising share prices. By 1998, there were over 230 such deals with a value of over ZAR37 billion, but the stock market crash that year caused losses for both BEE entrepreneurs and their lenders. Black ownership accounted for about 7% of the JSE’s market capitalisation in 1998, but this dropped to only 2.2% by 2002. The primary beneficiaries were a tiny group: only 260 ‘previously disadvantaged individuals’ held directorships in listed companies in September 2002, of which over eighty percent were non-executive (Empowerdex, 2003).

Growing criticism of BEE’s progress led to the establishment in 1999 of a non-statutory Black Economic Empowerment Commission by black business associations with government support. It recommended more government intervention, focussing like the 3-4-5-6 plan on targeted shifts in ownership, management and high-level occupations and government procurement within a decade. Targets were to be defined sectorally, in voluntary processes by sector stakeholders, though government has played a ‘shepherding’ role in most sectors to overcome collective action difficulties. The sector charters do not involve explicit sanctions such as fines, but procurement contracts in the public sector, and increasingly also the private sector, require their fulfilment. Since the first charter processes were initiated in 2000, sector charters have been agreed in mining, most of agriculture and agri-processing and most services sectors, their relative absence in manufacturing sub-sectors being noteworthy.

Government has increased its commitment of funds to BEE, using its own expenditure to support small and medium firms (ZAR10 billion in 2003/4, about 3 percent of the total budget). The government employees’ pension fund is a major investor in large-scale BEE transfers, reducing risk for private sector funders and corporations transferring equity to BEE owners. Because the immediate BEE beneficiaries bring no finance to the deal (being unable to raise sufficient credit), the financial model underlying what is in essence a rent transfer to the black middle classes (Gelb, 1992) is sustainable only if company profits and share prices keep rising. The central difficulty is over burden-sharing of the cost of a company’s transformation, between existing shareholders via debt funding, the direct BEE beneficiaries by delaying transfer until the share price rises enough to make the deal
viable, or society at large through tax incentives to companies transferring equity, as proposed by the country’s largest corporation, Anglo-American. The economic model is equally unsatisfactory: since the BEE beneficiaries who receive rents do not exert operational control over the corporations, performance targets in exchange for government financial assistance for equity transfers are unenforceable. In other words, there is no feedback mechanism linking distribution and growth, except via consumer demand. The latter has been one of the two factors behind more rapid growth since 2004, together with higher commodity prices, but is very import-intensive leading to pressure on the trade account.

The other segment of the black middle class, entrepreneurs with their own firms, entered the transition as a politically weak group, and have not had priority on government’s overall agenda. Though many initiatives have been introduced, inter alia to support business skills, improve access to finance or reduce administrative burdens, these have been characterised by weak and limited implementation, institutional proliferation combined with capacity shortfalls and limited political support. The failure to promote a small business agenda more actively is ironic, given the centrality of this group to the basic needs strategy at the centre of the RDP, the ANC’s economic policy framework for the 1994 election. Neither of the two groups with more power within the ANC alliance, the professional/managerial middle class and organised labour, were willing to engage with small business, choosing to pursue narrower sectional interests instead.

For organised labour, redistribution has not taken the form of direct flows of income or assets from government or private sector, but rather the restructuring of the regulatory framework governing the labour market and labour relations in the workplace, to expand workers’ rights and shift the balance of power towards workers’, compared to the apartheid regime. New legislation has been put in place covering conditions of employment, workplace health and safety, workers’ compensation and rights to strike and take industrial action. New institutions have been set up to facilitate dispute and grievance settlement, especially in small workplaces, and to promote skills development within the existing workforce, the latter financed by an employment tax. There is also new employment equity legislation which has probably benefited middle level white collar employees more than blue collar workers. The new regulatory approach has undoubtedly enhanced the power of organised workers in industrial disputes, but this has been offset by the labour movement’s loss of influence and ‘voice’ within the governing alliance, at least relative to its expectations during the transition, given its central role in mobilising popular pressure against the apartheid regime.

Finally, we turn to examine redistribution towards the poor and unemployed. As already noted, restructuring of fiscal expenditure had significant redistributive even before 1994, and this has been expanded during the post-apartheid era. The distribution of spending remained stable between 1995 and 2004 with social service spending close to three-fifths of government current non-interest spending. Education accounts for 40 – 45 percent of social service spending, with health and welfare each receiving about one-fifth, and the remainder going to housing, land reform and water and sanitation programmes.

However, from the perspective of addressing inequality, the outcome of government spending is critical. In this respect, it is important to distinguish between programmes which distribute money to poor people to supplement current incomes or provide public goods and services which supplement current consumption, from programmes which
require asset transfers to the poor for housing or land reform, for example, or ongoing service delivery to enable poor people to build assets, such as in education.

Government programmes have been reasonably effective in the first category. Social assistance programmes have wide coverage and play an important role in alleviating poverty especially in the rural areas. Government reported that between 2000 and 2002, 91% of eligible pensioners received their pensions, though only 44% of eligible recipients got child grants, and 59% disability grants (Human Rights Commission, 2003, p 29). The South African social assistance system amounted to 2.1% of GDP in 1999, well above the 1980 Western European average of 1.54%. The World Bank estimated in 2004 that nearly 21 percent of the South African population received some form of social assistance from the state, either directly or indirectly as a member of a household where assistance was received. (Source) Since 2000, government has also supplied free water to poor households, and by 2002, the water grant was available in 69 percent of municipalities with 57% of the population. This is a good performance given the lack of bulk infrastructure at the outset.

In contrast to income-supplementing programmes, redistributive impact of asset-linked programmes has been less effective. In education, service delivery has been poor, despite equal education spending per pupil across races. There remains a strong correlation between pass rates and both school fees and race. A significant ‘apartheid backlog’ remains: forty percent of schools are inadequately supplied with classrooms and/or electricity, while 49% are without textbooks. This outstanding backlog is an index of government’s redistributive performance in the post-apartheid era. The housing programme reflects similar difficulties. Housing was one of the ‘flagship’ programmes of the RDP with the ANC promising in 1994 to deliver one million houses by the 1999 election. The deadline was missed, but by only one year, and by 2003, 1.48 million houses had been built, an average of 470 per day over eight years. Despite this apparent success, government is widely criticised for an excessively narrow focus on quantitative targets (Rust, 2003). Subsidies are too low in comparison with other developing countries and housing quality is undervalued. The diversity of housing demand is overlooked, together with the need to locate housing development in the context of broader processes of community development. These points are strikingly similar to those made about education in the sense that apparently successful current expenditure programmes have not produced the sought-after improvement in outcomes, for reasons which may well lie in the inability (or unwillingness) of government to address the wider context of inequality.

Unlike housing, the land reform programme has missed its quantitative targets by a wide margin, due to its budgets falling well short of needs. The RDP set a target of 30% of farmland to be redistributed by 1999, but by 2002, only 1% had been transferred (Aliber & Mokoena, 2003, p331). Only half the 80 000 claims for land restitution (a distinct programme from land redistribution) had been settled by 2002, and 80% were urban. The third aspect of land reform, tenure reform, is potentially the largest and could benefit almost 6 million households in the long run. But most of the affected land is in former ‘bantustans’, and the legislation was delayed for 7 years by government’s concern to balance the interests of ‘traditional leaders’ with the rural poor. In line with the broader accommodation over property rights and with the Constitution, land redistribution has been based on market transactions (‘willing buyer, willing seller’), and farm purchases depended on groups of households forming co-operatives or consortia. This created
difficulties for subsequent tenure and use by individual households. In 2000, the focus of land redistribution shifted from ‘welfarism’ and poverty reduction to productionist, ‘emergent farmer’ concerns. Government has begun to purchase land directly and stepped up rural services to new farmers. This approach may be more likely to succeed in transferring land to black commercial farmers, but appears to be the rural equivalent of BEE in that the target group is far narrower.

In sum, though the South African economy and the fiscus have been fundamentally restructured since 1994, it cannot be concluded that inequality has been addressed in a sustainable manner through economic policy or public expenditure. There has been a dramatic increase in the numbers of poor people who receive state assistance in some form, to the point that South Africa has perhaps the highest proportion of its population covered by assistance outside the OECD. These programmes certainly enable poor people to cope with their poverty status to a much greater degree. This accomplishment is not be minimised. At the same time, programmes to create jobs and to enable poor people to build assets – two approaches to sustainable poverty reduction and improved equality - have not succeeded in a significant way. In these two areas, new programmes and policies are likely to be adopted only in the context of a fundamental shift in the overall economic policy framework, in which poverty and inequality are at or near the top of the agenda. Whether such a shift is possible or likely in turn depends in large measure on the political pressure that is brought to bear, and we turn next to examine this dimension.

(iii) The politics of institutions & organisations

Apartheid institutions established and reinforced inequality, and there has been a dramatic shift in the institutional landscape since 1994. New institutions – representative, administrative, judicial – provide much greater scope for groups to make use of ‘voice’ in pursuit of their rights and interests. But power remains fragmented and it has proved difficult to build vertical alliances across class and economic interests, which are necessary for sustainable redistributive change. Horizontal social fractures, especially race, remain more salient divisions for mobilisation of organisations and ideas.

The overarching new institution is the Constitution, which naturally has formal equality of citizens as its first ‘founding value’, and includes a Bill of Rights spelling out citizens’ political rights, workers’ rights to join trade unions, engage in collective bargaining and strike, and property rights. Expropriation is allowed under prescribed conditions “in the public interest”, which is defined with regard to land reform and equitable access to natural resources, but not other forms of property such as capital assets. The property and related clauses allow the unequal treatment of citizens to redress apartheid’s legacy of inequality. The Bill of Rights also spells out a range of socio-economic rights, including housing, health care, food and water, social security and basic education. The overall approach has been called “transformative constitutionalism” which addresses substantive, not just formal, equality (De Vos, 2001; Klare, 1998). Several cases in the Constitutional Court established in 1994 have focussed on demands that the state address peoples’ basic needs for housing or health care, for example. The Court’s judgements have reaffirmed the state’s obligation to address inequality, poverty and historical socio-economic legacies, while recognising that this obligation has limits: the right to demand state action “to begin to address” unmet needs. (De Vos, 2001, p271). The Court has sought a middle path between imposing policy on government and demanding government be accountable for its policies, leaving government considerable room for manoeuvre in deciding how and when to meet its obligations.
The Constitution established several other statutory independent institutions to exercise ‘horizontal accountability’ over other state agencies, including a Public Protector, Human Rights Commission, Commission on Gender Equality and several other commissions. Their impact has so far been limited: being newly-established, their (human and financial) capacity is undeveloped. Like the Court, they generally take account of the state’s own limited capacities and the challenges faced by the governing party. Like the Court, these institutions are for the most part led by former anti-apartheid activists, so that accountability may be leavened by their shared history with government leaders. Once a new generation of leaders emerges in both government and the independent bodies, the accountability relation may become more effective.

Another set of ‘horizontal institutions’ are the tripartite bodies which emerged during the transition as a result of pressure mainly from the trade unions for a voice in policy, and which were quite effective during that period as decision-making bodies with greater legitimacy than the apartheid state. This led to the creation of some statutory tripartite structures after 1994 to provide a formal voice for organised labour and the poor in the policy process. Most important was the National Economic, Development and Labour Council (NEDLAC) which achieved several successes, including the negotiation of the new labour relations and competition law frameworks, with business and labour representatives fully involved in their drafting, before they went to parliament. But the macroeconomic agencies – the Treasury and the Reserve Bank – were always uncomfortable with the idea of negotiating policy, and tripartite discussions on macro policy were little more than government briefings (Gelb, 1998b). When the GEAR policy was published in June 1996, there had been only cursory consultation within the ANC alliance but government refused to subject it to NEDLAC processes. Government argued GEAR was ‘non-negotiable’, in line with the conventional wisdom on policy insulation from popular pressures to enhance credibility with investors. As noted above, this generated heated, bitter public debate for several years within the alliance which undermined GEAR’s credibility. Government’s refusal to engage in NEDLAC discussion on what it labelled the successor to the RDP as the cornerstone of policy was a fatal blow to tripartism, the implication being that government did not view NEDLAC processes as binding on policy. In the wake of NEDLAC’s decline, the prospect has greatly receded of a social accord or contract formalising the obligations of business, labour and government to contribute to growth, frequently advocated as a burden-sharing mechanism in South Africa.

A contributing factor to tripartism’s failure to meet expectations has been the decline in effectiveness since 1994 of collective labour and collective business. South African business historically has been organised along ethnic and racial lines, and business association unification has been slow, subject to infighting on racial, ethnic, and increasingly also size and sectoral lines, as a more open economy led to divergent interests across the latter two divisions. Ironically, the BEE charter process has contributed towards business unity, as ‘bottom-up’ negotiating processes have identified shared interests. On the labour side, trade union membership has increased in aggregate, but there has been an important shift of power within the labour movement to public sector unions. The former had led the labour movement in the liberation struggle during the 1980s, but in the 1990s, public sector workers faced with civil service restructuring and fiscal cuts have been more militant while industrial union members facing retrenchment have been relatively quiescent (Buhlungu, 2003, p198). Many union leaders have advanced personally via BEE and affirmative action or via the ANC, and
leadership turnover has inevitably lowered organisational performance, in a context of
greater demands on leaders and officials arising (ironically again) from the regulatory
changes to the industrial relations framework to enhance labour’s power.

In civil society, organisations which emerged during the 1980s have experienced resource
constraints as foreign aid and domestic funding as well as experienced staff have been
sucked up by the transformation of the state. But a revival is now underway, and new
issues and new organisational forms are starting to emerge, which are beginning to
address poverty, which was not an explicit focus during the anti-apartheid 1980s or
transitional 1990s. The new social movements include the Treatment Action Campaign
(TAC) focussing on HIV/AIDS, and the basic income grant (BIG) coalition, which brought
together a wide range of organisations in an unsuccessful effort to introduce a universal
grant as a poverty-reduction instrument. Organised labour has allied with both without
taking a lead.

Instead of tripartism, government has opted for ‘multiple bipartism’, in the form of
‘working groups’ where it engages separately with different economic interests: labour,
big business, black business, agriculture, and international investors. The working groups
allow canvassing of views rather than formal representation or negotiation amongst
interest groups over burden-sharing around policy changes. This has contributed to the
fragmenting of processes giving ‘voice’ to interest-based groups, which has in turn made
more difficult the construction of vertical alliances amongst such groups.

The ANC has historically been a vertical alliance crossing class differences within the
black population, and its electoral dominance with close to two-thirds of the vote in all
national and local elections since 1994 reflects this. Race and nationalism remain its main
mobilising ideas, and understandable as this might be, the effect is to reinforce these
dimensions as horizontal social fractures, constraining the emergence of vertical alliances
based on class and economic interests. Internal political dynamics within the ANC also
play a role in this outcome. The party had a reputation for highly centralised internal
control during its years as an exiled quasi-military organisation, and several
commentators argue that these tendencies have grown stronger during its years in
government (Lodge, 2003, p161; Southall, 2003, p57-8). This partly reflects the greater
influence of leaders from exile rather than those who remained inside South Africa. As
noted, there is debate within the ANC and the broader alliance (including the trade unions
and the Communist Party) over unpopular policies such as GEAR, and this has often been
so heated that it has threatened to break up the alliance. But differences over socio-
economic interest have – thus far – been dominated by shared nationalist ideas and a
shared history of struggle. Government leaders have relied heavily upon loyalty to the
ANC and party discipline to secure support, or at least compliance. The weight of
nationalism is likely to persist until a new generation of political leadership emerges
which had no involvement in the anti-apartheid struggle.

As predicted by Michels’ ‘iron law of oligarchy’, the ANC in government, has become
much less concerned with ongoing political mobilisation and participation of its mass
membership, except in the context of election campaigns. This has made it more difficult
for an explicit pro-poor ‘voice’ to emerge, and for isolated political actions by poor people
to be ‘aggregated’ and consolidated. Thus the party, and the context of a one-party
dominant system, has helped to manage conflict by diffusing it, rather than providing the
institutional mechanism for mediating a pro-poor pact linking the poor to middle classes.
Ideas and identity are essential features of class and interest group formation, and the domination of one set of ideas rather than another helps to determine what political and economic changes are thought possible while at the same time ruling out other options which become ‘unthinkable’. The democratic transition in South Africa implied the need for a fundamental shift in dominant ideas about the society because of the necessary change in the definition of ‘citizens’, exemplified by the transformation for most whites of Nelson Mandela from 1989’s ‘terrorist and political prisoner’ to 1996’s ‘the only leader capable of preventing descent into chaos’, so that economic panic ensued when he was rumoured to be ill.

In principle, the transition also widened the scope for thinking about inequality, but the way in which new ideas have been shaped by ‘looking backward’ to the past has tended to constrain possibilities instead. Without suggesting it is an exhaustive list of ideas which have become prevalent within South African society, three examples serve to illustrate the point. The first concerns discourse on human rights, which was central to anti-apartheid struggles and later within the negotiating process, culminating in the Bill of Rights in the Constitution. Government and political leaders continue to focus on individual personal dignity in response to racism in expressing their understanding of social mores, rather than on individual welfare and material security, which, it is argued, rest on personal responsibility. Arguments favouring poor peoples’ right to welfare are seen as ‘entitlement’ rather than an expression of the social democratic view that ‘the state [has] an unconditional obligation to provide security’ (Tony Blair, cited in Barry, 2003). The government’s stubbornness on providing anti-retroviral treatment for HIV+ people has rested in part on the expressed view that HIV status is individuals’ own responsibility, and the spread of the epidemic can be contained only by education and changes in morality rather than treatment regimes. On welfare policy, the demand for a Basic Income Grant (BIG) was rejected by government spokespeople arguing that “only the disabled and sick should receive ‘hand-outs’ and able adults should ‘enjoy the opportunity, dignity and rewards of work’” (cited in Seekings, 2002, p12). The Minister of Social Development argued in 1999 that “communities had to change the thinking of those who held out their hands for help but kept their sleeves down, a sign that they were not willing to work.” (cited in Hassim, 2003). Such moral discourse continues, for example in political leaders arguing that unprotected sex continues because poor people see the disability grant (now) linked to positive HIV status as a means to address poverty. These assertions of individuals’ responsibility for their own fate may help to explain government’s inability to build communities as effective collective consumers of public goods and services such as housing or education, which has impacted severely on public spending outcomes.

The second set of ideas which has constrained possibilities by looking backward is the issue of ‘consumerism’, the aspiration to purchase not just large quantities of consumer goods but the most luxurious and expensive models and types. This has become prevalent within South Africa’s middle classes in recent years and is heavily promoted by the media. Part of the explanation for the emergence of consumerism is that it is a consequence of ‘globalisation’, which has increased the availability of both images of ‘the rich and famous’ as well as access to some of the accoutrements of their lifestyle. Another part of the explanation is that it reflects whites’ efforts to maintain their apartheid-based living standards. But it is also characteristic of the upwardly mobile black middle class, whose racially unequal status under apartheid restricted their access to cultural and social
capital. New black elites needed to signify their right to these forms of capital and to signal (both to whites and to other blacks) their membership of the elite so as to gain the advantages of membership. Conspicuous consumption provided such an ‘instant’ mechanism. While contributing to ‘horizontal’ cohesion across the racial divide within the middle class, at the same time it has shaped the middle class’ sense of identity around an individualist self-enrichment ethos which defines aspirations and plans for young people, both rich or poor. This has reinforced social exclusion and sharpened visible inequality, given its urban bias. But at the same time, it has created an obstacle to a broader alliance engaging the middle class as a crucial group.

Thirdly, it is useful to look at how the political leadership have tried to define new conceptions of race relations in the post-apartheid environment. President Mandela focussed upon political reconciliation between the races, seen as necessary to reinforce the accommodation reflected in the transition to democracy and indeed the ‘implicit bargain’ underpinning the economic growth model. But ‘rainbow nation’-type reconciliation obscures difference and blurs obligations, undermining a potential focus on inequality and the need to address it. At the same time, the later ‘two nations’ metaphor, used by President Mbeki to convey the need for redress beyond reconciliation in terms of race relations creates different obstacles to addressing inequality. This approach emphasises the short-term risks associated with the transition and identifies equal rights and addressing the legacy of the past as costs to be borne primarily by one group – the ‘wealthy nation’ – for the benefit of the second. Given that the ‘return’ on this cost is likely to become evident only in the long-run, the ‘poor nation’ is likely to be construed as an ‘Other’ threatening established lifestyles and existing access to resources. The response is to withdraw ‘behind walls’ and secure assets.

6. Towards the future: Is a new path possible?

Government has acknowledged that inequality & poverty have not been successfully addressed in post-apartheid era, and moved to place these issues at the centre of a new economic policy framework. Since 2003, President Mbeki and his government have repeatedly argued that South Africa comprises ‘two economies’, an idea which transforms the ‘two nations’ metaphor into a dual economy concept:

*The third world economy* exists side by side with the modern ‘first world economy’...

...but is structurally disconnected from [it]...an automatic so-called trickle-down effect ... is [not] true....[We must] intervene in the ‘third world economy’ [to] end its underdevelopment and marginalisation...[This] will require sustained government intervention [...and] resource transfers ... includ[ing] education and training, capital for business development and ...social and economic infrastructure, marketing information and appropriate technology." (Mbeki, 2003a)

The necessary interventions have been captured in the idea, used with increasing frequency by government policymakers, of ‘building a staircase’ from the 2nd economy to the 1st, and the argument is that this can be done using a model imitating the ‘structural funds’ used in the European Union to address regional disparities, with strong 1st economy growth providing the required resources. As distinct from standard dual economy growth models, the ‘two economies’ notion used here rests on the explicit view that there are no linkages between the first and second economies. In particular, it ignores the interactions in both directions between growth and distribution which in turn affect
inequality. Growth in the ‘first economy’ is unequalising, as discussed above, and widens the gap between the ‘two economies’, while the ‘second economy’ affects growth negatively, for example by lowering investor confidence. Once these linkages are taken into account, the conclusion that the 1st economy need not itself be significantly restructured may require qualification.

In 2005, the government introduced a new policy framework, ASGI-SA (Accelerated & Shared Growth Initiative for SA), which aims to halve the share of the population which is in poverty by 2014. ASGISA is based in essence on the ‘two economies’ concept, and its core is the need to expand substantially the supply of infrastructure and skills. Spending on infrastructure is planned to increase by several multiples, and a parallel increase is planned in the scale of human resources devoted to skills development and education. ASGISA tries to take account of the need to link 1st and 2nd economies by identifying as top priority industrial policy sectors tourism and business process outsourcing, which are both labour-intensive export sectors with opportunities for small and medium-sized businesses.

From the perspective of addressing inequality, ASGISA has several difficulties. First, most of the spending on infrastructure is aimed at reducing the costs of ‘doing business’ in order to promote 1st economy growth, a worthy aim but not immediately likely to lower inequality or expand job creation, given the growth trajectory. Second, ASGISA’s successful implementation will require an fundamental but improbable change in the mindset of government and public on at least two issues. One is the assumption of responsibility for the fate of the poor, where the ‘two nations’ rhetoric conveys a strong social democratic vision – in which the state intervenes for the benefit of the poor – which is at odds with the emphasis on self-improvement, personal responsibility and the like which has thus far characterised anti-poverty policy in South Africa. A shift will also be required on the policy priority of SMMEs to move them up the agenda. The intention to do this has frequently been stated since 1994, but it is yet to happen. At this point, it is hard to see even black professionals and managers supporting significantly greater policy priority for SMMEs, even if black-owned. From the perspective of the individual, the risk-reward ratio of BEE opportunities in the (formerly) white corporate sector are much more favourable, and much quicker to materialise, than that available from startup productive firms which must be built over a period. Thus for the present, the group which has benefited significantly from BEE is more likely to support a policy framework which favours the continued growth of existing large corporations.

Thirdly, the programmes identified in the quote above, and elaborated in the policy framework involve not income transfers and consumption supplements to the poor, which government has done well, but rather asset transfers to, and asset accumulation by, the poor, in which government has thus far been found wanting. The state needs to learn how to successfully implement asset-based programmes, and both the learning process and system development take time, suggesting the 2014 target may be ambitious. Thus state capacity in terms of human resources may be inadequate.

The fourth issue is the adequacy of financial resources. The current grants systems already commits a high level of resources to poverty alleviation via the grant system, and this expenditure cannot be simply redirected to finance asset-based programmes. Over time there will be scope for this, but in the short-term, additional finance will be necessary. The intention is that this will come out of faster ‘1st economy’ growth, but this is far from
assured. One problem is linkages between the ‘two economies’, which could disrupt growth. Another is macroeconomic volatility, which ASGISA acknowledges has not been resolved though it offers no policy or approach to do so. With the international macroeconomic environment facing numerous challenges, particularly the disequilibrium between the US and Chinese balance of payments, it is not hard to imagine South Africa experiencing multiple external shocks over the next several years. Even with an adequate growth rate in the ‘1st economy’, sufficient finance via the fiscus is not assured. On the one hand, the ‘easy’ fiscal gains from tax and revenue collection reform are close to exhaustion, and an expansion of needed funds will require new strategies for their mobilisation. On the other hand, the debate on the basic income grant (BIG) – where the prospect of substantial increases in indirect tax rates failed to gain support as a financing mechanism – suggests that there is limited political will amongst the middle classes, black or white, (the bulk of taxpayers) to accept higher taxes and sacrifice current consumption to support fiscal transfers to the poor, despite the imputed long-term benefits the former would receive in the form of social stability and higher growth.

This returns us to the broader question of the potential for a pro-poor alliance in support of ‘shared growth’. Notwithstanding its use in the title of the new policy framework, the argument here is that the political conditions for shared growth do not currently exist in South Africa. Comparative experience suggests that a necessary condition is sufficient social consensus, and in particular a ‘vertical’ alliance including middle classes and poor, favouring such a solution. Social consensus in turn seems to require a national tradition, that is, a history, of co-operation and compromise. South Africa’s ‘tradition’ has, of course, quite the opposite characteristics, those of conflict, exclusion and ‘winner takes all’. Traditions of co-operation and compromise are not innate in those societies or cultures where they have emerged. Rather, they have most often been a response to a sense of crisis and threatened national survival, when political leaders have identified and ‘named’ the crisis to underline the seriousness of the situation, and pointed the way forward strategically by giving groups within the society confidence that all groups will share the burden. This enables groups to put aside sectional differences and act collectively. The most obvious example of crisis is war or the threat of war, but natural and economic disasters may have similar outcomes. Poverty and inequality in South Africa and related problems such as HIV/AIDS may indeed amount to a crisis in posing a threat to the society’s survival. But the political consequences are different when the ‘enemy’ is not clearly identifiable, has inchoate form, with negative effects which diffuse rather slowly through the society, and whose ‘carriers’ are internal, part of the nation. There is no external ‘other’ to be the focal point of broad mobilisation.

To conclude, then, in 1994, South Africa appeared to offer significant potential for sustainable redistributive change, but this did not happen. The South African experience underlines that addressing inequality is a long-term process, involving policies, institutions and ‘ideas’ which need to ‘work’ together for success. Transitions – moments of political fluidity and re-conception – may appear to offer promising circumstances to make radical or fundamental shifts of strategic direction. But initial conditions matter: the nature of the dominant class may block strategies and options, while new institutions, however promising in conception, take time to consolidate and mature before they begin to have an impact. In South African circumstances, generational turnover seems likely to be important to escape the strong ‘pull’ of anti-apartheid struggle comradeship and solidarity. Finally, South Africa underlines the difficulties involved in trying to address horizontal and vertical inequality simultaneously.
Table 1: Indicators of household inequality: Total population.

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<tbody>
<tr>
<td>Gini coefficient, all households</td>
<td>0.68</td>
<td>0.67</td>
<td>0.57</td>
<td>0.58</td>
</tr>
<tr>
<td>African</td>
<td>0.47</td>
<td>0.62</td>
<td>0.47</td>
<td>0.50</td>
</tr>
<tr>
<td>White</td>
<td>0.36</td>
<td>0.46</td>
<td>0.34</td>
<td>0.32</td>
</tr>
<tr>
<td>Indian</td>
<td>0.51</td>
<td>0.52</td>
<td>0.40</td>
<td>0.37</td>
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<tr>
<td>Coloured</td>
<td>0.45</td>
<td>0.49</td>
<td>0.44</td>
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Percent of total income going to:

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<tbody>
<tr>
<td>Top decile</td>
<td>49.2</td>
<td>51.2</td>
<td>46.8</td>
<td>45.2</td>
</tr>
<tr>
<td>Bottom decile</td>
<td>n.a</td>
<td>n.a.</td>
<td>0.5</td>
<td>0.4</td>
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Percent of total income going to:

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<tbody>
<tr>
<td>Top quintile</td>
<td>70.9</td>
<td>70.5</td>
<td>65</td>
<td>64.9</td>
</tr>
<tr>
<td>2nd Top quintile</td>
<td>23.9</td>
<td>25.6</td>
<td>18.2</td>
<td>18.2</td>
</tr>
<tr>
<td>Middle quintile</td>
<td>5.2</td>
<td>3.9</td>
<td>5.4</td>
<td>5.4</td>
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<tr>
<td>2nd Bottom quintile</td>
<td></td>
<td></td>
<td>1.9</td>
<td>1.9</td>
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<tr>
<td>Bottom quintile</td>
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Table 1: Indicators of household inequality: Total population.


Table 2: Income distribution within racial groups

<table>
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<tr>
<th></th>
<th>1975</th>
<th>1991</th>
<th>1996</th>
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<tbody>
<tr>
<td>Percentage share of racial group's income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africans: bottom 40%</td>
<td>12.3</td>
<td>6.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Africans: top 10%</td>
<td>32.5</td>
<td>47.8</td>
<td>51.3</td>
</tr>
<tr>
<td>Whites: bottom 40%</td>
<td>18.0</td>
<td>10.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Whites top: 10%</td>
<td>25.9</td>
<td>31.8</td>
<td>34.8</td>
</tr>
<tr>
<td>Racial composition of income deciles in total population</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>African in top decile</td>
<td>2</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Whites in top decile</td>
<td>95</td>
<td>83</td>
<td>65</td>
</tr>
<tr>
<td>African in 2nd top decile</td>
<td>7</td>
<td>22</td>
<td>39</td>
</tr>
<tr>
<td>Whites in 2nd top decile</td>
<td>83</td>
<td>61</td>
<td>42</td>
</tr>
</tbody>
</table>

Table 2: Income distribution within racial groups

### Table 3: Social spending from fiscus

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<tbody>
<tr>
<td>African share of social spending</td>
<td>28</td>
<td>51</td>
<td>67</td>
<td>80</td>
</tr>
<tr>
<td>White share of social spending</td>
<td>55</td>
<td>33</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Per capita level: African % of white</td>
<td>12</td>
<td>28</td>
<td>69</td>
<td>n.a.</td>
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Source: van der Berg (2001a, 2002)
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Closing Remarks

H.E. Bo Göransson
AMBASSADOR
EMBASSY OF SWEDEN IN KENYA

Some reflections after 2 days

10 Statements
1. Lack of money is not the problem
2. but money can be the problem
3. There is money
4. but not investments
5. Lack of policies is not the problem
6. but implementation is.
7. There is potential for increased growth and reduce poverty
8. but is there trust and willingness to work and share together?
9. Kenya has no external threat to force change
10. but a potential domestic – inequalities, ethnic tensions, marginalisation

What can be done?

Ideas, policies, institutions

Ideas:
- That poverty is a common problem
- That there is a common good – and poverty is not part of it
- That all gain from reduced poverty
Policies:

- Secure access to land, justice, credit, services, markets, employment
- Target and design investments; where and how?
- Utilize all, exclude no one: women’s rights, from informal to formal, youth/employment

Institutions:

- Independent, efficient. Needed? Serving who?
- Checks and balances. Parliament, NGO.
- Transparency. Case of CDF.
Programme

Conference chair: Duncan Okello, SID Regional Director

Sunday, May 21st
Arrivals of international speakers, check-in and registration of residential participants

Monday, May 22nd (day one)

08.00 – 08.20 Registration, seating
08.20 – 09.00 Opening:
• Statement and welcoming remarks on behalf of hosting institutions
  Joyce Umbima, Country Director, ActionAid International Kenya
• Remarks by a community representative
• Remarks by H.E. Bo Göransson, Ambassador, Embassy of Sweden in Kenya
• Opening statement by Ministry for Planning and National Development
  Dr. Edward Sambili, Permanent Secretary, Ministry for Planning and National Development

09.00 – 09.20 Opening ceremony:
• Keynote address by Hon. Henry Obwocha, M.P., Minister for Planning and National Development

09.20 – 10.40 Plenary I: Global lessons and international perspectives

  Session Chair:
  Prof. Michael Chege, International Development Advisor, Ministry of Planning and National Development

  • Dr Giovanna Prennushi, Lead Economist, Poverty Reduction Group, The World Bank/Core team of the 2006
    World Development Report on ‘Equity and Development’
    Topic: “Growth, poverty reduction and the quest for equity: Global perspectives and lessons for a developing
    country” (30mins)

  • Prof. Arne Bigsten, Department of Economics, Göteborg University, Sweden
    Topic: “Historical perspectives and lessons on how to tackle inequality in development: Policy formulation and
    dialogue” (30mins)

10.40 – 11.00 Tea/coffee break

11.00 – 11.30 Comments, questions and answers based on international lessons and perspectives
• Participants and speakers

11.30 – 12.45 Plenary II: National perspectives and experiences

  Session chair:
  Dr. Edward Sambili, Permanent Secretary, Ministry of Planning and National Development; While making brief remarks
  on Economic Survey 2006 and options for growth and equity

  • Prof. Terry Ryan, Independent economic expert
    Policy dynamics and issues on inequalities in Kenya (10mins)

  Brief presentations on income, gender and regional inequalities
  • Seth Gor, Department of Economics, University of Nairobi
    “Income inequalities: Measurements, dynamics and broad policy recommendations” (15mins)
  • Nyaradzai Gumbonzvanda, Regional Director, United Nations Development Fund for Women (UNIFEM)
    “Gender inequalities: Experiences, dynamics and broad policy recommendations” (15mins)
  • John Kangu Mutakha, Lecturer, Faculty of Law, Moi University
Programme

12.45 – 13.30  Comments, questions and answers based on challenges on equality in Kenya
  • Participants and speakers

13.30 – 14.30  Lunch

14.30 – 16.00  Working groups/break-outs
  Purpose: To allow for deeper discussions on different dimensions of inequality; Groups divided according to the following sectors/themes:
  • Agriculture, land and rural development (Chair: Dr James Nyoro, Tegemeo Institute of Agricultural Policy and Development)
  • Trade, industry and small business (Chair: John Ochola, Econews Africa)
  • Fiscal policy and public finance (Chair: Albert Mwenda, Institute of Economic Affairs)
  • Education (To be confirmed)
  • Health (Chair: Rosemarie Muganda-Onyando, Centre for the Study of Adolescence)
  • Human rights (Chair: Wambui Kimathi, Commissioner, Kenya National Commission on Human Rights)
  • Gender (Chair: Sam Ogola, National Commission on Gender and Development)
  • Constitutional and institutions (To be confirmed)
  • Marginalized groups (Chair: Korir Singoei, Center for Minority Rights and Development)

  Working groups discussion to be focused on:
  a) How are inequalities manifested and inter-linked in each of the sectors/themes?
  b) What is the current status of law, policy and reform initiatives in each sector/theme?
  c) What can be learnt from on-going policy reforms and international perspectives as far as addressing inequalities is concerned?
  d) How can sector policies, strategies or laws be designed in order to foster equity?

16.00 – 16.30  Break for refreshments

16.30 – 17.00  Plenary summary of group discussions, emerging issues/end of day one programme

17.00 – 18.00  Close of day one sessions and departure for non-residential participants

Rappoporteur General, rapporteurs and Conference Chair work on draft reports for reporting

Tuesday, May 23rd (day two)

08.30 – 09.00  Participants and speakers take their seats

09.00 – 10.20  Plenary II African perspectives

  Session Chair:
  Hon. Prof. Peter Anyang' Nyong'a, Africa Research and Resource Forum;
  While making some brief remarks on African policy options for addressing equity

  • Prof. Okello Oculi, Ahmadu Bello University, Nigeria
  Topic: “Political economy of growth, inequality and poverty reduction: What are the Nigerian and Africa-wide lessons and experiences?” (30mins)

  • Prof. Stephen Gelb, Executive Director, The EDGE Institute: Economic Development, Growth & Equity. And Visiting Professor of Economics, University of the Witwatersrand, South Africa
  Topic: “Growth and inequality in South Africa: Experiences and lessons for other developing countries” (30mins)
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<th>Time</th>
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<tbody>
<tr>
<td>10.20 – 11.00</td>
<td>Comments, questions and answers based from African regional perspectives</td>
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<td></td>
<td>• Participants and speakers</td>
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<tr>
<td>11.00 – 11.30</td>
<td><strong>Break for Refreshments</strong></td>
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<tr>
<td>11.30 – 13.00</td>
<td>Finalization of working groups discussions</td>
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<td></td>
<td>• Finalize discussion and emerging issues from previous day working groups</td>
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<td></td>
<td>• Make specific policy recommendations on how inequalities can be addressed on a sector and national basis; outline specific action points</td>
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<td>• What should be the main elements of a comprehensive long-term vision and strategy on growth, equity and development in Kenya?</td>
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<tr>
<td>13.00 – 14.30</td>
<td><strong>Lunch</strong></td>
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<td>14.30 – 16.00</td>
<td>Final plenary</td>
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<td>• Plenary synthesis of issues and working group conclusions, adoption of policy recommendations and future work</td>
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<td></td>
<td>• Final commentary by international speakers, local speakers, and statements from other key organizations on policy recommendations and way forward</td>
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<td>16.00 – 17.00</td>
<td>Closing ceremony</td>
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<td>• Hosting agencies</td>
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<td>• Government of Kenya</td>
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<td>17.00</td>
<td>Cocktail, to be hosted for all participants by Hosting institutions</td>
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<tr>
<td>1</td>
<td>Mrs Elizabeth Kamau</td>
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<td>2</td>
<td>Prof Thomas Babatunde</td>
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<td>3</td>
<td>Mr William Migwi</td>
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<td>4</td>
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296  Mr Jacob Akech     Rapporteur     Conference Secretariat, Nairobi
297  Mr Otieno Aluoka   Rapporteur     Conference Secretariat, Nairobi
298  Mr Jacob Atiang    Rapporteur     Conference Secretariat, Nairobi
299  Mr Job Momanyi     Rapporteur     Conference Secretariat, Nairobi
300  Mr Njonjo Mue      Rapporteur     Conference Secretariat, Nairobi
301  Mr Chris Musyoka   Rapporteur     Conference Secretariat, Nairobi
302  Mr Michael Mwangi  Rapporteur     Conference Secretariat, Nairobi
303  Ms Mumbi Ngaruiya  Rapporteur     Conference Secretariat, Nairobi
304  Mr Edris Omondi    Rapporteur     Conference Secretariat, Nairobi
305  Dr Othieno Nyanjom Rapporteur General Conference Secretariat, Nairobi

Note: Some participants did not register with the Conference Secretariat, thus their names are not listed here. Others registered but did not sign in all contact information.
Curbing poverty, illiteracy and disease were some of the development goals Kenya set for herself at independence. While major gains and growth were enjoyed during the years following independence, subsequent economic decline, marginalization and worsening governance led to high levels of poverty and inequality. Promoting growth, wealth creation and reducing poverty are challenges that face the country today. Addressing various forms of inequalities still remain a key issue in the attainment of the country’s desired long-term development goals and vision.

The National Conference on Equity and Growth which brought together over 300 participants from all over Kenya, and the region, discussed these issues and ways in which inequalities manifest themselves in various sectors. More importantly, the Conference made recommendations on broader principles that can lead to greater growth and equity in Kenya.

In this report, you shall be able to read the keynote addresses, discussions that took place and the presentations that were delivered. The Report provides a synthesized version of the proceedings, and invites the reader, and actors on the development scene, to integrate equity as a core value in programming, debate, civic engagement and leadership.

Organizational Profiles

The Society for International Development is an international network of individuals and organizations, founded in 1957 to promote social justice and foster democratic participation. Through locally driven international programmes, SID strengthens collective empowerment, facilitates dialogue and knowledge sharing worldwide. SID works closely with civil society, governments and academia. www.sidint.org

The African Woman and Child Feature Service is a media organisation that conducts research and advocacy to promote rights of women, children and marginalized groups. AWC works on poverty, HIV/AIDS, politics, water and human rights. It publishes articles on gender, governance, inequality, reproductive health and rights of African women. www.awcfs.org

ActionAid is an international non-governmental organization working in Kenya since 1972 to facilitate processes that eradicate poverty and ensure social justice. It works across a broad spectrum of integrated development activities and is primarily concerned with the promotion and defence of economic, social, cultural, civil and political human rights. www.actionaid.org

The Swedish Agency for International Development Cooperation, Sida, is a government agency under the Ministry for Foreign Affairs. Sida’s goal is to contribute to making it possible for poor people to improve their living conditions. Sida’s head office is in Sweden and it has field offices in some 50 countries. www.sida.se