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Business and Politics in Kenya in the 1990s

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by

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Introduction

This paper will discuss the nature of business–state relations in Kenya in the 1990s and the politics that business pursued in the context of economic reform and a political opening.[1]

Business has not enjoyed a strong political position in post-colonial Sub-Saharan Africa. As Roger Tangri (1999:68-74) has pointed out, African capital was comparatively weak in the colonial period and it played only a modest role in the struggle for independence. After independence African capital has not collectively enjoyed a prominent power position whether the regimes were civilian or military. Independent political assertions by the private sector were largely prohibited, and its collective leverage over the making of macro-policy was limited as policy was formulated by top politicians and civil servants trusted by heads of state. Large public sectors constrained private sectors and business was hemmed in by a host of regulations providing multiple sites of opportunity for rent-seekers to grant favors for a price.

Kenyan business–state relations generally fall within this broad experience, although it may lie further out on the "business favorable" end of the continuum. During the immediate post-colonial Kenyatta regime, and despite many obstacles, African capital accumulators were generally encouraged. But they were not allowed free reign to assert themselves as an independent political entity.

Although business has not been prominent collectively in the politics of post-colonial Kenya, what about the 1990s? The generally pro-business neo-liberal economic reforms of the 1990s could be expected to fundamentally change the character of business-state relations. The reforms dethroned the state as the engine of development and growth while markets were liberated from many constraints and rent-seeking opportunities. In addition, the political opening of the 1990s and multi-party competition

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[1] These observations stem from interviews conducted annually with business people, journalists, politicians, and civil servants mostly in Nairobi, but some in Mombasa, from 1996–2000. They emerged from a broader effort to trace Kenya's political opening in the 1990s. The paper focuses on urban and so-called big business, and especially on the industrial and tourism sectors.

with elections in 1992 and 1997 meant that although President Daniel Arap Moi was returned to office, and the Kenya African National Union (KANU) party continued to control parliament, repression declined and there were opportunities to organize and voice complaints (Throup and Hornsby 1998).

Expectations for changing business–state relations and a strong political assertion by business could be described by the following scenario: business would be freed up to know and act upon its long repressed collective interests vis-à-vis government especially as economic liberalization cut down on rent-seeking practices and dampened business "needs" to make “special arrangements" with government; business and other interests in society would be afforded better access to policy-making processes; government would grow more business-friendly as it comes to understand the centrality of the private sector to the growth of the economy and to the legitimacy of newly democratic regimes; business would gain more collective influence over policy creation; and business and other forces in civil society would combine to hold government more accountable while economic policy making and management grows more effective and corruption declines.[2] It will be argued that some important changes did occur in the predicted direction, but by 2000 it cannot be said that business–state relations have fundamentally changed.

The current context

The end of the year 2000 found the economy virtually stagnant, having steadily declined from a high point in 1995.[3] Agricultural growth, exacerbated by a succession of El Niño floods and drought to 2000, was flat as was manufacturing. Foreign direct investment fell precipitously over a long period of time – from $3.2 billion in 1978 to less than $300 million in 1998 (Orina 2001). Firms already located in Kenya do invest moderately, although the dominant posture is “wait and see” due to multiple uncertainties. But some firms are leaving. In mid-2001 it was reported that about 120

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[2] The logic regarding the consequences of economic and political reform on business–state relations was similar to the expectations for civil society organization in general. See Ngunyi (1996) and Maina (1998).
[3] Unless otherwise noted, the figures come from the government *Economic Survey 2000*.

industrial firms had folded and about 100 were put in receivership over the prior five years (Omondi 2001). Infrastructure gradually declined which raised the cost of doing business. Compared to regional competitors, Kenyan businesses also pay a high price for power and for fuel. Meanwhile Kenyan businesses are heavily taxed. The HIV/AIDs scourge holds back productivity and causes absenteeism and high insurance and health costs. Unemployment is growing while income inequality is the forth worst in world, and those in poverty have doubled from 1979 to 1997. Poverty has no doubt been exacerbated by bureaucratic retrenchment that saw 25,000 people lose their jobs in the civil service by 2001. Urban poverty grew by a remarkable 20.3% from 1994 to 1997 – figures that help explain soft consumer demand. Commercial lending rates have long been high – over 20%. Banks carry a high percentage of non-performing loans, perhaps over 20% for the entire industry in the year 1998, while former national banks – Kenya Commercial Bank and the National Bank of Kenya – had non-performing loan rates of about 35% in the same year. The slow economy also generated an economy very dependent upon external donor support. Meanwhile in 2001 the Nairobi stock market stood at its lowest level since 1993. By early 2002 the market continued to slide as foreign capital withdrew in anticipation of instability and uncertainty in the run-up to national elections.

In addition to the economic downturn the country is simultaneously experiencing three interrelated political uncertainties. The next election is scheduled for 2002 and will also be an election of presidential succession since President Moi, in office since 1978, is constitutionally required to step down.[4] There is a constitutional reform process led by the Constitutional Reform Commission which was agreed to by government, the political opposition, and major forces in civil society after a lengthy and very fraught process. Constitutional reform brings added significance and drama to the question of succession because reform measures may address the question of immunity for some major regime players from legal action for alleged past misdeeds. The process also has implications for the ethnic coalition assembled by the President and its preference for a

[4] On succession matters see Roger Southall (2000), and on the state of the political economy to early 2001 see Frank Holmquist and Ayuka Oendo (2001). Moi probably prefers to step down, but if he feels that he cannot “manage” the succession he may opt to stay on. That could happen through a variety of maneuvers through the constitutional reform process or, far less likely, through unconstitutional means.

radical decentralization (*majimbo*) of power similar to the arrangement that was, if only briefly, the constitutional basis of the transition to independence.[5] A high level of ethnic tension remains after the society endured episodic state-sanctioned ethnic cleansing in the 1990s, especially 1992 – 1994 in the Rift Valley, and 1996 at the coast.[6] At the turn of the millennium there was episodic violence and insecurity in several parts of the country – northern pastoral areas especially but also in Transmara-Gucha, Tana River, parts of Central Province, as well as in poorer sections of major cities. The violence is an index of some combination of lack of state will to quell it, institutional decay, police incapacity and venality, spreading poverty, and popular alienation from a government that appears to be paralyzed.

Some necessary history

A central feature of Kenya's historical business–state relations is the deep involvement of government in private sector capital accumulation, and government targeting of certain ethnic and racial communities for advance, indifference, and sometimes harassment. The three successive regimes – colonial (to 1963), Kenyatta (1963 to 1978), and Moi (1979 to the present) – pursued economic policies with an eye to facilitating accumulation and legitimacy in keeping with the political economies they inherited or wished to create. Each regime was biased toward the racial or ethnic cohorts of those in power. Thus government has directly affected group accumulation trajectories which, in turn, have fundamentally shaped the nature of civil society and helped define ethnic and race relations and tensions both in society at large and within the business community.

European settlers were favored early on under British colonial rule in order to place them on the leading edge of a large-holder-based agricultural export economy expected

[5] The decentralized model of the state has long been favored by smaller ethnic categories in the face of the numerical superiority of others. See Ngunyi (1996) and Ndegwa (1997).
[6] According to Human Rights Watch about 1500 people were killed and 300,000 were displaced in the Rift Valley clashes. (Human Rights Watch, 1993) At the coast more than 100 were killed and 100,000 were displaced. (Human Right Watch, 2002) State-sanctioned ethnic cleansing is suspected at different times and places after the 1997 election.

to provide government with a steady source of revenue sufficient to pay the costs of colonial rule. Settlers were also brought into a variety of state-settler consultative bodies. Africans were expected to provide food and labor and, in order to secure that mission. Kenyan Asians were confined to small-scale commerce. The results of this colonial development strategy included respectable growth, great income and wealth inequalities, political repression, heightened popular insecurities, and eventually war in the form of the so-called Mau Mau insurgency.

After WW II the colonial government at long last modestly encouraged the advance of Kenyan African commerce through formal credit and training programs, in part as a response to the state desire to develop a less radical propertied class in the face of Mau Mau mobilization (Cowen and Shenton 1996). The regime also expected British and other foreign capital to develop an industrial sector, but foreign capital was not particularly interested while Kenyan Asians were interested and proved very capable (Tignor 1998).

The post-independence Kenyatta regime marked a major shift from the colonial pattern. International capital was encouraged and efforts were made to encourage Kenyan African accumulators. For reasons of prior accumulation and regime ethnic bias, the major accumulators were primarily Kikuyu. Accumulators emerged on land through reform of the settler highlands with about 80% of the settler land transferred intact to Kenyan large-holders. They also rose in commerce and manufacturing through the auspices of the state and the assistance of a host of parastatal organizations designed to provide credit, distributorships, and other assistance. The policy of advancing Kenyan African business people required moving Kenyan Asians out of small-scale commerce and into manufacturing.[7] The implicit policy toward Kenyan Asian business was "up or out". But despite the reasonably favorable posture toward business, structured access by business collectivities to state policy-making bodies was absent.

Most observers agree that the government attempt to create a Kenyan African bourgeoisie, and especially an industrial element, foundered. But reasons for that

[7] The term Kenyan Asians refers to Kenyans who trace their descent from South Asia.

shortfall are a matter of debate. Himbara (1994) argues that the effort was a failure because the state and parastatal apparatus weakened rapidly after independence and were rendered less effective as they became more patrimonial in operation. Although a small and dependent Kenyan African element in manufacturing was created, many of these enterprises were bought from Kenyan Asians, or were jointly owned with them and frequently reverted back to them because, according to Himbara, the new owners lacked requisite business experience, skills, and capital.

Chege (1998) and Cowen and MacWilliam (1996) rightly quarrel with what they term Himbara's essentially cultural explanation of Kenyan Asian success and Kenyan African failure. They argue that the Kenyan African bourgeoisie was more than capable of accumulation but for historical reasons it was best grounded in land ownership as a result of capital accumulation in agriculture and Africanization of the settler highlands. Africans also experienced severe restrictions on their accumulation due to, among other things, prohibitions on their growing high value export crops until at least after WW II. The organizational means of accruing large-scale ethnic capital for a major industrializing effort was attempted in the form of the Gikuyu, Embu, Meru Association (GEMA), but the organization was abolished in 1982 because of the political threat it posed to President Moi. This move and others terminated a Kikuyu accumulation effort analogous to Kenyan Asian mobilization of capital through ethnic communities and through their often community-specific banks. Cowen and MacWilliam point to the similar successful processes of insurgent Afrikaner capital coming forward in post-WW II South Africa, and in the rise of Indian industrial capital in India.

Non-agricultural business associations that attempted to fashion a collective position on policy matters grew in the late colonial period into the Kenyatta era, but they had a very limited efficacy. The Federation of Kenyan Employers (FKE) began under another name in 1956 and by the early 1990s grew to over 3000 private and public sector members. By the early 1990s the FKE had a staff of 21 professionals and did advisory and advocacy work (Ngunyi and Gathiaka, 1993). It became the primary representative of public and private sector employers in sector-wide industry–labor negotiations, but its independent political leverage was limited.

The Kenya Association of Manufacturers (KAM) emerged from a prior East Africa-wide organization in 1969. Himbara (1994:67) describes and assesses the KAM in the following manner after it split from the larger group and as post-independence economies became more national.

KAM remains effective, but in a much more defensive role, given the changed environment. With an executive committee of seventeen – chief executives of local private and public companies, MNCs, and parastatals – KAM is probably the most informed and best-organized body concerned with industry in the country. Its annual publication of a business index and periodic reports are far more reliable than anything produced by government departments. KAM's membership of about six hundred industries is divided according to goods manufactured into twenty sectors. The main difficulty for KAM is that its counterpart organs of the state, such as the commerce and finance ministries, became extremely inefficient. Consultation on industrial and other economic policy matters has become a one-sided and largely unrewarding affair.

Although Himbara uses the term "effective" to describe the KAM he also lists (1994:86, 128, 138-140) several instances when the KAM wrote to policymakers requesting this or that policy change or interpretation of policy, including the maintenance of the old East African Community, only to be ignored. And KAM's production of analytical reports on the economy tailed off in the 1990s as an USAID grant ran out. In the late 1990s leaders of the KAM and the FKE were more impressed by their ineffective lobbying than by their occasional victories. With regard to the early 1990s onset of economic liberalization policies that they favored, KAM leaders are clear that liberalization was a result of donor pressure rather than their own efforts.

The Kenya National Chamber of Commerce and Industry (KNCCI), an organization of small and medium size, largely Kenyan African, capital was born in 1965 but it lacked significant political stature. It has suffered continuing leadership squabbles, and it has been close to successive Kenyatta and Moi regimes.

Unlike the colonial and Kenyatta regimes, President Moi became head of state without his ethnic cohorts perched on at least some (in the case of the Kenyatta regime, only some) of the leading edges of the economy. He was uneasy with the political power of wealthy Kikuyus that used to huddle around Kenyatta because some of them tried to prevent his coming to power. Moi went about changing that reality by using the power of the state, and before long Moi's Kalenjin were "in" and Kikuyus were "out" (Throup 1987). The Kikuyu were no longer favored as the ascendant business class and were instead treated with indifference or they were actively harassed and some suffered dis-accumulation. Many Kikuyu found it difficult to do business or, in some cases, to even retain their property. Government went from favoring the advancing Kikuyu to favoring far weaker – in terms of past accumulation – Kalenjins, plus select Kenyan Asian business partners.

The Moi regime all but guaranteed that a Kenyan African bourgeoisie in industry and in other sectors would not soon be born under government aegis. In the late 1980s Kikuyu-owned banks were all eliminated by the regime through a variety of technical/legal maneuvers. Some Kikuyu business people, it should be said, have survived and even profited largely outside the industrial sector and, with few exceptions, they have done so despite the lack of government support.

The Moi regime allowed Kenyan Asians to carry the leading edge of the economy especially as international capital grew less enchanted with Kenya following the demise of the East African Common Market in 1977 and the 1982 coup attempt, coupled with growing corruption and uncertain macro-economic policy (Himbara 1994). Some Kenyan Asians did spectacularly well with government favor and partnerships with well-placed politicians close to Moi. Asian wealth was visible and it aroused growing popular resentment because the wealth of some was suspected to be ill-gotten gains acquired through cooperation with the Moi regime. A variety of factors drew many Kenyan Asians close to the regime. Their historical sense of political vulnerability and their general absence of political allies led many of them to believe that they must support whatever regime was in power for reasons of protection and advance.

By the end of the 1980s the slow economy, declining real income among the middle and working classes, and rising ethnic alienation, especially among the Kikuyu and Luo, put the regime on a political precipice (Barkan 1991; Chege 1994). A democracy movement emerged based on a broad pan-class sentiment. Business people generally supported the movement, but they were not its most outspoken element. The leaders were middle class professionals, and especially lawyers and church officials with considerable occupational autonomy from government. A few business person-politicians became prominent opposition leaders, most notably Kenneth Matiba and Charles Rubia, after they fell out of favor with Moi.[8] But most business people preferred to speak less vigorously. They were either dependent on government favor (access to contracts, licenses, credit, contracts, foreign exchange, and waivers of taxes and duties); they hoped for government favor; or they wished to avoid state sanctions against them – sanctions they had seen applied to others.

This terse and highly selective pre-1990s history of Kenya's business–government relations closes with two generalizations. First, capital accumulation had a lot to do with both proximity to government and ethnic affinity between business people and the core ruling element in government. Settlers were favored under British rule; the Kikuyu were favored under Kenyatta; and the Kalenjin were favored under Moi. Favor for some implied disfavor or indifference toward rival ethnic, racial, and national categories, all of which added up to a very uneven and unequal process of capital accumulation between those categories.[9] These inequities generated social and political tensions that have risen and fallen in intensity over the years and have pervaded the business sector and severely compromised its cohesion.

Second, formal business associations have not played a significant role in the making of macro-economic policy. Fragments of the business community, often ethnically defined, have had influence, but anecdotal accounts imply that it was frequently in pursuit of individual or small group interests using idiosyncratic avenues of access and sometimes requiring the bending or breaking of policy rules or principles. Systematic business access to decision-makers through formal channels and equal treatment of

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[8] The groundwork for the democracy movement was populated in part by the growing number of politicians marginalized by Moi (Kanyinga 1994,1998).

[9] Colonial administrative divisions tended to parallel ethnic divisions and helped define and codify them in the competitive arena of competition for state resources.

businesses by Kenyan governments throughout the twentieth century has been the exception rather than the rule.[10]

Positive changes in business–state relations in the 1990s

There is widespread agreement among business people that the lifting of heavy political repression and economic liberalization had a positive effect on their relations with government. The head of one major business association said that despite the many complaints of business, it is important to keep in mind that the overall business climate is better now than it was at the turn of the 1990s, and relations with government are far more relaxed. A top Kenyan African industrialist noted that onerous regulations seem to decline in number every year.

Business people take comfort in the fact that over the years, and especially by the end of the 1990s, a substantial segment of the regime and the civil service, were at least "talking right". They point to the 1998 Mombasa (NGO convened) and Mbagathi (State House convened) economic forums and Minister of Finance budget speeches of recent years as indications that at least some officials have had the courage to "check in with reality". Government has adopted a set of observations that business has long voiced – that government is experiencing a serious fiscal crisis; it is frequently ineffective; it is thoroughly corrupt; and growth rates are far from adequate. Some business people felt vindicated by the new government discourse of the late 1990s, and the vindication emboldened them towards greater candor and criticism of government.

While some business people point out that there are top individuals in the regime, including the President, who still "think public sector" when they think of commerce and development, there are growing numbers in the bureaucracy who are quite sympathetic

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[10] Needless to say, any notion that formal business associations are the sole means by which big business in advanced industrial societies go about influencing government simply does not hold. United States politics is awash in soft money contributions by business to the point that politicians of both major parties are reluctant to turn it off. The collapse of Enron, the high flying energy merchants, who enjoyed a special relationship to President Bush and other top Republicans resembles a relationship that in other, especially Third World societies, might be termed “crony capitalism.”

with the private sector. Neo-liberal economic ideology has had an impact on the attentive public, but also with government in the sense that the private sector is appropriately, they say, in the driver's seat of the economy.

Most business people claim that their relations with government are more cordial and less difficult now than they were only a few years ago, let alone at the turn of the 1990s. There is agreement that access to government offices is easier than in the past. And there is agreement that the costs of being vocal and speaking out on economic issues, and even associating with opposition politicians, are decidedly less than they were in the early 1990s, and especially compared with the late 1980s. Several mentioned that top civil servants are less suspicious of business organizations, and the situation is said to have gradually improved over the course of the decade. In the past the Kenya Association of Tour Operators (KATO) had to have major speeches and public statements of its leadership vetted by the Ministry of Tourism prior to going public. The KAM now makes multiple representations to government particularly at budget time. And they have had some success as, for example, with lowered duties on imported inputs to manufacturing over the years. The head of one prominent business organization said that recent conversations he and his colleagues have had with top policy-makers, and even the President, have been quite candid: "Things were said that could only be imagined a few years ago."

Business people are also increasingly free to network with colleagues and initiate new organizations. With press liberalization they have also got their opinions in print in a bid for influence with the wider public and, they hope, with government itself. It is easier to approach civil servants without the latter back-pedaling and fearing that they will be disciplined by superiors if they are caught with "politically incorrect" business people. As late as the mid-1990s the President and top officials criticized those speaking with civil society representatives said to have sympathies with the opposition.[11] There are also cases where government has consulted with the private sector prior to taking action. A case in point is, following pressure from the tourism industry, a government statement

[11] On occasion civil servants want good relations with persons and organizations in civil society to use as leverage in bureaucratic in-fighting, and in order to move favored policy forward.

on security matters for tourists. A draft document from the Ministry of Tourism was sent to KATO for its opinion and then amended accordingly before publication.

The incomplete transformation of business–state relations

Despite the changes that have occurred, business–state relations have not been fundamentally transformed. Business has not been more organically integrated into the policy-making process, or more involved in setting the broad context of business activity. Members of the business community are quite divided even though there is considerable unity among them over the basic features of economic policy they want to see in place. Their divisions have, in part, to do with divergent ethnic, racial and national divisions and interests that we will discuss at greater length below. But there are other divisions as well. Normal product, service, and sector differences of interest are inevitable, but the very biggest producers may emphasize individual, rather than collective, representations to government because they bulk large in the economy and they are big employers and taxpayers which give them special leverage. Most business people do not believe that government will substantially reform itself by way of improving capacity, building infrastructure, and cutting corruption. They believe it is fruitless and a bit foolish to attend endless meetings and go out on a political limb to make collective critiques or offer submissions over relatively small matters when the big issues languish such as infrastructure, corruption, serious government pursuit of economic growth, etc. Furthermore, some leaders of business organizations are suspected of being rather "close" to government and hence when they appear to back down on issues some business people lose heart for the struggle.

There is a rather widespread belief in the business community that, despite an occasional victory, business is still weak vis-à-vis government. For example, there was some opinion within the KAM that they "got nothing" out of the 1998 budget despite long hours and hard work in the "trenches" of meeting with all the relevant ministries and the Budgetary Committee of the Ministry of Finance. One business association staff member said this is not a new situation and he pointed to recent budgets as well, including 1997 when they succeeded on only about three out of ten requests. So despite the atmospherics of a new and more realistic discourse coming from government, there is anxiety that little policy change has materialized.

Modest business policy success, compared with the pre-liberalization situation, may have raised the ante of business expectations of its own political efficacy, but there are attitudes and practices of government that provide real, if subtle, obstacles. There is continuing government anxiety about independent organizations, especially those that may be sympathetic to the opposition. One indicator may be (in 2000) the backlog of NGO applications for official registration. Many regime politicians and government officials also look at the private sector as something to be controlled – a legacy of the one-party era. One person put it in a more benign fashion when he said that the government attitude was akin to a feeling that "…if the private sector does something, then government has failed". Examples are pointed to like the Kenya Tourism Board, an idea that was floated by the private sector in 1990 but was only constituted by government in 1996 and with considerable government controls and no budget. It is only with the 1997 severe crisis of tourism following state-sanctioned ethnic cleansing at the coast that government showed renewed interest. And it was only in 1998 that money was allocated and the amount was far less than requested.[12] Similarly, the Roads Authority with private sector representation is not in place because power and oversight would have been lodged with the private sector.[13] Some public/private forums, such as the Industrial Council, were highly touted but never got off the ground. One business association leader was surprised to learn that for four years he did not know he was a member of the government's Export Promotion Council. Government is also sometimes anxious about the new Nairobi think tanks such as the Institute of Economic Affairs and the Institute of Policy Analysis and Research. So while many economic reforms have taken the form of forcing government "to let go" of things, what remains in government hands is often closely held.

[12] The Board has subsequently attained a certain elevated status when Moi appointed Uhuru Kenyatta, the son of the former President, the Chairman of the Board and, in 2001, Raymond Matiba, son of a once formidable opponent of the President, succeeded Kenyatta. Their political elevation is part of Moi's effort to gain political standing in Kikuyu areas, which has, to this point, eluded him.

[13] There have been allegations of massive losses of Levy monies.

Business also complains on the heels of success. That is, business people say with striking frequency that while access to government is easier, agreements with government are less reliable. One respondent put it somewhat differently when he said that while access is better, nobody in government makes decisions, and implementation is, at best, uncertain. Government capacity has declined as access has improved, and many business people are hard put to say that there has been a net gain. They ask what good it is to make your case to a more sympathetic audience, and even have your points accepted, when there is no government follow-through. This buttresses opinion that says lobbying government is a waste of time and resources. The problem of capacity may be especially severe in local authorities. There are allegations in the press and in conversation about the incapacity – indeed sheer administrative chaos – of the Nairobi City Council. The incapacity involves an alleged lack of proper property and tax records, chronic fiscal crisis, and fears that Council employees are virtual "bounty hunters" for their own salaries – all serious problems that may be duplicated in other councils.[14]

Access without implementation has several possible causes.[15] Some business people point to a loss of managerial skills in the public sector to retirement, while others simply argue that for whatever reason proper management is just not in place, or budgets are tight and money is squandered to the point that little can be done. Others point to two features of the Kenyan administration that appear at first blush to be contradictory, but are probably complementary – the observations that decision-making is both highly centralized and that government is not well integrated. One businessman put the centralization thesis in an extreme form saying: "the President is in charge of the economy". Decisions are often pushed upward in the several ministries while there is limited ability to coordinate decisions made at the top. But even when decisions are taken at the top little may happen in their wake due to declining government capacity.

Business also complains about corruption. Continued high levels of corruption are the very opposite of liberalization expectations that corruption would decline both as rent-

[14] In August 2001, staff of the Mombasa city council had not been paid for three months. Staff went on strike and threw garbage on streets in order to gain the attention of government and they finally succeeded.

[15] Of course sometimes there is no consultation at all. A frequently sited case is the government paper promising industrialization in the year 2020. Business people were struck by the complete lack of consultation with the business community on such an important policy paper.

seeking positions faded in a more liberal economy, and in the face of pressure from accountability structures springing up in the aftermath of political liberalization. Shrinking governments would do fewer things better and “cleaner”. But there is instead a widespread feeling among business people that government is doing fewer things worse.[16] Most business people do not believe that government is serious about fighting corruption. For some corruption is a real cost of doing business. It frequently involves long negotiations with civil servants (for the latter’s rent-seeking purposes) and the devotion of valuable time to discussion of alleged violations of the law such as sudden worker complaints about back pay or violations of safety regulations. But corruption may also bias the business "playing field" toward some competitors who pay for a "consideration" and thus lower their operating costs by, say, ducking VAT or port duties, and in the process improve their competitive position.

Corruption affects ethnic, racial and national categories differently. Many Kenyan Asians are quite fed up with corruption and expectations that some government officials have of them – that Kenyan Asians are politically vulnerable and available for virtual extortion. Transnational firms are less harassed by corrupt entreaties, although some observers would differentiate between United States and other external capital with the former usefully hemmed in by United States law to abstain from corrupt activity.[17] These businesses sometime complain that because they play by the rules and their competitors sometimes do not, the latter gain a competitive advantage. Some Kenyan African businesses also complain that they play by the rules and face an unlevel playing field. Many say that one cannot do business in Kenya without engaging in corrupt activity.

[16] The term corruption may not adequately describe the pattern. Looting may be a more appropriate descriptor for some remarkable behavior. Examples might include the Goldenberg case of export compensation for non-existent exports, or the case of several “political banks” set up with funds from the Central Bank with loans subsequently provided to politically correct politicians without adequate collateral. The banks, not surprisingly, later collapsed. This pattern echoes the analysis of the late Claude Ake (1996) who argued that development has not failed in Africa – rather in too many cases it has not been tried. In other words some governments are not serious about advancing development.

[17] Whether some local distributors of U.S.-based-company products engage in corrupt activity is another thing which corporate officials believe they cannot control. And some of the biggest firms are boldly approached for deals. One finance manager was approached in his office by a Permanent Secretary who said that there was World Bank money provided for a major purchase and the official was willing to buy the company’s product for a substantial kick-back.

While some rent-seeking positions have been reformed out of existence, others have popped up in their place including illicit land allocations (widely termed "grabbing" in Kenyan parlance), as well as a focus of attention at the Mombasa port.[18] Economic liberalization policy was most fundamentally about trade and moving goods around – opening up borders and generally removing barriers to trade internally and externally. Controlling the port, airports, and other border posts became key strategic locations for rent seekers – now literally gatekeepers. Some respondents say that *harambee* collections by KANU and regime officials used to be considered mandatory (maybe especially for Kenyan Asians) but as the 1990s fewer "costs" were being sustained, although the pressure could be considerable.[19] There is a widespread feeling that corruption has expanded in the middle and lower realms of the bureaucracy. The police have progressively lost public and business person trust and the court system remains a source of anxiety. Several business people say they try to avoid the court system with its crowded dockets and unpredictable decisions. Some argue that property is generally well secured by the Kenyan court system, while others claim that because corruption and politics is often joined in the courts, business assets are at risk. One well-known lawyer took the extreme view saying that "in Kenya's system you can almost buy whatever decision you want."

Business frequently enters this picture with a critique of corruption and other government practices. But business is often a part of the problem. Relations with government are sometimes coercive, but the relations mostly inhabit "grey areas" and therefore there are two sides, and usually two beneficiaries, in corrupt transactions. Many business people play both sides of the street and on the one hand engage in transactions with government that lower the costs of production and improve competitive positions, and on the other hand vigorously call for reform. Business people say they would like to "play it straight" if they could – if they could be sure there would be no costs to pay for non-participation. One can accept this argument at face value but

[18] On land grabbing see (Klopp 2000). It appears that massive imports of sugar and lifting of duties at the port of Mombasa created a war chest for top regime politicians in the 1997 elections.
[19] For detail on the mechanisms of *harambee*, or self-help, collections for local development infrastructure, see Holmquist (1984). More recent local level observations are in Kanyinga (1994). A Transparency International, Kenya (2001) study finds that *harambee* collections have increasingly become KANU election campaign devices with little accountability for the funds collected. The study documents the extraordinary amounts of money that have been collected.

at the same time understand that straddling the line between "straight" and "crooked" also takes some out the wind out of reform sails and serves to divide the business community and heighten internal suspicion.

At the outset this paper noted expectations that political liberalization and multi-party competition, with an added push from economic liberalization, would free business from the yoke of undisciplined government and would implant new accountability structures. We have indicated that, to some degree, this has happened. But it is also true that the primary lines of government policy accountability have been to external rather than internal centers of power. The trip-wire of political liberalization was external, and the most powerful force behind specific economic reform is the leverage of the donors. In the current context of creditor power even a strong Kenyan business sector would have trouble making an impact upon major macro-economic policies. The dominant influence of donors also subtly undermines the commitment of business to lobbying by their own organizations because the latter can be free riders on donor aid conditionalities.[20]

The reasons behind government efforts to control business are also central to explaining why government has not been a strong, competent, and innovative manager of a reformed economy. Economic liberalization occurred in the context of neo-patrimonial practices that required the generation of patronage for purposes of personal and group accumulation. These practices also supported rule by a regime lacking broad legitimacy, and one that was also coming to the end of its days with a constitutional prohibition on the aging President Moi from running for another term in the next election of 2002. Government resources are often not used productively because patronage is sometimes "created" by corrupt methods. For the same reason government has had difficulty controlling expenditure.

Heightened business competition and political caution

Economic liberalization heightened business competition in Kenya. Domestic manufacturers suddenly faced external competition as barriers to trade at the borders

[20] Conditionalities appear to have become more detailed with successive agreements.

were lowered, if not eliminated. Domestic competition also increased as access to foreign exchange was liberalized. One result was that many relatively high cost manufacturers formerly protected by import substitution policy were suddenly at risk and had to find ways to lower their costs of production in order to survive. The general economic slowdown in the 1990s meant that businesses were competing for a constant pie and competition was severe. The reactions of business people were diverse and even contradictory. Contradictory incentives add to the difficulty of understanding business–government relations today. Current intense competition encourages some business people in the direction of political caution, but others toward more vocal and even aggressive postures vis-à-vis government. We turn now to explaining the caution of many.

The current situation prompts some business people to avoid high profile activity that might appear to be critical of government or supportive of the opposition.[21] According to one business person, "business prefers to keep its head down." Another argued that "businessmen do not want to engage in politics." Another said they "fear being on the wrong side." Almost all fear the loss of opportunities because of "politics". The biggest opportunities are government contracts because government is, by far, the largest consumer.[22]

But caution, or political reticence, is distributed unevenly across ethnic, racial, and national boundaries. Kenyan Asians and multi-national capital are cautious, but for different reasons. Kenyan Asians are cautious because they feel vulnerable and dependent upon government for protection and advance. Many of them believe this regime has done rather well by them. They are uncomfortable with the thought of any Kikuyu-dominated regime with ethnic cohorts eager to “move up” in the economy, ultimately to compete with Kenyan Asian dominance in manufacturing and the upper

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[21] Although few direct sanctions are now experienced, some industries appear vulnerable and these may include the media and especially printers and newspapers and magazines. One printer who has a reputation for printing opposition material had his presses firebombed in the mid-1990s. The owner’s inquiries led him to suspect individuals well connected to the regime.

[22] But contracts won are not always paid for. One major industrialist said he did not want government contracts because of non-payment or delayed payment. And victory in the tender process may not go to the lowest bidder but to the biggest "briber". One Kenyan African businessman said that he would no longer try for contracts because he cannot compete in corrupt tender arenas with those who can afford to offer big bribes to obtain them.

reaches of the economy. Kenyan Asians have a history of avoiding high profile political activity for fear of upsetting both government and non-government opinion. So with a few notable exceptions Kenyan Asian business people rarely attended constitutional reform meetings or appeared to be part of civil society reform efforts in a public way. But they are called upon at election time for donations. Large amounts of money flowed from Kenyan Asian businesses to KANU prior to the last election, but opposition parties also tried to acquire Kenyan Asian support. Quiet Kenyan Asian contributions to opposition parties or individuals have a long history in Kenya. The left-wing Kenya Peoples Union of the late 1960s, led by the late Oginga Odinga, was financed in part by Kisumu-based Asian business people.

Multi-national corporations are cautious because they are foreign, and this status implies an alliance with embassies that give them a clout that they do not wish to lose by appearing to be "political," hence "less foreign," and not above local political battles. The American Business Association has not formally mounted a lobby organization although there is some opinion within the community saying that it should. These business people are often engaged with the East Africa Association or their relevant trade associations such as the KAM. When they have difficulties that are not redressed by other means, the U.S. Embassy may be asked to contact government. Most respondents said this pattern of action, or threat, often "works".

Kenyan African capital in the upper reaches of the economy is predominantly Kikuyu capital. Their mode of political participation is likely to be at one remove from the center of public activity. One could argue that this pattern is not unlike the roles of business in politics elsewhere where a reputation for partisanship will jeopardize relations with certain segments of the public and affect market opportunities. But Kenyan business people referred to government rather than public opinion or the market, when explaining their political caution. Kenyan African business people may openly criticize government economic policy but they are less likely to support opposition positions or personnel openly, and they may flirt with the idea of re-integration with the regime. This was true of some major Kikuyu business people who formed the Central Province Development Support Group and backed several KANU candidates in the 1997 election. But all of the candidates lost including Uhuru Kenyatta the son of the former President.[23] It should be said, however, that in the run-up to the 1997-election business people were more involved in fund-raising for opposition parties and candidates, and especially for the Democratic Party, than they were in 1992. If the trend holds, their role may expand in the 2002 elections.[24]

When the Democratic Party (DP) was founded in 1992 it quickly became known as the Kikuyu business party. Some of the major Kikuyu business people were in on its founding, and the party may have had an equally strong base among young professionals and small business people. But the party soon had a formidable opponent among the Kikuyu population in the form of Kenneth Matiba of FORD-Asili. Matiba was a wealthy businessman with a string of hotels who was formerly a member of KANU and an Assistant Minister. But along with many Kikuyu business people, he became more marginal to the Moi regime and ultimately fell out with Moi. He became a catalyst of the democracy movement with the July 7, 1990, rally at Kamakunji – a kind of opening shot in the battle for democracy. He was arrested, imprisoned, and suffered declining health, but he also became a hero to many people of modest means, and especially Kikuyus. He out distanced Kibaki of the DP while his party's candidates, often people with little prior political standing, did very well (Throup and Hornsby 1998).

Although the DP gained an early reputation as the "business party", it is not the party of a national bourgeoisie. It was, and still is, a predominantly Kikuyu party with a social base of leaders in business interests. Business has yet to find a national political vehicle to represent its social class interests collectively; rather business is divided into ethnic camps like many organizations in civil society.[25]

[23] The biggest African, and largely Kikuyu, businesses may be particularly eager to maintain close relationships with government in order to be at the head of the queue for contracts and favors.

[24] A Democratic Party balance sheet covering the years from 1992 to 1995 indicated only two contributions – from Mwai Kibaki the Presidential candidate and from Njenga Karume who many believe has been the major contributor to the party. The dearth of funding between elections helps explain the relatively poor level of bureaucratization of parties, and the Democratic Party is probably the best organized and funded of all opposition parties.

[25] Mutahi Ngunyi (1996) writes of the polarized nature of civil society – polarized along ethnic and other lines while class divisions are prominent in intra-ethnic politics.

The political attitudes of business people are in keeping with their class positions. They are generally uneasy with popular mobilization and popular social movements. There is a rather visceral fear of the “urban crowd”. The urban crowd has come to represent society “out of control” and its presence is sometimes talked about in terms of a possible social explosion should government lose control.[26] Thus the attitudes of business people counter opinion that says major reforms have occurred in Kenyan politics only as a consequence of mass mobilization and the presence of the urban crowd. Examples might include the Mau Mau struggle, the mobilization for independence, the democratic movement leading to the demise of the one-party state, and constitutional reform agitation that bore fruit in 1997 when there were fears that Kenya was close to a political meltdown.[27] During the agitation for constitutional reform business was sympathetic but it stood at one remove from the movement and no prominent business people assumed leadership roles. They fear being tarred with the brush of radicalism and even being labeled traitors.

If business–state relations have been tense historically, there has probably been a meeting of the minds regarding relations with labor. Labor has not been a significant political actor in Kenyan politics before or after the political opening (Chege 1994). It has been the site of continuous state meddling beginning with the 1965 imposition of the Central Organization of Trades Union, an umbrella organization expected to control more radical elements. Since then the state frequently intrudes behind the scenes in trade union elections by way of favoring certain candidates. The fact that business has not faced a systematic and long-term political threat from organized labor may help explain the tenuous character of business organization. A more militant and efficacious labor movement might well stimulate solidarity within the business community.

[26] The usually cautious editorial columns of the pro-business Daily Nation have veered to the edge of panic in discussion of riots in 2001 in Kibera and Korogocho, slums in Nairobi.

[27] But that “victory” in the form of the Inter Parties Parliamentary Agreement (IPPG) was looked at by some reformers as a parliamentary opposition hi-jacking of a popular movement that might have grabbed far more if parliamentarians had not sued for peace and settled for less than they could have had. A critical look at IPPG can be found in Willie Mutunga (1999).

Bureaucracy, falling real income, and corruption

Understanding business–state relations requires understanding bureaucratic reactions to the continuing economic crisis. Although inflation is moderate, civil servant real incomes continue to decline and budget austerity and retrenchment makes heretofore virtually permanent government employment appear less permanent. Many business people believe that civil servants are more prone to engage in corrupt activity – despite a host of moonlight enterprises – because they find it increasingly difficult to make ends meet.

Counter to many expectations, corruption has expanded as neo-liberal economic policies met a weakened economy, both of which intensified business competition and vulnerability, put additional pressure on civil servant real incomes, and served as incentives for all concerned to engage in corrupt activity.[28] This incentive sits all-too-well with a common bureaucratic perception that business people – perhaps especially industrialists and those in tourism – are very wealthy. Hence all business people are implicitly assigned a vulnerable status. Corrupt initiatives also target ethnic, racial, and national identities differently. Ironically, perceptions of Kenyan Asian political vulnerability may allow some among them to "take advantage" of corrupt initiatives that lower the costs of doing business and enhance their competitive positions. Civil servant vulnerabilities and heightened business competition amidst economic stagnation and decline means that both sides look to the other to improve their positions through corrupt activity. This only lowers the incentives for collective business action.

Leadership and organization disarray in the business community

Severe business competition and falling bureaucratic real incomes have laid the groundwork for the continuing, maybe even expanding, pursuit of "special arrangements" between business and government personnel for their mutual benefit. But business behavior is also more complex and conflicted than that. Some business

[28] And the fact that regime and civil service morale is down due to uncertain political direction and declining budgets, only makes matters worse.

people believe that the old modes of dealing with government only heighten uncertainties. With a more open political climate some have become more vocal – even militant – about faulty government practices and about probity in business–government relations. They also want to see new, more aggressive, and maybe smaller, business associations emerge.

It was noted above that business people have taken heart from the fact that government has admitted certain crucial aspects of economic reality that it had long denied. For several respondents by the late 1990s this government admission validated the views of business and has, in turn, been interpreted as a sign that business can now speak more candidly. The new militancy of some business people – especially those who are not in line for government favors – also stems from the current weak economy and greater competition for survival, as well as from greater government permissiveness that expands the boundaries of acceptable discourse. There is also occasional tension between younger and older leaders, and it spans the African–Asian divide. The younger ones have largely entered business in the 1990s – the more politically liberal era. They are generally less cautious politically, less fearful of sanctions, more upset at corruption, and many are not dependent on government contracts or favors perhaps because they lack historical connections to government personnel.

Some younger people embrace a new morality regarding business–state relations. Among those who exemplify this new morality are a minority of unusually dynamic young executives and professionals who espouse a Protestant fundamentalism that they carry to the workplace. These individuals are often well networked with each other, some through prayer groups and congregations outside the so-called establishment Christian religions. They are driven to bring business–government relations to a higher moral plane. Their critique of business–government relations has a quite "radical" and insistent ring to it. One group planned to commission position papers on the economy, business, and the moral economy surrounding it. They also intended to launch the papers and come out with buttons to distribute saying that the wearer is committed to fighting corruption. These individuals generally stand apart from opposition politics because they do not see it as an alternative. Some of them also look at the donors uneasily because they believe aid helps reproduce an environment of fiscal and moral laxity. This movement is mentioned here not because it's influence is broad, but because it is indicative of new thinking among a younger generation that challenges the character of business–government relations.

There is leadership competition based upon old divisions as well. Ethnic, racial, and national divisions have been present in the KAM in particular, and divisions along Kenyan African and Asian lines have exhibited varying degrees of intensity over recent years in competition for top leadership. Considerable social status accrues to the positions, and name recognition may translate into political and economic opportunities. There is also a racial cast to the continuing debate over eligibility criteria for membership. The possibility of including so-called small industry, or the informal sector, is also a decision affecting the racial balance of the organization because the informal sector is almost all Kenyan African. But the matter is also a question of big versus small business that transcends racial categories. For the moment enterprise size and social class affinities have won out and doors to membership by the informal sector have not been opened.

There may also be competition for leadership of business organizations for more narrow reasons of doing personal business. A member of one business association discussed the belief of many members that their leaders pursue individual as well as collective interests in the organization. Organization and committee leadership positions or board member status can be used as calling cards to gain access to government offices and personnel. The access allows conversation to proceed around collective interests, but personal ones as well. A prominent business leader is said to have met a top civil servant under the cover of his organization's interests, but the discussion centered on the leader's own business problems. Written submissions to government from some business associations, particularly at budget time, may be the focus of last-minute scrambles to include items favoring a certain business or businesses. In one case ethnicity came into the equation by way of organization members complaining that a submission at budget time was an "ethnic document" – meaning that a leader inserted items in the submission that narrowly favored his interests, and maybe interests with a particular resonance within his community.

The new militancy of some business people has also spawned a growing critique of leadership style and organizational character. In the past it was thought the better part of wisdom for organizations to have leaders who already had the ear of government. And business associations were either narrowly specific to certain sectors or professions, or they were broad and inclusive and slow and unwieldy because there was such diverse opinion within them. Many believe that the present difficult economic situation, coupled with political liberalization, require new tactics. It is thought that the leader-as-go-between is less necessary, and giant organizations are too slow to respond to rapidly changing situations that require quick and firm statements and decisive action. One respondent in the insurance industry said the old organizations have simply become irrelevant. But he also warned that most new initiatives are "really only vibrations so far."

Current organizational initiatives sometimes come out of efforts to formalize more informal networks of communication. These groups may have as their primary role "rapid reaction" or crisis intervention. One idea was that a group of less than ten people of high standing in the business community would meet and generate ideas that could be tested and implemented through the many other organizations they belong to. Another respondent said in 1999 that he knew of three separate initiatives to draw together business people from different sectors. He hoped that they could be consolidated into one, and he thought they might be brought into a standing committee of the KNCC&I. Another respondent noted that in the recent past the then head of the Central Bank, Micah Cheserem, convened an ad hoc group of business people and government officials at a prominent Nairobi hotel for a series of meetings to discuss common issues and discuss misperceptions of each other. The respondent said the meetings were very useful. In a similar vein the Mombasa and Mbagathi forums had a positive affect and further ad hoc meetings may do the same. A German NGO hosted a seminar, albeit poorly attended, on manufacturing in June 1998 which was to lay the groundwork for a lobby group. Small-scale manufacturers may also start their own organization. Meanwhile KATO and the Hotel Owners Association are thinking about creating an umbrella group with a secretariat. Major security firms have also made headway establishing their own association.

There are other initiatives afloat and some of them involve government. New ideas in the air included talk of setting up a standing committee on the economy in Parliament. In 2000 the chairperson of the KNCC&I spoke of wanting to initiate "chat sessions" involving business people and parliamentarians. A leader of another organization said he would like to see a small group of business people who were not necessarily "politically correct" meet regularly with the Economic Committee of the Cabinet. The Minister of Finance was said to be interested in reviving the Industrial Development Committee with private sector and government representation. But some business people recall with regret that recent government initiatives along these lines have not been institutionalized.

The idea of establishing an apex business council drew mixed reactions. Some respondents had doubts that such an initiative would get off the ground with the array of existing leaders of business organizations at hand. While almost everyone thought it was a good idea in the abstract, two questions were begged: how would each existing organization fare under the new umbrella, and who would lead it? A member of one of these organizations said the Council would not happen because "it's all about power" and there is no agreement over who should lead it. Another business organization head feared that the hand of government might intrude if certain people lead it. Another observer said that entirely "new" leadership might be needed to break the impasse.

The organizational disarray in the business community may ironically reflect expanded political liberalization – the greater the political openness the greater the organizational disarray because the penalties previously heaped upon critical leadership have diminished. The multiple divisions of the political opposition with the onset of multiparty competition may have its parallel in the scattering, rather than congealing, of civil society organizations, including business.[29] And we have argued that economic liberalization and hard times of the moment have also led some, though not all, toward more vocal leadership and organizational initiative.

[29] Wachira Maina (1998) notes that after the political opening in 1991 and the multi-party election in 1992, donors also scattered into different camps among themselves depending on conflicting views about the importance of governance matters.

Other factors also help explain the disarray. The relative weakness of existing organizations – their failure to deliver and/or rising expectations for their performance – prompts some to think of starting new organizations or abandoning old ones altogether. In 1999 the staff of the KAM said it got about ten complaints a day about Mombassa port operations but the organization was unable to do much about them. The staff of some business organizations is also thin. The very biggest businesses may also find it best to pursue their individual lobby efforts rather than join with smaller businesses that have a wider array of, and sometimes quite different, interests. Meanwhile Kenya lacks a well-oiled institutional climate for lobbying government with the result that even at budget time – the primary moment of attempts by business to influence government – there are surprisingly few submissions from business.

Standard organizational efforts are not the only way to get out the voice of business, and they may not be the most effective means. One mode that is often overlooked by observers is the use of the media, and especially the print media which is accessible to business spokespersons while it reaches a crucial audience of government officials and educated urban opinion-makers. A handful of spokespersons use the press in a very calculated fashion to raise issues and ultimately to move them toward adoption by government. The top level of the bureaucracy is aware that the President reads the daily press and hence they believe that they must devour the press to better know how to react to issues. Use of the press is an effective way to communicate with top political and administrative leadership. The "natural history" of an idea in the press also communicates growing support for, or opposition to, an idea and signals where support or opposition is coming from. Here is where sophisticated tactics come into play. Individual interventions are "read" for the constituency they are thought to represent, and the constituency need not involve a formal organization. As a result personalities may be more important than formal organizations. Credibility in the business community and beyond is frequently gained by criticizing government. But some opinion suggests that it is wise to give the government credit when credit is due as a form of political protection, but also because it may enhance one's overall credibility. It is unclear what successes may be attributed to these press efforts. But one informed participant suggested that Messieurs Cheserem (former head of the Central Bank) and Mudavadi (former Minister of Finance) were successfully built up in the press in the mid-1990s as the voices of necessary reform by business spokespersons.

In the recent past embassies were important as allies of business, as targets of lobbying, and generally as vehicles to help move ideas forward. But the growing density of public communication may be supplanting the utility of embassy venues, although donor interest and attention may provide needed protection for the activity of certain individuals.

Ethnic, racial, and national divisions and priorities

It was suggested early on in this paper that the historical roots of ethnic and racial divisions in Kenyan society were in part a result of unequal patterns of historical capital accumulation. The inequalities between identity groups have a lot to do with the nature of business–government relations and the relative proximity of certain ethnic and racial categories to government power. These divisions within society and the business community are deep despite arenas of cooperation and common interests among them. Historically uneven capital accumulation between ethnic, racial and national communities, also means that each defines its interests differently vis-à-vis government policy. And practices that relate to government differ among them as well.

Recent years have been, as one observer put it, "years out of hell" for Kenyan Asians who grew increasingly anxious since the 1996 anti-Asian statement by Kenneth Matiba. Although several government and opposition spokespersons denounced the statement, Kenyan Asian anxiety grew as they recalled depredations during agitation for multiparty democracy at the turn of the decade, and attacks during the chaos surrounding the 1982 coup attempt. Some harassment of Kenyan Asians following 1997 public rallies advocating constitutional reform raised the level of anxiety in the run-up to the 1997 election as Matiba and some others renewed the anti-Asian discourse.[30] The situation

[30] But fears subsided just prior to the elections as indicated by the fact that some airline seats out of Nairobi went begging in the last week. But this is after many Kenyan Asian women and children were sent out of the country "on holiday" in prior weeks.

moved some Kenyan Asians closer to the Moi regime that, in turn, upset some Kenyan African business people who favored opposition politicians and parties. There was a sense of relief in the Kenyan Asian community after the election, but much of that feeling eroded as the reality of economic difficulties sunk in and as the continuing brittle nature of national politics was evidenced.

The internal character of the Kenyan Asian community is such that the many religious divisions mean there is no dominant leader or authoritative institution that can speak for everyone. And in recent years the fundamentalist sentiments of some Muslims and Hindus have become more evident and a bit more divisive. The separate communities have long been known to facilitate the provision of quick, or low cost, credit to community members. In the past there was little "paper" involved in these transactions. Rather family pride and rectitude all but guaranteed timely repayment. Some of the communities have more recently developed practices to serve business people, but also to raise up the poor among them. The Ismaili community organization comes close to providing a full service training and credit facility, and even a global advice network. The head of its economic development committee has the benefit of advice only a phone call or email away from seventeen individuals around the world with roles parallel to his. There are also several Asian-owned banks that primarily serve particular communities.

Kenyan Asian capital has had access to top politicians and policy-makers but without the backing of powerful embassies. Access for Kenyan Asian business in the pre-reform era, and on some occasions today, was frequently through what were termed "godfathers," meaning politicians who opened doors, smoothed the way, and provided protection for a price. Kenyan Asian capital has generally benefited from liberalization policy such as the lifting of licensing requirements and easier access to foreign exchange. A former high level Ministry of Finance official said that in the pre-reform era a percentage was routinely extracted from those – many of them Kenyan Asian – applying for foreign exchange. Some Kenyan Asians have recently invested heavily in imports and made substantial profits. At the same time manufacturers – and Kenyan Asians account for 74% of manufacturing enterprises according Himbara (1994: 45) – have faced increased competition from imports that exerted a downward pressure on profits. But Kenyan Asian capital is fluid and, as we noted, much of it is held externally. Capital, often controlled by families, is frequently invested in several unrelated business activities in both import as well as export activity, and in investments with long and short term returns. The result of this diversification is that losses in one arena may be balanced by gains in another.

Despite Kenyan Asian approval of most aspects of liberalization, the major needs felt, if not always articulated, by Kenyan Asian capital are primarily political guarantees in the form of personal connections with powerful individuals. Because Kenyan Asians feel politically vulnerable, many are politically cautious and hence they ally with government. And because many – though certainly not all – are comparatively prosperous, they are squeezed for rents by politicians and office-holders and frequently for fund-raisers in which politicians donate large amounts of money to development projects from themselves and "friends" – the unnamed friends often including Kenyan Asians. In this manner a portion of Kenyan Asian capital becomes regime patronage and a source of accumulation for the politically powerful even as some Kenyan Asians are offered opportunities and protection in return. But Kenyan Asians are generally resigned to paying occasional rents in order to do business regardless of who is in power. The leaders of some of the Kenyan Asian communities are quite close to top government officials and some Asians are believed to have prospered – and a few fabulously – by those relationships. In turn they are expected to act as cheerleaders for government in their communities, as well as keep an eye on, or "police," the political conduct of those within their respective communities.[31] One major contractor with close and allegedly profitable ties to government was said to have made impassioned pro-government speeches in his religious institution in the run-up to the 1997 election.

Although there are many exceptions, Kenyan Asian business is only moderately enthusiastic about further political reforms. Only a handful of Kenyan Asians have been visible in the constitutional reform effort, and fewer still are business people. They

[31] Whether by design or accident this organization of the Kenyan Asian community vis-à-vis the state appears to be quite corporatist.

generally do not expect better policy or behavior from any successor regime, and some believe that future regimes will be worse for them if political and administrative breakdown occurs or if an aggressive Africanization of the economy is pursued. Kenyan Asian capital perceives a shifting political arena that, regardless of the formal arrangements, presents both opportunities and hazards according to the changing fortunes of particular politicians and Kenyan Asian connections to them.

Kenyan Asians tend to worry more about the breakdown of law and order than about the state of the economy. Their anxiety about social control, coupled with high interest rates and a slow economy, has encouraged many to put their businesses "on hold". One very knowledgeable observer thought that instead of about 60% of Kenyan Asian capital being held outside the country, by 1998 it was about 70%. The year 2000 saw no panicked reaction but there was no optimism either.[32] Recent Kenyan Asian disaffection from government occurred for several reasons including economic stagnation; doubts as to government's protective capacity; fears that the President and the regime are losing their grip on power; and because of chronic regime corruption and Kenyan Asian feelings that they must participate in it or face unfortunate consequences.

By 2000 an exodus began of younger Asians with globally marketable skills. In that year about 800 young families may have left Kenya.[33] Wives of the young men may be playing a particularly significant role encouraging these departures. They feel increasingly insecure and voice a widespread anxiety that there is little future for their children in Kenya. The long-term implications of this exodus are not clear. It could be only a variant on the historical pattern of moving capital and family members in and out of the country depending upon calculations of comparative returns and opportunities. In this scenario when the situation stabilizes or improves, perhaps after the 2002 election, they will return to Kenya. But there is also a counter opinion that suggests a new

[32] One Kenyan Asian businessman said that maintaining the business was a matter of great pride within the community and hence many will sell or give up only under great duress.
[33] Estimates of typical family size vary enormously, but if four is used one gets a figure of 3,200 out of a total Kenyan Asian population of about 85,000.

pattern may be developing in which young families have lost confidence in their future in Kenya and are likely to put down roots in new host societies.[34]

Transnational capital has long enjoyed privileged collective access to government. Transnational capital has also been less hampered by political obstacles and less harassed by – though not immune to – rent seeking than Kenyan capital. Some representatives of transnational businesses say they have virtually no contact with government and this may help explain why they tend to have fewer complaints. Because of their long-term rather unique status, they were also somewhat less enthusiastic than Kenyan African business about political or economic liberalization. Some were also enjoying pre-liberalization near-monopolies behind the high walls of an import substitution industrialization regime. And the less diversified nature of their businesses, compared to those of Kenyan Asians and Africans, may mean that they were less able to maneuver in the new liberal environment.

Transnational capital has enjoyed effective allies and lobbyists in the form of their embassies. Some representatives of United States based businesses said that they were able to get the Kenya government's attention and favorable response only after they threatened to "go to the Ambassador". Transnational capital tends to voice certain needs – political stability and a demonstrated government commitment to economic reforms in keeping with foreign capital's longer time horizon for return on investments. They also want the maintenance and expansion of infrastructure, less corruption, and greater security.

Kenyan African firms are generally smaller and less well capitalized than transnational or Kenyan Asian firms. Several sources said that Kenyan African capital in manufacturing was hit particularly hard in the current economic slowdown in large part because of their considerable debt overhang in the face of soft markets. Because of the inferior competitive position of Kenya African businesses, their priority need is voiced as

[34] In 1999 the Australian High Commission held an informational meeting on immigration to Australia at a prominent Nairobi hotel. Apparently the turnout of young Kenyan Asians was far greater than expected.

access to low cost credit.[35] Many African business people would like to have active government support. While they voice the need for procedural fairness, a more autonomous legal system, and a regime guaranteeing a more level economic playing field, many would also appreciate an activist regime that would take their side in competition with Kenyan Asian and foreign capital.

The lack of low cost credit became a common complaint by small and large businesses. When Joe Donde, of the FORD-Kenya party, presented a bill to Parliament in 2001 designed to regulate the cost of credit, the bill passed, and it did so despite opposition from the Moi government and from the Bankers Association. But with the passage of the legislation it also remained unclear just what the legislation meant.

Kenyan African capital is far from homogeneous as we indicated in the brief discussion of historical accumulation and particularly regarding the differences between Kikuyu and Kalenjin capital. One of the most striking recent comments about the trajectory of investment by the two communities was that there may be a trend toward pulling back into regional ethnic redoubts – a kind of *majimbo* (regionalism)-by-investment pattern – because of chronic state-sanctioned ethnic cleansing and a high level of ethnic tension. Several respondents in the late 1990s noted that Kalenjin capital, long rooted primarily in agriculture and landholding in the Rift Valley is not eager to venture beyond the Rift, while the Kikuyu are said to be moving some of their investment back into Central Province and Nairobi. One respondent claimed that some Kikuyu were uneasy about investing in Eldoret because of the recent history of insecurity – "they burn houses, why not hotels?" This more intensive regionalization of ethnic investment does not apply to Kenyan Asian or transnational capital investment.

Kikuyu capital has evolved rather unique characteristics. In much of the 1980s and 1990s it has generally survived and even prospered largely outside government nurture – or despite government rather than because of it. This is not to say that some Kikuyu business people have not benefited from special relationships with government. Some

[35] This contrasts with representatives of Kenyan Asian and multinational capital that voices this need far less frequently. Kenyan Asians, as we have noted, usually have access to local and foreign kinship and communal sources of capital.

have, but they appear to be relatively few. This comparatively independent, yet dominant fragment of capital within Kenyan African capital means that ethnic control of the state may not be crucial to the survival and the prosperity of many of them in the future. The chronic optimism – always voiced among a sea of complaints against government – of Kikuyu business people may be explained in part by a feeling that their community cannot help but do well economically over the long haul. They survived regime attacks and came back strong.[36]

Kalenjin capital is rooted in agriculture and some very large pieces of land as well as urban real estate and trade. Some have invested in tourism particularly at the coast, and there is a growing amount of Kalenjin capital invested in horticulture. But little Kalenjin capital appears to be invested in industry in Nairobi. Most Kalenjin capital resides in the Rift Valley. Some individuals have benefited from recent land grabbing and subsequent sales of land for development by others. There are also partnerships of various kinds with Kenyan Asian capital. But in any future non-Kalenjin dominated regime, Kalenjins may be eased out of those partnerships when the political returns to their presence evaporate. The holdings of some top government officials are largely outside the country although President Moi is heavily invested in many major Kenyan firms.

There is a general absence of pan-ethnic ownership of Kenya African businesses. Like Kenyan Asian capital, most of it is family-owned. Both Asian and African capital struggle with family disputes as one generation succeeds the other. The proliferation of enterprises is, in part, an effort to resolve family battles by spinning off entities for different sons to run.

[36] Looking toward the future, it appears that some Kenyan African families encourage their offspring to gain an education in the West and stay there as a branch of the family similar to the Kenyan Asian diaspora. At its roots this practice reflects an anxiety about the political and economic future of Kenya.

Conclusion

Business–government relations and Kenya's policy-making process have not changed fundamentally. While the focus in this paper has been upon why rather inflated expectations of the policy process have not borne fruit, it is important to note the extent to which things have changed. Business people agree that lifting repression has created more comfortable business–state relations, and these relations have slowly evolved in a more positive direction through the course of the 1990s. Relations are less brittle and government is less hostile to suggestion and criticism. Bureaucrats receptive to business entreaties are more numerous and less prone to being criticized by top politicians for "being political" and meeting with business people. Access routes for business to government have opened up and are generally easier to travel. And in 1997 and after government validated core business criticisms of government – that it is often ineffective, nearly broke, and corrupt.

Business is not cohesive organizationally, nor is it particularly influential collectively with government. This can be explained with reference to four factors: first, partial, but not complete, political liberalization coupled with continuing neo-patrimonial political processes; second, neo-patrimonial processes that occurred in an historical context of uneven capital accumulation among ethnic, racial, and national categories act to reproduce deep divisions within the business community; third, donor conditionalities pre-empt national policy-making; fourth, economic liberalization heightened business competition domestically and internationally; and fifth, slow growth in the 1990s added to the competitiveness and vulnerability of businesses, and contributed to the erosion of real incomes in the bureaucracy which, in turn, provided incentives for corrupt overtures to business.

The interaction of these factors produces unexpected results. The business community tends to be politically cautious because of fears that government may sanction those who are "politically incorrect”. But even more common by the end of the 1990s were anxieties that the "incorrect" may sacrifice access to government "carrots" such as government contracts and tax exemptions. Government is by far the largest consumer of business products and services and hence businesses tend to deep their heads down politically in order to not jeopardize government contract opportunities or risk sanctions. Meanwhile government often generates patronage through corrupt practices, while civil servants, experiencing declining real incomes and finding it hard to make ends meet, may initiate corrupt relations with business. In turn, businesses wanting to cut costs of operation and bias markets in their direction in highly – and for some, newly – competitive markets are often open to corrupt relations with government officials. Indeed some businesses have thrived on these relations for a long time.

Business has grown more confident politically while it has grown less confident and more vulnerable economically. Thus many business people have, as in the past, an incentive to go-it-alone through very individual relations with government officials even as new incentives emerge to collaborate with other businesses that have similar policy perspectives. Many pursue both routes simultaneously.

The current difficult economic situation and government admission of errors has combined to create greater competition for leadership and a critique of institutions within the business community. There is considerable sentiment that older and rather cautious leaders and business organizations may have outlived their usefulness, and that new and more aggressive business leadership as well as smaller institutions may be needed. The older leaders are said to have been more appropriate to an era of mediation between the private sector and government – an era when government repression was more vigorous.

Relations between the state and the private sector are strongly conditioned by ethnic or racial affinity between the President and the majority of those on the leading edge of the economy. The colonial regime with the European settlers, and the Kenyatta regime with the Kikuyu, saw the results of this affinity in favored group accumulation and growth as the leading edge of the economy was nurtured more than it was pilfered or run down. State policy was not a simple instrument of the favored sub-group, with the partial exception of settlers under the colonial rule. But the affinity of state and sub-group was clear and it eventually proved to be politically hazardous for both regimes because business people and their ethnic cohorts from other ethnic and racial categories felt left out and discriminated against.[37]

President Moi did not find ethnic affinity between him in State House and Africans who bulked large on the leading edge of the economy. The result was an effort to hold back and harass advancing Kikuyu while Kenyan Asians were left to both grow the economy and shoe-horn Kalenjin accumulators into more advanced positions in the economy. Meanwhile patronage was squeezed out of a gradually declining economy which further compromised growth prospects, bred corruption, and compromised all institutions of state, making the arrival of any so-called developmental state that would productively link state and business institutions, a distant aspiration.[38] Meanwhile similar to prior regimes, growing opposition from the marginalized among the elite – including perhaps more quietly, those in business – compromised political stability.

This discussion suggests that the business–state relationship in Kenya is a moving target. The observation at the outset of this paper of post-colonial business weakness vis-à-vis the state does not do justice to the complexity of the situation attendant upon economic reforms and the political opening. But the expectation of accountability and reform as an inevitable product of multi-party competition, political opening, neo-liberal economic reforms, and an expanding range of civil society organizations, was clearly misplaced. The synergy of some of these processes did not necessarily enhance private sector collective influence upon macro-economic policy. Evolving state–business relations do not allow the business sector to have a major reform impact on the economy, perhaps because Kenya's crisis is deep and multi-faceted. The policy

[37] There is a somewhat popular line of thought that presumes an identity of interest between a prominent business person and his ethnic cohorts – the latter feeling that the holdings of the wealthy, in some part, "belong" to them. When the hotels of opposition politician Kenneth Matiba were put into receivership by Barclays Bank, political manipulation was feared and meetings were held and collections taken to help Matiba meet the financial obligations.

[38] Peter Evans (1995) discusses the means of joining the state and private sectors in so-called development success stories. Whether a Kenyan technocratic element within the bureaucracy will find sufficient political latitude to assert itself within the state and generally encourage the conditions of capitalist growth remains to be seen. Cowen and Ngunyi (1996) believe Kenya's period of high corruption was running out of steam in the late 1990s. The arrival of the so-called Dream Team in 1999 – a half dozen technocrats parachuted into top bureaucratic roles with Richard Leaky as head of the civil service – could be seen as the shock troops of that trend. But they were soon let go, and a Moi confidant, Sally Kosgei, replaced Leaky, with unclear consequences. (Holmquist and Oendo 2001).

victories of business such as a special security force to protect tourists, a lower corporation tax, lower capital gains taxes for insurance companies, lower taxes on inputs to industry, modest tariff protection for some ISI industries, etc., are small. They pale in the face of major dilemmas of institutional decay, infrastructure decline, corruption, growing insecurity, high cost credit, and a patronage-conscious government that has not aggressively pursued growth.

The basic character of business–state relations in Kenya is in flux. What holds for the 1990s may not apply to even the near future. It appears that the juncture of growing business confidence vis-à-vis the state, and economic insecurity, has brought both change and stasis – an unprecedented political candor, albeit it sometimes tinged with caution, coupled with a willingness to engage in corrupt activity as a means of survival. In the meantime Kenya may be experiencing a rather fundamental re-structuring of the "commanding heights" of the economy. The processes of privatization have been much discussed, but an equally momentous process may be the decline of the "old economy" of so-called big business discussed here. The informal "new economy" of small-scale manufacturing and trade continues apace providing low cost consumer goods and generally operating beyond the rules and regulations of the state. But these enterprises may put more of a premium on dodging the state than trying to influence it. The very visibility of big business in the old economy may make it particularly vulnerable in the context of Kenya's economic decline.

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