

BTI 2010 | Kenya Country Report

Status Index	1-10	5.05	# 80 of 128	
Democracy	1-10	5.85	# 66 of 128	↓
Market Economy	1-10	4.25	# 100 of 128	↘
Management Index	1-10	4.24	# 90 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	37.5	HDI	0.54	GDP p.c.	\$	1542
Pop. growth	% p.a.	2.6	HDI rank of 182	147	Gini Index		47.7
Life expectancy	years	54	UN Education Index	0.69	Poverty ²	%	39.9
Urban population	%	21.3	Gender equality ¹	-	Aid per capita	\$	34.0

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

Kenya's sweeping democratic progress after the return of multiparty competition in 1991 has experienced severe setbacks. The disputed outcome of the general elections of December 2007 resulted in large-scale ethnic violence on an unprecedented scale and shattered the foundations of the Kenyan state. Despite peaceful democratic change in 2002, Kenyan politicians – government and opposition – were unwilling to concede electoral defeat after the 2007 elections. In contrast to 2002, the two major parties represented different ethnic coalitions, which led to the political instrumentalization of ethnicity and thus considerably raised the stakes of the elections. The post-electoral ethnic violence was stopped after extensive international mediation efforts under the leadership of former U.N. Secretary-General Kofi Annan. Under international pressure, the government and the opposition agreed to form a grand coalition, the largest one in the history of the country and one of the largest on the African continent.

The appointment of President Kibaki's political rival Raila Odinga as prime minister has created a second center of power inside the cabinet. Political infighting will continue to hamper the reform process. The ailing health of President Kibaki and severe doubts about the legitimacy of his political mandate are additional impediments. The absence of a notable parliamentary opposition after the 2007 elections has decreased the legislative branch's already limited capacity to ensure political accountability and transparency. Corruption continues to be widespread. On the positive side, further progress has been achieved, at least formally, with regard to education and health care. Following the 2008 riots, the Kenyan economy temporarily came to a near standstill. Major roads were destroyed and rebuilding is taking time. The resettlement of thousands of innocent victims is still ongoing and is further draining the economy. Inflation reached new heights in 2008 and economic growth is expected to be the lowest in two years. Thus, much of the economic progress of the post-2002 Kibaki era has been reversed. Kenya is faced with the same political imperatives confronting it after the transition from the Kenya African National Union (KANU) to the National Alliance Rainbow Coalition (NARC) in 2002: constitutional reform and the distribution of land.

History and Characteristics of Transformation

The political transformation of Kenya remains shaped by its colonial legacy (1896 – 1963). Questions of land allocation, which are ultimately linked to questions of wealth, have never been handled appropriately. The political instrumentalization of the uneven distribution of land has led to widespread ethnic violence, which has flared up several times after the return to multiparty democracy in late 1991. Both during the period of first de facto and later de jure one-party rule (1963 to 1991) under the reign of the Kenya African National Union (KANU), the former ruling party, and during the period of multiparty competition (1992 to present), politics has been characterized by strong ethnic undercurrents. Under the country's first president, Jomo Kenyatta (1963 – 1978), most prominent cabinet positions were given to his Kikuyu community, which, according to the 1989 census, represent 21% of the population and the largest ethnic group. In the fertile Rift Valley, both Kikuyu and Kalenjin have aspired to claim land that was previously under colonial occupation. Competing demands for land were never solved and thus became a latent source of conflict between the two communities. In 1964, the Kenyatta government altered the independence constitution by abolishing the federal institutional system (“majimbo constitution”). The debate about “majimboism” (Swahili for federalism) has since returned to the political agenda and was frequently accompanied by ethnic clashes. It also emerged in the run-up to the 2007 elections. In addition to tensions between the Kikuyu and the Kalenjin, political antagonism developed between the Kikuyu and the Luo. The dismissal of Kenyatta's Luo Vice President Oginga Odinga (the father of current Prime Minister Raila Odinga) and the mysterious assassination of the Luo politician Tom Mboya – a potential contender for the presidency – produced a sense of betrayal among the Luo. These long-held resentments between Luo and Kikuyu resurfaced vividly prior to the 2007 elections.

Under Kenyatta's successor, Daniel arap Moi (1978 – 2002), the allocation of public resources was biased in favor of his Kalenjin group and several pastoral communities. As a result, the Kikuyu were gradually pushed to the political margins over a period of ten years. After a failed coup d'état against his government in 1982, Moi grew increasingly authoritarian and implemented a system of terror and torture. During the Cold War, Moi secured Western support with his strict anti-communist stance.

After the end of the Cold War, the regime initially remained authoritarian. Faced with a temporarily united opposition of civil society, churches, academia, NGOs, former KANU politicians and a simultaneously changing international environment, the Moi government was eventually forced to concede to multiparty elections. Against an ethnically fragmented opposition, Moi benefited from the first-past-the-post system and won the 1992 and 1997 elections despite gaining far below 50% of the vote. In the 1997 elections, KANU ensured its parliamentary majority by rigging the results in several constituencies. Both in 1992 and 1997, the elections were anticipated and followed by ethnic clashes in several parts of the country. These were incited by leading members of the KANU government in order to intimidate opposition supporters and to settle old land disputes.

Having learned from its failures in the past, the opposition managed to overcome its state of ethnic fragmentation and rallied behind Mwai Kibaki, the former vice president of the KANU government (1978 – 1988), under the roof of the National Alliance Rainbow Coalition (NARC) in 2002. This national coalition managed to beat KANU and its presidential candidate, Uhuru Kenyatta, Jomo Kenyatta's son and Moi's appointed successor. The 2002 elections were seen as a watershed moment in Kenya's history, representing the freest and fairest competition thus far and ushering in the country's first democratic transfer of power.

Despite NARC's comfortable majority, cracks within the broad interethnic yet fragile NARC coalition emerged when Kibaki's Kikuyu-dominated inner circle failed to honor several pre-election agreements, including the implementation of constitutional reform. This would have resulted in the creation of a strong prime minister, a role promised to Raila Odinga, the political leader of the Luo community and one of NARC's key figures. Kibaki's own reform package, which foresaw a strong executive president, was rejected by a wide margin of the Kenyan electorate in a constitutional referendum in 2005. A large segment of the 2002 cabinet campaigned against Kibaki's constitutional amendment and departed from the cabinet after the referendum. The constitutional referendum thus led to a reformation of the political landscape and the formation of two major parties in the run-up to the 2007 elections, which were contested by Kibaki's newly formed Party of National Unity (PNU) and the Odinga-led Orange Democratic Movement (ODM). Although both parties contained leading members of various ethnic groups, the Kenyan electorate viewed the contest as one between Luo and Kikuyu. Although Kenyans voted orderly and peacefully in large numbers, the election aftermath resulted in bloodshed on an unprecedented scale, with an estimated number of 1,000 people dead and 600,000 displaced. A major factor in this was the close outcome, which caused allegations and counter-allegations of vote rigging that remain unresolved. After several high-profile international mediation efforts, all political players agreed to the formation of a grand coalition with Kibaki as president and Odinga as prime minister, a position that, according to the constitution, had not existed previously. Consequently, the 2007 elections have greatly damaged Kenya's image as a peaceful and stable country. The new government is one of the largest in terms of size and includes all of the major political players from recent decades. This significantly reduces the parliament's ability to scrutinize the government and is most likely to increase nepotism.

Transformation Status

I. Democracy

1 | Stateness

Kenya is not experiencing threats to its territorial integrity. However, it is affected by state crises in its immediate neighborhood. Kenya currently provides shelter for thousands of Ugandan refugees and is working towards a solution to clan fighting in Somalia. Armed groups and small gangs continue to pose a threat to state sovereignty in the western and northern parts of Rift Valley and in the northeastern and parts of the western provinces. Residents in the Mount Elgon region near the Ugandan border have repeatedly become victims of conflicts between the Kenyan security forces and local militia groups. Violent crime is rampant in Nairobi. In several slum areas in the capital, the monopoly of force is held by street gangs, not the government.

Monopoly on the use of force

Since the 1990s, the Mungiki sect, a paramilitary Kikuyu organization, has been a destabilizing factor in parts of Nairobi, the Nakuru region of the Rift Valley and large parts of Central Province. Since its establishment approximately 20 years ago, the sect has transformed from a cultural sect into an underground economic power with thousands of members practicing extortion against slum-dwellers and informal sector businesses. Mungiki openly declared its support for KANU and its presidential candidate, Uhuru Kenyatta, in the 2002 elections. It is known to have close links to leading personalities of the old KANU regime. The sect was legally banned in 2002. In June 2007, the Kenya police stormed the Mathare area in Nairobi in response to a series of brutal Mungiki killings. Several Kenyan human rights organizations have accused the Kenyan police of being responsible for killing eight thousand alleged members of Mungiki in crackdowns between 2002 and 2007. In April 2008, the leader of the Kenya National Youth Alliance, the youth wing of Mungiki, was shot dead. Several other members of the organization have also fallen victim to dramatic murders. In addition, there are reports that Mungiki suffers from factionalism and has split into two groups.

All groups in society respect the Kenyan state as legitimate. However, the centralized system has led to complaints by various nomadic groups regarding their perceived political marginalization. President Moi and Kibaki's strong support for the U.S.-led war on terror has caused a sense of marginalization among the country's Muslim population. The fact that most Muslims live in the Coast and North Eastern Provinces, which are economically disadvantaged, exacerbates this perception. This is a major factor in accounting for the Muslim community's strong support of a devolved system of government ("majimboism") and Raila Odinga as presidential candidate of the Orange Democratic Movement.

State identity

Religious dogma does not interfere with the state's legitimacy. By formally giving representation to North Eastern and Coastal Province at the cabinet table, the Muslim community has been represented in government since independence. The Supreme Council of Kenya's Muslims (SUPKEM) has acted as the main umbrella organization for the representation of Muslims. Some Islamic organizations have used the debate about "majimboism" as a platform to advocate the implementation of Shari'ah law.

No interference of religious dogmas

The functionality of the state's administration remains hampered. Administrative structures exist throughout the country, yet reforms of the civil service have still not materialized. The state machinery's level of functioning is low. A feeling of neglect by the centralized government exists in large parts of the population. A perceived preference for the Kikuyu-dominated region has been an issue since Kibaki's election in 2002. In 2005, the Kibaki government put forward a constitutional amendment package ("Wako draft") that, contrary to pre-election pledges, did not include a federal structure. It was widely rejected in a referendum. The 2007 election saw the return of the debate about a more federal state structure (the "majimbo" debate). The struggle over the future administrative structure has deep ethnic undertones and is key to the cohesion of the Kenyan state.

Basic administration

2 | Political Participation

The democratic impetus of the 2002 elections has been reversed by the recently concluded 2007 elections. The election itself was generally peaceful and Kenyan voters once more showed great commitment to democratic contests. Nevertheless, the contest between incumbent Mwai Kibaki (Party of National Unity, PNU) and his former coalition partner Raila Odinga (Orange Democratic Movement, ODM) was perceived in large parts of the country as an ethnic struggle for the presidency between Kibaki's Kikuyu and Raila's Luo community. Post-election violence was caused by the very narrow outcome of the election (according to the official results, Kibaki won by a margin of 230,000 votes), chaotic and non-transparent management of the Electoral Commission's vote counting process in Nairobi, a general public perception of result manipulation by the electoral authorities and

Free and fair elections

insistent accusations by the ODM that the results had been rigged. The slim majority of the ODM (and its allied parties) over the PNU (and its allied parties) in parliament further raised suspicion that the outcome of the presidential election had been rigged by the governing PNU. Yet recent research has concluded that both sides artificially inflated their votes in their respective strongholds. The electoral aftermath has proven that democratic norms have not yet been fully internalized by Kenya's major political players. Although the international community managed to mediate between the two political camps, the recently concluded grand coalition is already running into political divisions. It is unlikely that the political truce will last until the next scheduled elections in 2012.

There are no veto players hampering the elected rulers' ability to govern. However, the standoff after the 2007 elections has shown that ethnic militias of considerable strength can be called upon at the request of regional dignitaries. A takeover of the army does not appear to be a possibility.

Effective power to govern

In general there are no legal constraints on the right of any groups to assemble freely. International and domestic human rights agencies have criticized the Kenyan police for interfering with people's assembly rights in the aftermath of the contested 2008 elections. However, the police at times violently intervened with protest marchers following the 2007 elections; such actions have been widely criticized by human rights organizations.

Association / assembly rights

Press freedom exists in Kenya on paper as well as in principle. However, in the past, journalists have become the victims of governmental pressure and state violence. During the counting of the 2007 election results, various media houses were forced to stop reporting incoming election results, which made it impossible to confirm official results released by the Electoral Commission of Kenya. Local and international journalists have recently protested Kibaki's support of the Kenya Communications Amendment Bill (2008). The so-called "ICT Bill" provides for heavy fines and prison sentences for press offenses. It gives the government authority over broadcast license issuance and the production and content of news programs. It further allows the government to raid media offices, tap phones and control broadcast content for purposes of national security. A sizeable group of Kibaki's grand coalition also opposes the law. According to the worldwide press freedom index, Kenya's position has fallen from position 78 in 2007 to position 97 in 2008 (out of 167 countries).

Freedom of expression

3 | Rule of Law

The Kenyan Constitution provides the presidency with vast executive powers. Accordingly, the executive has dominated Kenyan politics since independence. The ability of parliament to control the executive is very limited. Patronage and weak institutionalization of parties are major factors in accounting for this. President Kibaki's decision to appoint an interim electoral commission without consulting with his ODM coalition partners is just one recent example of the wide-ranging power of his position. The inability to control the government is also a result of the formation of the grand coalition. Roughly half of all Kenyan MPs occupy some form of executive position.

Separation of powers

Attempts to draft and implement a new constitution have been on Kenya's political agenda for over a decade. The creation of a constitutionally strong prime minister, who would be accountable to parliament, has been part of this agenda. Thus far, however, all attempts to draft a new constitution have failed largely due to a lack of political will. The failure to come to an agreement about a new constitution was the beginning of the unmaking of the 2002 NARC government. Raila Odinga was appointed prime minister, which was a result of the internationally mediated grand coalition. The position was temporarily added to the constitution until the dissolution of parliament or the passing of a new constitutional enactment. The exact responsibilities of the prime minister are not spelled out.

The judiciary is institutionally differentiated but its functions are severely restricted. According to international development agencies and two national commissions of inquiry into the performance of the judiciary, the judiciary is seen as an agent of the executive and deeply corrupt. These views have also been confirmed by the International Commission of Jurists and several reports of the Kenyan chapter of Transparency International. In August 2008, the Kenyan judiciary announced that it would introduce modern information technology systems in order to clear the systems of backlogs and corruption. Justice Minister Karutha recently called for a concerted campaign to fight corruption in the legal system, acknowledging that it was still rampant. Despite an increase in salaries, the judiciary is widely regarded as one of the nation's most corrupt institutions.

Independent judiciary

The fight against corruption was a major theme in Kibaki's successful 2002 election campaign. In 2003 and 2004, the government enacted several laws designed to curb corruption. These included the Anti-Corruption and Economic Crimes Act, the Public Officer Ethics Act and the Public Procurement and Disposal of Assets Act. Among other things, this new legal framework led to the re-launch of Kenya's Anti-Corruption Agency (KACC) and required MPs and civil servants to provide evidence of their source of income. In addition, the position of a permanent Secretary for Ethics was established in the president's office. Yet these steps,

Prosecution of office abuse

however bold they may seem in comparison to the Moi period, were not translated into concrete actions. Through a change in the law, the KACC is legally unable to prosecute corruption incidents that occurred before 2003. Furthermore, the KACC is legally obliged to hand over evidence to the attorney general's office, thereby limiting the KACC's ability to free itself from executive pressure. In December 2008, the KACC managed to launch legal actions against seven MPs, including one minister, on charges of having been paid several million shillings as allowances. Nevertheless, by and large the organization has failed to live up to its expectations. It has only brought one major suit to compel a public officer (former Internal Security Minister Chris Murungaru) and has failed to win a single significant corruption case (it has won only 14 out of 61 cases brought to trial). The Efficiency Monitoring Unit inside the president's office has noted general non-compliance on the side of officials and politicians to lay open their source of income. It also admitted to suffering from a lack of capacity to act in a meaningful way to punish those who fail to comply with the law. In January 2009, former Finance Minister Amos Kimunya, who was involved in the dubious privatization of the Grand Regency Hotel, was re-appointed to his previous positions despite a parliamentary vote of no confidence against him. This is only one recent example that confirms that the prosecution of office abuses is not a political priority.

Civil rights are guaranteed by the constitution. Since 2002, there has been significant progress in fostering a culture that respects civil rights. Checks against arbitrary arrest are not uniformly respected; Kenya's 2003 Suppression of Terrorism Bill gives the authorities wide-ranging powers to search and detain people. International human rights groups have repeatedly criticized the harsh actions of the Kenyan police during the post-election political crisis. In practice there are no reliable mechanisms of appeal. The Kenyan Human Rights Commission has recently drafted a bill designed to help the police cultivate a culture of respect for human rights, promote accountability and good working relations between police and the public. Women are disadvantaged by traditional law, especially in rural areas where civil rights in general are not shared by all.

Civil rights

4 | Stability of Democratic Institutions

Democratic institutions are underperforming but stable. In the past, parliament has been unable to effectively control government, which is partly a result of the constitutional powers allocated to the presidency, partly a result of frequent defections and the general high volatility of political parties. Public trust in democratic institutions has further eroded due to the perceived failure of Kenya's Electoral Commission to ensure free and fair conduct of the elections and the subsequent unilateral appointment of new interim electoral commissioners by President Kibaki. Meager results in the fight against corruption in the judiciary contribute to this.

Performance of
democratic
institutions

All actors accept the value of democratic institutions and rules in principle. The KANU party's acceptance of defeat in 2002 indicated significant progress in terms of the internalization of democratic norms. Yet the behavior of all major political players in the aftermath of the 2007 elections indicates that commitment to democracy is linked to the question of whether or not all major ethnic groups are involved in the victorious party. That condition existed in 2002 but not in 2007. In terms of the legislative framework, the judiciary and the civil service can operate freely (despite corruption), yet, once the government comes under political pressure, their freedom is compromised to a significant degree.

Commitment to democratic institutions

5 | Political and Social Integration

Parties are not differentiated by platforms or principles; instead they are built around ethnic loyalties and patronage and serve the interests of strongmen. In the past, Kenya's party system has undergone various cycles of party formation, party splits and party mergers. None of these have produced a stable party system. In 2007, Kenya had 159 parties, most of which existed as briefcase parties. Kenyan MPs enjoy some of the highest salaries in the world and consequently politics is seen as lucrative private business.

Party system

A new party law came into force in July 2008. It provides for public funding of parties in order to curb their dependency on individuals. It sets a ceiling on the amount of money an individual can donate (5 million Kenyan shillings, or \$670,000). In order to register, parties have to comply with rules that are further designed to stop defections of politicians from one party to another. Party leadership structures have to include representatives from all provinces. The law will go into effect on 1 January 2009.

There is a plethora of interest groups covering a variety of fields, including gender equality, fair trade and environmental protection, among others. A cross-party parliamentary reform initiative in 1997 removed some oppressive laws used to limit freedom of speech. Interest group impact is diverse. Some have taken up genuine and constructive engagement with state institutions, while others (including the Central Organization of Trade Unions (COTU)) are hampered by corruption and weak leadership.

Interest groups

According to the latest Afrobarometer findings, 75% of Kenyans prefer democracy to any form of authoritarianism. Support for institutions such as parliament displays similarly high values. These data, however, were collected in 2005, before the aftermath of the 2007 elections. Nevertheless, it can be assumed that no major changes will have occurred because the riots of January 2008 were not followed by debates about whether parliamentary democracy is desirable or not. However, lingering disappointment with the political elite has reached a new high. There have been a variety of polls by the Steadman group which indicate a decline of trust in the president and the grand coalition.

Consent to democratic norms

Kenya has a long history of organizing community self-help fundraisers (“harambee”). Invitations to these events are normally spread by word of mouth or, for larger fundraisers, by newspapers. Local MPs and dignitaries are expected to contribute to these raises. Since independence, “harambee” fundraisers have become an integral part of social life in Kenya and contribute to fostering a sense of unity at the local village level.

Associational
activities

There is also a significant number of social and self-help organizations, although these lack an effective division of labor. Outside the capital, the building of networks is limited due to financial and infrastructural issues. Social trust is limited to family or clan networks.

II. Market Economy

6 | Level of Socioeconomic Development

Kenya’s GDP has grown from \$15 billion (2003) to \$24.9 billion (2008). Since the election of Kibaki in 2002, real GDP growth also increased gradually from 2.9% in 2003 to 6.3% in 2007. In 2008, GDP growth slowed down to 2.2% due to the deceleration of the global economy and the post-election crisis. With a GDP of \$786 per capita in 2007, Kenya is a low-income country. Its GDP per capita income has risen in recent years from \$526 (2005) and \$623. On the Human Development Indicator, it ranks 148th out of 179 countries, which makes it one of the poorest countries in the world. Roughly half of its population lives on less than \$1 a day, which means they live in absolute poverty.

Socioeconomic
barriers

For almost two decades, the HIV epidemic spread without any government intervention and was only declared a national disaster in 2000. Life expectancy thus decreased from 57.1 years in the late 1990s to 47 years in 2001. Life expectancy is now at 53.4 years, which is a consequence of HIV awareness campaigns.

Kenya suffers from a high degree of inequality. Globally it is among the 30 most unequal societies in the world. While data over time is difficult to establish, the World Bank and various other estimates put the Gini coefficient at 0.42. Poverty incidence rates vary considerably between and within regions. Areas with high concentrations of poverty are the Western, Nyanza, Eastern and Coastal Provinces. The least poor province is Central Province; however, even 40% of the population there is considered poor. A deteriorating health system and environmental factors, such as droughts and floods, further act as barriers to development. As in previous

years, Kenya has suffered a drought in 2008, which has led to food shortages in several parts of the country. The poverty-stricken northern and eastern regions, where subsistence farming is prevalent, were particularly affected. Kenya's infrastructure is still suffering from decades of neglect and deterioration. The 2007 post-election violence has caused a further decline, especially in Nyanza Province, where crucial trading routes to Uganda have been severely damaged. Shared responsibilities in the over-bloated cabinet are an important barrier to reconstruction.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	16091.6	18769	22478.6	26950.3
Growth of GDP	%	5.1	5.8	6.4	7.0
Inflation (CPI)	%	11.6	10.3	14.5	9.8
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.3	0.1	0.2	2.7
Export growth	%	12.8	9.7	3.4	6.0
Import growth	%	12.3	15.0	18.2	12.7
Current account balance	\$ mn.	-131.8	-259.9	-478.8	-1101.8
Public debt	\$ mn.	6071.0	5770.3	5806.3	6121.9
External debt	\$ mn.	6918.8	6428.3	6534.2	7354.6
Total debt service	% of GNI	2.2	2.9	1.9	1.7
Cash surplus or deficit	% of GDP	-1.5	1.5	-2.3	-3.0
Tax Revenue	% of GDP	17.0	18.6	17.4	18.0
Government consumption	% of GDP	17.9	17.4	16.6	17.2
Public expnd. on edu.	% of GDP	6.8	7.3	7.1	-
Public expnd. on health	% of GDP	1.9	2.1	2.2	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.6	1.7	1.7	1.8

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

During the rule of former President Moi, state intervention in the economy was high and used as a political instrument to safeguard power. The first real moves towards a more market-oriented approach started in the 1980s with the easing and eventual cessation of price controls in the 1990s. Price controls were officially abandoned in 1994, but the government still exercises price controls through agricultural marketing boards. The first Kibaki government significantly reformed the regulatory framework for setting up businesses (Investment Promotion Act 2004). This resulted in less red tape and was designed as a measure against corruption. Yet a Kenyan exporter needs 15 signatures on eight forms and has to wait 45 days before he can export goods. There is still corruption and nepotism in the recruitment of civil service staff, but public officials are much more able to conduct their tasks in a technocratic manner. As a result, Kenya has experienced the highest growth rates since the 1970s (see 6.2 for details).

Market-based
competition

A large and growing part of the working population is employed in the informal sector (“Jua Kali” sector). Most enterprises start off in the informal sector and cannot afford the comparatively expensive process of registering with the government. In its latest vision for Kenya, “Vision 2030”, the government has committed itself to the provision of large-scale infrastructure projects in order to benefit private industry. These pledges, however, are very similar to the ones espoused by the Kibaki government when it came to power, promises which did not materialize. The meager state of infrastructure remains a severe impediment to a flourishing market economy. The Kenyan state has traditionally played an important role in the provision of basic services. Parastatals are not cost effective and remain an instrument for rewarding political loyalty.

The Kenyan Monopolies and Prices Commission (MPC) is part of the Ministry of Finance. It was established through the Restrictive Trade Practices Monopolies and Price Control Act of 1989 and is supposed to safeguard against monopolies. The act regulates competition and has come under constant criticism because its narrow scope leaves room for many exemptions. The act is frequently criticized by financial domestic experts yet it has not been amended.

Anti-monopoly
policy

The MPC has rarely used its mandate effectively. In February 2008, the government ended exclusive rights for Mombasa Port’s main grain handler, paving the way for competitors to join the lucrative grain handling business. Overall, however, the government does not appear to be capable of acting decisively against monopolies.

Kenya is an active member of the WTO. As a member state of the East African Community (EAC), Kenya signed an Economic Partnership Agreement with the European Union on 11 October 2007. This will lead to the creation of a free trade area between the European Union and a larger group of African, Caribbean and Pacific countries. Over the long run, the program is designed to remove all trade preferences between the European Union and the developing world. In October 2008, the EAC, the Common Market for Southern and Eastern Africa (COMESA) and the South African Development Community (SADC) agreed to work towards the creation of a free trade area.

Liberalization of
foreign trade

Under former President Moi, banks frequently served as vehicle to enrich corrupt KANU politicians. In early 2007, the Kibaki administration amended the Banking Act, which now requires banks to share information on non-performing loans. There are forty-six commercial banks, thirty-five of which are locally owned. Most of these are small to medium sized. The industry is dominated by a few large banks, most of which are foreign-owned. In general, the sector is seen as overcrowded and in need of merger and consolidation. Liberalization has occurred over the years, yet the market remains restrictive in practice. A survey released by the central bank in August 2007 shows that loans were too expensive and that banks were hiding the charges. In addition, savings are costly in most banks. On the other hand, Kenya's banking sector is not burdened with the "toxic debts" that afflicted the banking sector around the globe in 2008.

Banking system

8 | Currency and Price Stability

In the last five years the official inflation rate has remained between 10% and 20%. Between 2006 and 2007, the rate fell from 14.5% to 9.8%. However, during the course of 2008, inflation at times reached a monthly rate of over 30% and is expected to be at 26% annually. This was due both to the increase in world market prices for oil and commodities and distortions in the economy due to the post-election crisis. The Kenyan shilling is free-floating. After years of stability, the Kenyan shilling lost 13% to the U.S. dollar in 2008 (estimated 2008 annual rate \$1: KES 78). This is due to higher inflation, a downturn in tourism after the post-election violence and global risk aversion to emerging markets in times of global financial instability. The central bank is independent yet prone to political interference. The Kibaki administration has desisted from printing more money in election years in order to finance its campaigns and has therefore not fuelled inflation.

Anti-inflation /
forex policy

The Kibaki government is in principle committed to macroeconomic stability, which was one of its major themes when it came to power in 2002. Despite interruptions in growth after the post-election turmoil, the IMF recently lauded Kenya's ability to continue its course of economic reform. Total debt stands at \$6.5

Macrostability

billion, which is a slight recovery from previous years. Its annual debt service equals 6.5% of its exports of goods, services and income. The increase in tax revenues is due to the implementation of an improved collection system since Kibaki took power in 2002. Fiscal experts expect a widening of the fiscal deficit to accommodate post-election reconstruction. Kenya is on the HIPC initiative list, yet its debt burden has been judged as sustainable.

9 | Private Property

Property rights are guaranteed by law. During the recent post-election violence, private property rights were violated on a large scale, leaving 600,000 people displaced from their homes. Most of these people have not yet been compensated for their losses. Land rights have been a hotly contested issue since independence. The Kalenjin, Masai and other smaller communities have consistently tried to reclaim land that was taken from them during the colonial period. Illegal farm invasions continue to take place. The international property rights index ranks Kenya at position 83rd out of 115.

Property rights

Private companies form the main pillar of the economy. It is estimated that the private sector contributes 80% to the country's economic development process. That is partly the result of an improved investment and business climate (despite corruption) and of the long privatization process that started in 1991 and has still not been concluded. Out of the 207 companies earmarked for privatization in 1991, 186 have been fully or partly divested according to the World Bank. Kenya's Privatization Act came into force in January 2008 and represents another episode in the country's privatization efforts. In December 2008, the cabinet listed 16 companies for full and partial sale through the Nairobi stock exchange. There are still serious issues regarding the procurement of public enterprises. Several large-scale companies have been privatized, however, with Kenya Airways in the 1990s having arguably been the most successful case; other cases, such as Safaricom or the Kenya Railway Cooperation, are either pending or underway. The private media has often described these as shady deals. Privatization is also heavily contested politically. In October 2007, the implementation of the privatization law passed in 2005 suffered severe setbacks when parliament and the treasury could not agree on the appointment of the privatization committee. Privatization is ultimately seen as vehicle for the realization for individual interests and not as a political goal per se.

Private enterprise

Foreign direct investment (FDI) reached a record high in 2007 at \$728 million. Despite this temporary peak in investment, the United Nations ranked Kenya as an underperformer in attracting FDI.

10 | Welfare Regime

The achievement of universal access to social welfare has been slow due to a number of factors. Kenya's social security system is centered on employment, meaning that all potential benefits are restricted to those who are employed and are able to pay into the system. The only people with regular access to the health care and pension system are those working in the formal sector of the economy. Kenya has a tripartite social security system. First, there are public schemes in which membership is compulsory. These include the National Social Security Fund (NSSF), the National Health Insurance Fund (NHIF) and the Civil Service Pension Fund. The NSSF is known to be one of the most corrupt institutions in the country. Second, there are occupational schemes run by employers in which membership is voluntary. Third, there are private individual programs in which membership is voluntary.

Social safety nets

Very high poverty levels, corruption, diseases such as HIV/AIDS, global migration patterns and refugee crises have had their impact on social security arrangements. Despite some progress during Kibaki's first term, the government has not yet integrated international treaty provisions into domestic policies on the right to social security. In the course of 2007, Kenya's Retirement Authority has admitted that the social security sector in Kenya is beset by lack of funding and poor investment strategies that have resulted in poor returns to members and misappropriation of funds. Access to health institutions varies significantly across the provinces. The situation is best in Nairobi (5,000 individuals per health facility) and worse in Western (11,000 per facility) and North Eastern (13,500 per facility) Province. Crucial factors in ensuring personal welfare, especially in the countryside and in the much larger informal sector, are family and clan structures. However, these discriminate against women and cannot guarantee sufficient access given widespread underemployment and unemployment.

Kenya suffers from gross social differences that primarily have a negative effect on women and the disabled. These two groups are aided by a variety of NGOs and development agencies, yet the situation has not improved significantly. This is especially true of rural areas. The World Bank Poverty Atlas and the U.N. Human Development Report (both from 2005) demonstrate that poverty is particularly poignant in North Eastern, Western, Coastal and Nyanza Provinces. By contrast, the Kikuyu-dominated Central Province is comparatively less poor. The United Nations states that in Western and Nyanza Province the desperate situation is due to diseases (particularly in Nyanza) and a lack of income earning opportunities. In public perception, these differences are also attributed to administrative bias in favor of the Kikuyu under President Kenyatta and Kibaki.

Equal opportunity

11 | Economic Performance

Before the democratic transfer of power from Moi to Kibaki, Kenya had experienced more than a decade of almost no economic growth and progress. In the last few years, the economy has shown growth rates of 6.1% (2006) and 6.9% (2007). Following the 2007 post-election violence, economic growth is forecasted to be 2.2% in 2008 and 2% in 2009. Tourism and communication continue to be Kenya's major sources of growth. Agriculture contributes an estimated 23% of GDP and generates 60% of the total foreign exchange earnings. By contrast, the industry and the service sector are contributing 16% and 61% to the GDP respectively. Yet a breakdown of growth rates by each sector shows that economic growth so far has been dependent on growth in the agricultural sector. However, at the same time, it must be noted that the share of the service industry overall has risen from 47% in 2003 to 61% in 2008. Inflation stood at 14.8% in 2006 and at 9.8% in 2007, yet monthly figures between 20% and 30% in 2008 indicate a much higher annual figure for 2008. In 2004, 15% of the Kenyan labor force was officially classified as unemployed; other estimates place the real unemployment rate at 40%.

Output strength

Kenya has pursued a prudent fiscal policy between the fiscal years of 2000/01 and 2005/06 when the deficit averaged 1.6% of GDP. The budget for the fiscal year 2008/09 is estimated to represent 5.3% of the GDP. The increase is due to reconstruction costs after post-election destruction and increased expenditures for the larger coalition government. Tax revenue has risen constantly from 2003 (15.7%) to 2005 (18.7%). In 2006, Kenya had a current account deficit of \$1.5 billion, a significant increase compared to 2005, when the current account deficit was \$495 million. The country's external debt totals \$6.7 billion. Kenya's trade balance has traditionally been negative and has further decreased. Foreign direct investment is very low compared to other African countries (0.1% of GDP in 2006 as well as in the previous five years prior to 2006).

12 | Sustainability

Kenya's most pressing environmental issues include deforestation, poaching, soil erosion, deforestation (worsened by population growth), water shortage and degraded water quality. Although the government has acknowledged the impact of the environment on poverty reduction and growth, the policy instruments addressing environmental issues within this broader frame though are not adequate. The National Environment Management Authority (NEMA), founded in 2002, was given a mandate to coordinate all environmental matters. However, NEMA suffers from lack of capacity, conflicts with previously existing laws and limited budgetary provisions to finance the implementation of environmental plans.

Environmental policy

Kenya is a signatory to various international agreements including global and regional accords on the atmosphere, hazardous substances, marine resources, and plant and animal resources in the sea, freshwater and on land. The government does not pursue a coherent environmental policy. Environmental protection is only a reality in areas important for tourism.

Since 2002, there have been serious attempts to improve Kenya's education sector. The Kibaki government introduced free primary education in early 2003. According to the Ministry for Children Affairs, in 2007, 1.7 million children are not enrolled in primary education. Potential causes include lack of capacity, misallocation of education funds and the nomadic lifestyle of various smaller communities in the northern part of the country. In early 2008, free secondary education was introduced and the number of those enrolled increased from 400,000 to 600,000. Although the government insists that current classroom capacity is sufficient to accommodate the increase, domestic estimates say around 4,000 classrooms are needed. The Teacher's Service Commission, a body responsible for the recruitment of staff, initially planned to employ 4,000 extra teachers, yet new teacher recruitment has recently been frozen. This has raised new concerns about the quality of education and the teacher to pupil ratio. Kenya has six national and thirteen private universities. Around 80% of all university students, of a total student population of 50,000, attend public institutions. In recent years, the university system has become overcrowded and its capacity is in a constant state of decline. In 2007 and 2008, there have been a high number of university strikes protesting against prevailing conditions. There are no official R&D statistics, yet there is evidence that the overall quality of education is declining even though the government has consistently dedicated over 6% of its GDP (6.9% in 2007) to education.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Despite its economic potential – in regional comparison, Kenya has traditionally enjoyed a high degree of political stability and a higher educated workforce – Kenya is one of the poorest countries in the world. It ranks 148th on the HDI index, a slight improvement compared to previous years that nonetheless does not represent a change in its overall economic situation. Population growth is 2.6% annually, which is considerably lower than in the 1980s and 1990s, when it stood above 3%, but is still high by African standards. The 2007 Kenya AIDS Indicator Survey shows the HIV infection rate to be at 7.3%, an increase from previous years. This is disappointing given the significant governmental and donor effort that has gone into fighting the disease. The progress of previous periods could not be maintained. Droughts are a further burden on the population. President Kibaki declared that up to 25% of the population was at risk of starvation. The displacement of 600,000 people and the costs of rebuilding basic infrastructure after the riots have further decreased state capacity. Ongoing bad governance has ruled out any significant improvement. An increase in the number of cabinet positions has led to confusion about governmental responsibilities and an increase in red tape. In addition, deep ethno-political cleavages, which have become more and more polarized, are often instrumentalized by political leaders. They are a possible threat to political stability.

Structural
constraints

Civil society has played a crucial role in building a democratic public sphere, especially in the transition period to multiparty democracy in 1991 and prior to the 1997 elections. There are numerous NGOs and other civil society organizations engaging constructively with the state in all areas of policy-making. An increasing number of these are gaining an institutional foothold and are able to recruit from a growing number of well-educated professionals. Despite this development, however, civil society is not immune to the growing impact of ethnicity in political life. The events surrounding the 2007 elections demonstrate how ethno-political polarization affected the work of the domestic observer consortium, which suffered from deep internal divisions.

Civil society
traditions

Traditionally, Kenya has been regarded as a comparatively stable country given the predicament of many of its neighbors. During the period of the one-party state (1963-1992), Kenya enjoyed tranquility despite the constant presence of political divisions along ethnic lines. Various post-1992 elections were shaped by pre-and post electoral violence, which reached an unprecedented scale in the aftermath of the December 2007 elections. In the grand coalition government, tensions have again become visible between Kibaki's Kikuyu inner circle and Odinga supporters. At the heart of the electoral violence in 2007 and 2008 was the question of land allocation and the particular nature of Kenyan political contests, through which ethnic loyalties are rewarded. All of these factors are mutually reinforcing. Mungiki, a radical pro-Kikuyu sect, has haunted Kenya in recent years, causing havoc and destruction in some areas. If the grand coalition fails to resolve the key issues of constitutional reform and uneven development, the coalition is likely to disintegrate before the 2012 elections, creating a high probability that violence will break out again. Relations between Muslims and the government remain tense (see also 1.2). In the run-up to the last elections, Muslim leaders threw their support behind opposition leader Raila Odinga. One of the most contentious issues is the question of ancestral land in Coastal Province, which many Muslim leaders claims was reallocated illegally.

Conflict intensity

II. Management Performance

14 | Steering Capability

Kenya's two most pressing issues are poverty reduction and corruption; both feature prominently in political debate, yet neither issue has been addressed in a substantial manner. Further key issues are the conclusion of constitutional reform and arrival at a solution to uneven distribution of land and uneven regional development. The political leadership of the grand coalition is aware of all of these issues but is caught in a self-inflicted zero-sum game; one side's victory is the other's defeat. Substantial progress appears unlikely. So far, the new government has been unable to agree on major policy reforms. In some key areas, such as constitutional reform, political divisions have resurfaced. One year after the riots, the vast majority of internally displaced people still have no homes. Due to the relative economic success of the Kibaki government, the international community has lost some of its leverage power; on the other hand, without international intervention, a swift solution to the post-election crisis would have been very unlikely.

Prioritization

The government seeks to achieve reforms, yet, with the exceptions of political liberalization and (to a considerable extent) economic recovery, has failed to realize their goals. While economic growth has consistently been above 5% in the last few years, corruption is said to cost the economy an additional 2-3%. Frictions between the prime minister, the president, the vice president and the head of the civil service also hinder implementation. A streamlining of ministerial responsibilities is still pending. Corruption in the civil service, where employment based on loyalty is paramount, further hinders the implementation of development projects.

Implementation

Kenya's political leadership shows little learning ability. The most illustrative example is the issue of constitutional reform, a key goal to which all politicians agree in principle. After more than a decade of debate and the failed 2005 constitutional referendum, Kibaki's grand coalition is back to where it started in 2002. Although civil society actors' opinions and advice are frequently sought out, this does not mean their voices resonate among leaders in major policy debates. The voice of civil society has been consistently ignored in all major policy debates, even though their advice was frequently sought.

Policy learning

15 | Resource Efficiency

The government uses only some of its resources efficiently. Despite some initial progress in the wake of the 2002 transfer of power, the government still allows considerable waste of public goods. According to a recent statement by the minister for public service, the Kenyan public administration suffers from the retention of many elderly workers who do not add value to the government. Government budgets are generally managed in a non-transparent manner. In several cases, budget allocations do not reach the intended recipient. The Kenyan government allocated several million U.S. dollars for the resettlement of refugees and displaced people, yet according to media reports their situation has not improved.

Efficient use of assets

The government fails to coordinate between conflicting interests and objectives. Kenya's cabinet – the most bloated one in East Africa and the largest in the country's history – artificially separates related functions, making it impossible to plan for related sectors in an integrated manner. The functions of agriculture and food security, for example, are fragmented and shared between several ministries and departments. This is just one example of many that shows the government's diminished ability to coordinate its activities. The personalistic nature of Kenyan politics and the political surroundings which led to the formation of the incumbent grand coalition are additional obstacles for policy coordination. The current cabinet includes several power centers and, as such, resembles a temporary compromise that politicians are using in order to position themselves for the next elections.

Policy coordination

The government lacks a clear will and commitment to effectively curb corruption. There are individual cases in which perpetrators, usually lower cadres, are taken to trial, yet these are exceptions. The leaking of former Permanent Secretary for Ethics John Githongo's memo to the president about corruption of key ministers during Kibaki's first term did lead to the dismissal or resignation of three ministers in 2006, although none of them was prosecuted for corruption. Two of them were even reinstated later when the Kibaki team was organizing its cohorts in preparation for the 2007 election campaign. A new party law has been in effect since January 2008 that regulates party funding. It prescribes ceilings for the amount of money individuals can donate, yet past experience suggests that there is a lack of political will to enforce such prohibitions. The absence of an effective opposition means that the political incentive to fight corruption has declined further. Once praised for its achievements in the struggle against corruption, the Kibaki government has lapsed back into the behavior of its predecessor.

Anti-corruption
policy

16 | Consensus-Building

The dissolution of the NARC government in 2005/06 was a clear indication of the inability of key players in Kibaki's inner circle to compromise. A broad consensus reached in the Bomas Conferences on constitutional reform by civil society and a majority of MPs was simply ignored. A similar dynamic occurred when the conflicting contestants could not agree on a way forward to resolve the escalating crisis after the 2007 elections, when they needed international mediation. Despite massive irregularities in the conduct of the 2007 elections, all major political players and stakeholders agree in principle on the importance of democracy and a market economy. There are different views, however, as to how these principles are translated into practice. Even though no leading Kenyan politician doubts the merits of democratic contest and basic human rights, the 2007 election demonstrated that neither of the top candidates was willing to concede defeat. The high salience of ethnicity and personalism in Kenyan politics makes any form of consensus building difficult.

Consensus on goals

There are no significant anti-democratic actors. No political force is opposed to further democratic reform per se. Due to self-interest, however, individuals can turn into saboteurs of reform if they believe their interests are at stake; such actors can be found in any political group. Also, groups are frequently internally divided over goals and aspirations. This makes the political landscape volatile and unpredictable.

Anti-democratic
veto actors

The 2007 elections and their aftermath have illustrated the deep ethnic divisions between various communities, particularly between the Kikuyu and Luo and between the Kikuyu and the Kalenjin. No political party has ever managed to include representatives of all major communities in leading positions for a significant period of time. The inability of political leaders to engage in efforts to defuse the violence was manifest in their readiness to accuse each other of fostering

Cleavage /
conflict
management

ethnic genocide. This has raised new doubts about their willingness to contribute to democratic stability. A political agreement was reached after the international community placed high pressure on all sides to engage in cooperation. Yet at the same time, there is agreement that the riots could have turned into more bloodshed had leading politicians wanted such a scenario and that, in turn, the bloodshed could have been minimized if the political will, particularly among key Kalenjin politicians, had been there. However, this indicates that there is some form of mutual understanding that national disintegration must be avoided. Apart from ethnic considerations, Kenyan leaders are too obsessed with power and status to engage in any meaningful give-and-take relationship at the expense of ordinary citizens.

On various occasions, Kenyan civil society played a key role in determining political outcomes. This was the case during the country's struggle for multiparty competition in the early 1990s, in anticipation of the first transfer of power from KANU to NARC in 2002; in the three constitutional conferences in 2003 and 2004, which saw significant and highly professional input from civil society; and finally, in the run-up to the constitutional referendum in 2005. In all cases, civil society successfully opposed the government of the day. Civil society advocates further reforms quite vocally and consistently criticizes corruption and human rights abuses. During the 2008 riots, civil society groups were very visible in their demands to an immediate end to the bloodshed. After Kibaki's take-over, many leading members of civil society have joined the new government. The political leadership is no longer looking for dialogue and in most cases simply ignores civil society. This is even more the case since the formation of the grand coalition, which civil society rejected in principle. In most cases where civil society is consulted for advice, this is done to legitimate governmental decisions that have already been made before civil society input is requested.

Civil society
participation

There is widespread agreement that the one-party state, as well as the Moi regime between 1992 and 2002, harmed large segments of the population. There has been much hope for some sort of mechanism for reconciliation, yet former President Moi has been granted de facto amnesty. A Truth and Reconciliation Commission, modeled along the South African example, was considered after 2002 but plans were eventually shelved. The fact that Moi supported his former enemy Mwai Kibaki in the 2007 election makes future prosecutions unlikely. The same applies to several of his former henchmen, who were instrumental in organizing ethnic killings during the 1990s. The need for national reconciliation featured prominently in national discourse in the aftermath of the 2008 riots, in particular with regard to the plight of hundreds of thousands of internally displaced people. The United Nations has on several occasions called on the government to step up measures to ensure the return of those who were forced to flee their home areas. So far, governmental efforts appear to be overridden by other priorities. Thus, Kenya's political class has consistently failed to address past acts of injustice.

Reconciliation

17 | International Cooperation

Kenya is heavily dependent on donor aid. The relationship between Kenya and the international donor community improved significantly with the arrival of the Kibaki administration in 2002, although the honeymoon was soon over when it turned out that corruption scandals remained part of Kenyan politics. Great Britain was particularly critical of these developments, while the United States took a rather mild stance because they needed Kenya in the fight against international terrorism. Both the World Bank and the IMF have in the last few years praised the developmental efforts of the government with the World Bank, even though they have largely ignored the extent of corruption. Yet donors have raised red flags over spending on the new cabinet, which was done at the expense of the resettlement program largely financed by the donors. The biggest obstacle to the effective use of foreign aid remains corruption in the public sector and lack of capacity. Multilateral donor efforts such as poverty reduction strategies suffer from poor data collection and a lack of qualified personnel. In addition, donor money is often used for various projects that are then put on hold once they have run out of foreign funds.

Effective use of support

For several decades, the donor community has criticized Kenya for ongoing corruption in the public sector. In both the Moi and Kibaki regimes, leading government figures have been implicated in large-scale corruption affairs. At times, ministers were forced to resign but managed to reappear several years or even months later in a different position; such position shuffling is sometimes deemed necessary for the maintenance of the coalition's internal power balance. The fact that the reintegration of displaced people ran into difficulties due to the costs of forming an overly large cabinet has decreased trust in the political will of the Kenyan government. Kibaki's initial rejection of international mediation efforts during the political crisis in early 2008 dealt a blow to the positive image he had previously enjoyed in the donor community. Due to Kenya's heavy dependency on foreign aid, donor influence will remain strong.

Credibility

Kenya is a member of all relevant regional organizations. It is considered an important international ally for solving the many crises that have affected the Horn of Africa and the wider Eastern African region. Following the riots in early 2008, Kenya has lost some of its international stature; for the first time in history, the East African Business Conference and the East African Business Summit were held in neighboring Uganda. Parts of the Kenyan media interpreted this as a sign for decreasing trust in the country's economic and political stability. The new government remains committed to championing a peace initiative in Somalia and southern Sudan, where Kenya has played a key role as a regional facilitator of peace. Up to 2005, Kenya served as a major host for both the Somali National Reconciliation Conference and the Somali Transitional Federal Institutions. Relations with Uganda and Tanzania are further strengthening and a free trade area

Regional cooperation

between the three countries is scheduled for 2010. Kenya was instrumental in revitalizing the Common Market for Eastern and Southern Africa and is a founding member of the Indian Ocean Rim Association for Regional Cooperation. The new government has expressed its ongoing commitment to regional cooperation.

Strategic Outlook

Kenya is entering a crucial period in its history. Subsequent years will tell if the country's political class is willing to take to heart the lessons of the post-election violence that shook the foundations of the Kenyan state in early 2008. Roughly one year after the formation of the grand coalition, this lesson does not appear to have been learned; instead, the new government is beset by the same personalistic feuds which led to the breakdown of Kibaki's first-term government. Whether or not the truce between Kibaki and his main opponent Odinga will last depends heavily on the question of constitutional reform, which has two elements. First, much will depend on whether Kibaki will be willing to initiate reforms that will lead to a transfer of executive powers to the prime minister, who will ultimately be accountable to parliament. Second, the issue of federalism ("majimboism") will continue to loom large. Both questions will have a strong ethnic dimension to it and any solution is most likely to encounter opposition. There are clear indications that leading political players will not use their position in the new government to constructively contribute to these issues, but instead will attempt to position themselves strategically for the next political fallout. The recently passed party law will lead to a higher degree of transparency with regard to party funding and is designed to make defections from one party to another more difficult. It will have an impact on Kenya's political system, yet, on its own, the law is not a panacea. The newly expanded and overly large cabinet is most likely going to be an obstacle in the fight against corruption, which beyond a doubt is Kenya's greatest obstacle in its transition to full democracy and a fully functioning market economy. Corruption is also at the heart of the ongoing deterioration of the health and education systems. The new government should therefore make the fight against corruption its top priority. Some marginal progress has been achieved in the past and the government has committed itself to making serious progress. Donor pressure in the 1990s has been successful in achieving some degree of success and the donor community should use its leverage in that regard. Secondly, the issue of compensation for the victims of the 2008 riots should be dealt with immediately. Many are still homeless because they fear to return to their home regions due to concerns for their own safety. International assistance should continue to be used to provide very basic services for those who are in provisional accommodations. Donor funds should also be used to effectively implement the provisions of the new party law, which could lead to more issue-based parties. In the absence of an influential opposition, civil society should further be supported so that they may critically assess government policies. Even and sustainable economic growth should be the third major issue on Kenya's political agenda. The violence of 2008 has destroyed much of the country's infrastructure, especially in areas that are comparatively poor. This could be another priority for donors, as trade with neighboring countries is severely restricted, but domestic growth rates invariably depend on it. Sustainable economic growth will require a greater diversification of the economy, which remains dependent on tourism and the export of agricultural products. The government recently introduced a revised Vision 2030, which outlines the major policy goals that the government will pursue in the next few years. It stresses the goals outlined above, and

the donor community could use it as a blueprint for aid conditionality. The plan also seeks to address the economic challenges stemming from political violence; implementation, however, will most likely be delayed due to coalition politics and limited state capacity.