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The Economic Progress and Development Aid in East Africa: The Case of Kenya

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Africa's Background

Africa whose population totals 953 million people, distributed in fifty four countries, has recorded an average economic activity of 5 percent in the last two years. Africans are divided not only by the boundaries of nation states but also ethnic identities, class distinctions, urban and rural experiences, geographic barriers, and vast distances. The colonial partition of Africa started in 1830 based on arguments that Africans neither had history prior to direct contact with Europe nor development of their own. Consequently, it was a continent of 'grown up children'.

Findings prove that hundreds of years before Africans came into contact with the white people, the African genius' knowledge in the field of science and technology was highly developed, in some cases to levels not currently developed in the West. Great advances had been made in metallurgy, astronomy, astrology, mathematics, agriculture, navigation, medicine, writing, architecture and engineering. For example, one of the earliest forms of literacy in the world, the hieroglyphic writing of ancient Egypt, was invented by Africans about 3000 B.C. These ancient accounts give a vivid and intimate picture of the great African civilization during its (approximately) three millennia of existence. South of Egypt, the Kushitic civilization in the ancient city of Meroe had its own form of writing five centuries or more before the birth of Christ. In neighboring Ethiopia, Ge'ez, the classical language of ancient Axum, was being expressed in written form by the fourth century A.D.

Three main patterns of interactions in Africa are identifiable. First, there were extensive interactions at the regional level, involving members of the same ethnic or language group, or one group and its immediate neighbors. Second, there were inter-regional relations. The trans-Saharan trade was one notable case that united West and North Africa. The long distance trade of the Nyamwezi linked the interior of East Africa and the coast. Third, there were international relations with Arabs, which facilitated the spread of Islam, and, after the fifteenth century, with Europeans. Languages, religions, skills, ideas, and goods were able to spread as a result of these contacts. The three patterns united Africans and connected their continent with the rest of the world. There were no fixed boundaries to create permanent lines of human divide.

Trade

In Africa, trade has demonstrated it ability to destroy and develop. Slave trade destroyed many communities in West and East Africa through relocating millions of Africans to Europe and America. The quest for ivory, diamonds and gold devastated the environmental, tribal and economic set up. Mercantilist strategies from the developed world inspired the partitioning of Africa, creating boundaries that still haunt the virtues of free trade to date. Africans are still grappling with institutions inherited from colonialists in their quest to develop economically 40 years down the line, with little progress made to get high level production and consumption.

If rich countries opened their markets to Least Developed Countries (LDCs), increased export opportunities would generate an estimated $700 billion of additional trade for the developing world. The present value of debt is $4.4 billion, total debt service amounts to 15.4 per cent (percentage of exports of goods and services), and short-term debt outstanding is $695.1 million. Foreign aid on the other hand is $14.7 per capita. Increased trade opportunities for Africa would translate to more income.

Africa has had a steady growth in the later half of the 1990s. The relatively high rates of growth recorded over the last five years confirm the continued recovery of African economies. This improvement was underpinned by higher prices of commodities, including oil, stemming from a strong growth in global demand. In addition, good macroeconomic management, better performance in agriculture, improved political situation in many countries, and increased donor support in the form of aid and debt relief contributed to this positive outcome. Unfortunately, the growth has not translated to employment creation or poverty reduction.

Average Economic Growth Rates of African Regions (%)

Region	1996-2000	2003	2004 (e)	2005 (p)	2006 (p)
Central Africa	3.9	5.0	14.4	4.1	5.5
East Africa	4.1	2.3	6.8	5.2	5.1
North Africa	4.3	5.1	4.6	4.8	5.2
Southern Africa	3.1	2.6	4.0	4.6	5.2
West Africa	3.6	7.0	3.4	4.9	4.8
Total	3.8	4.4	5.1	4.7	5.2

Source: http://www.oecdobserver.org/news/fullstory.php/aid/1618/Africa%92s_economy: Aid and growth .html

Untapped Resources

Africa's untapped mineral wealth is immense. It has 40 percent of the world's potential hydroelectric power supply; the bulk of the world's diamonds and chromium; 30 percent of the uranium in the non-communist world; 50 percent of the world's gold; 90 percent of its cobalt; 50 percent of its phosphates; 40 percent of its platinum; 7.5 percent of its coal; 8 percent of its known petroleum reserves; 12 percent of its natural gas; 3 per cent of its iron ore; and millions upon millions of acres of untilled farmland. There is not another continent blessed with such abundance and diversity. Angola, for example, contains an estimated 11 percent of the world's known reserves of diamonds. Its diamonds are stunning: at an average price of about $140 a carat, with some reaching $350, they are second in quality only to Namibia's, and more than 12 times more valuable than Australia's.

In addition, Africa has 64 percent of the world's manganese, 13 percent of its copper and vast bauxite, nickel and lead resources. It also accounts for 70 percent of cocoa, 60 percent of coffee, 50 percent of palm oil, and 20 percent of the total petroleum traded in the world market, excluding the United States and Russia. The tourism potential of Africa is enormous. Unrivalled wildlife, scenic grandeur and pristine ecology constitute Africa's third great natural resource after agriculture and mineral wealth.

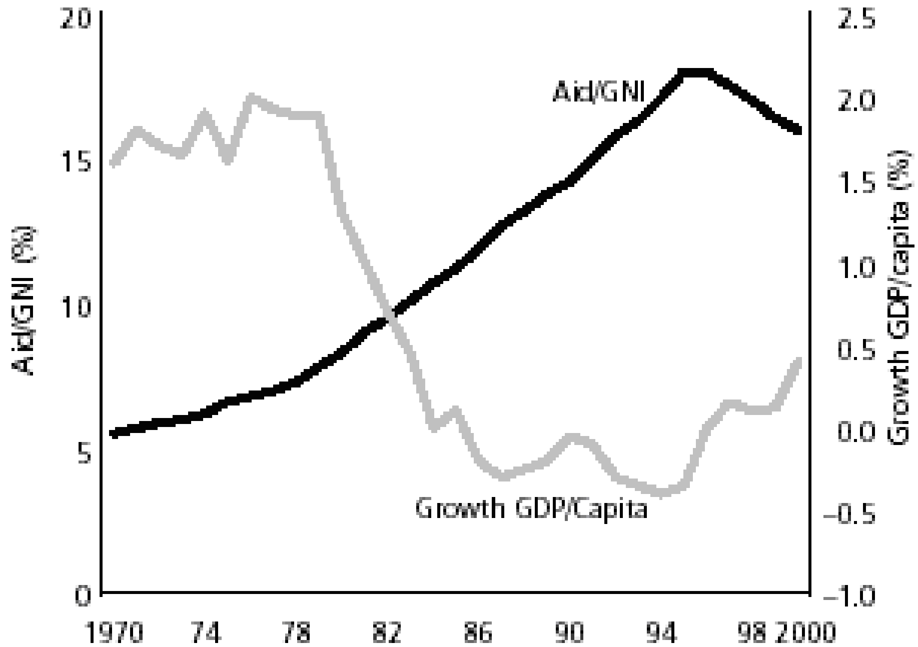
Aid

The concept of aid to Africa was invented as a strategic tool in the Cold War efforts to ensure that developed countries' industries get subsidized in Africa, to basically maintain dominance and influence. Aid was meant to prevent massive migrations from poor nations to the wealthy countries. It has sustained the colonial era boundaries and subsidized developed countries' mode of economic organization, without giving Africans a chance to build their own development institutions. Aid benefits the donors (supply side), the African ruling elites and middle classes. It crowds out genuine private sector initiatives giving rise to politically driven private sectors. Consequently, whenever change of government occurs in Africa, a substantial change in its private sector takes place too. Africa in the long run benefits little in the aid industry because international extractive industries, banks, auditing firms, local branches of foreign contractors and consultants among others, gain from aid. Paradoxically, it is not in the interest of the aid industry to promote African homegrown solutions, because it feeds on the African problem.

According to the World Bank, aid inflows to Sub-Saharan Africa rose from 3.4 per cent of GNP in 1980 to 16.3 percent in 1995. The inflows typically funded basic government programs, and all or most of the government development expenditures. Sub-Sahara's share of world trade declined over this period from 3.1 per cent of world merchandize exports to just 1.2 per cent. Dependency on aid has compromised Africa's ability to effectively participate in the World Trade Organization, which is supposed to further opportunities for trade to all countries. Lack of trade opportunities translates to low productivity and high dependency on aid, making it difficult for the population to be entrepreneurial enough to raise money to tackle their needs.

Its is estimated that despite the USD 568 billion pumped into Africa by Western countries, little has been achieved in putting the continent on the competitive path of economic progress. The figure below illustrates the concept of aid and development in Africa. It is clear that increase in aid has not facilitated economic growth in Sub Sahara Africa.

Aid and Growth in Sub – Sahara Africa (10 year moving Average)



Source: World Development Indicators Online

East Africa

The Eastern African region presents a vital case study of Africa's quest to establish a new order characterized by an integrated market. On November 30, 1999, Kenya, Uganda and Tanzania signed a Treaty establishing the East African Community. Ever since, a number of protocols have been signed with the purpose of establishing the East Africa Common Market, East Africa Monetary Union and eventually the East African Political Federation.

The momentum towards one market gained more mileage when Rwanda and Burundi joined the community in November 30, 2006. The East Africa Community has a population of 120 million people comprising an estimated 13 per cent of Africa's total population. The population is predominantly young with an estimated 50 per cent below 15 years of age.

East African governments rely on donors to finance 28 per cent to 50 per cent of their individual country budgets every year. Kenya has been able to finance 82 per cent of its total spending and 97 per cent of its recurrent expenditure from domestic tax revenues; Tanzania has been able to finance less than two –thirds while Uganda and Rwanda manage only 51 per cent and 56 per cent respectively.

The East African region received over USD 13.7 billion in net disbursements of foreign aid between 2001 and 2004. Tanzania received 46 per cent of this (USD 6.25 billion), Uganda 28 per cent (USD 3.82 billion). Kenya 15 per cent (USD 2.10 billion) and Rwanda 11 per cent (USD 1.53 billion). Kenya is the region's largest trader, accounting for 60 per cent of the region's exports, and 53 per cent of its imports in 2003. Tanzania's share stands at 25 per cent both in exports and imports, Uganda exports 14 per cent and imports 19 per cent and Rwanda contributed 2 per cent of exports and 4 per cent of imports in 2003.

East African countries produce similar primary products ranging from horticulture, tea, coffee, fish, cotton and a few minerals such as Gold, Coltan, Tin, and Soda Ash. Uganda, Tanzania and Kenya have been actively involved in oil prospecting with promising indicators in Uganda and Tanzania.

In general terms, East African countries, similar to the wider African counterparts, have experienced an improved economic growth in the last six years. The table below illustrates sharp growths in Tanzania, Rwanda, and Uganda whose GDPs were originally lower. Kenya registers low growth compared to the others because of the fact that it was already a high performing economy in East Africa.

Average Economic Growth Rates of East African Countries (%)

Country	2000-2004	2005	2006
Rwanda	5.2	5.2	N/A
Kenya	1.6	4.3	5.8
Tanzania	5.9	6.7	7.2 (Est.)
Uganda	5.9	5.8	6.6 (Est.)

In terms of economic freedom, East African countries are rated to be mostly unfree. Economic Freedom Indexes measure levels of intrusive government in an economy and how such intrusion impedes economic prosperity. Economic Freedom entails 'personal ownership of the self' because this type of ownership gives individuals the right to choose – to decide how to make use of their time and talents. According Fraser Institute Index, the best performing countries (The free) score 10 and the least performing score 0.

Economic Freedom Index for East Africa Community Members

Country	Year							
	1985	**1990**	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**
Burundi	4.7	4.7	4.7	5.1	5.3	5.2	4.6	4.7
Rwanda	-	5.3	4.3	5.1	5.2	5.4	5.1	4.8
Kenya	5.5	5.4	5.8	6.5	6.6	6.4	6.5	6.3
Tanzania	4.0	4.0	4.9	5.8	6.3	6.3	6.3	6.4
Uganda	2.9	2.9	5.1	6.6	6.6	6.4	6.4	6.4

Source: *The Economic Freedom of the World 2006 Annual Report by The Fraser Institute*

East African countries have improved considerably over the years with Tanzania, Kenya, and Uganda scoring points above 6 in the latest ranking. Rwanda and Burundi still score below average.

Kenya

In per capita terms, the aid flows to Kenya rose from US$15 in the 1970s to over US$50 in the1990s. In the early 1990s, aid constituted almost 14 per cent of Kenya's GNI and approximately 50 percent of its government expenditures.

Kenya has been able to collect 20 per cent of its GDP in taxes. Tanzania, Uganda and Rwanda collected between 11 per cent and 13 per cent of GDP in taxes. With a population of 35 million people, Kenya is the main economic power house in East Africa with a diversified economy by Sub – Sahara standards, a service industry accounting for 59 per cent of the GDP and an agricultural industry accounting for 25 per cent of GDP.

Kenya's average per capita income growth was at 2.8 per cent in the period 1964 – 70. Its GDP grew at an annual average of 6.6 per cent from 1963 to 1973 while agricultural production grew by 4.7 per cent annually. However, between 1974 to 1990, Kenya's economic performance declined. Poor economic policies such as import substitution coupled with rising oil prices made the country's manufacturing sector uncompetitive. In addition, inflation rose in 1980 and early 1990 peaking at 101 per cent during the second quarter of 1993.

Trend of GDP of Kenya at market prices estimated by the International Monetary Fund with figures in millions of Kenyan Shillings

Year	Gross Domestic Product	US Dollar Exchange
1980	74,940	7.42 Shillings
1985	143,715	16.43 Shillings
1990	278,502	22.86 Shillings
1995	614,267	51.42 Shillings
2000	967,838	78.58 Shillings
2005	1,449,408	75.55 Shillings

Source: http://en.wikipedia.org/wiki/Economy_of_Kenya

Kenya's GDP has grown steadily from Ksh 75 million in 1980 to Ksh 1.4 billion in 2005, but the strength of the Kenya shilling raises queries as to whether there is real improvement in growth. What is the role of aid in Kenya's supposed development?

Aid also played a significant role in Kenya's economies which received approximately US$ 16 billion between 1970 and 1996. During the past two decades, multilateral and bilateral sources were large and increasing. Gross ODA inflows increased from an annual average of US$205 million in the 1970s to US$630 million in the 1980s and slightly over US$1billion in the 1990s.

Bilateral donors were the key sources of funding in the 1960s and 1970s. The United Kingdom was the major source of aid to Kenya until 1980s, when Germany, the Netherlands, Japan and others significantly increased their contribution. Japan has since become a major bilateral donor to Kenya. Since 1980s multilateral sources have increased importance. Major donors now include World Bank, IMF, European Economic Community, and OECD among others.

When Kenya's Central Bank announced a 5.8 per cent economic growth this year, many media commentators termed the growth 'political' but not real. In the late 90's under President Moi's government, Kenya's economic growth gravitated between negative points to 2.3 per cent. The number of people who could not afford at least 2,250 calories per day had hit 14.4 million out of a population of 32 million Kenyans.

It is understandable why the general public dismissed the growth claim. The Kenya government had earlier on appealed for food aid as an estimated 3.5 million of its citizens were confronted with famine while poverty levels had risen from 47 per cent to 53 per cent in rural areas and 29 per cent to 49 per cent in urban areas. Despite the doubts cast on the growth figures, analysts were keen to point out increased economic activity in the construction sector. "Buildings are coming up like biotech trees," a commentator observed. The government recorded an increase of between 30 – 40 per cent of GDP in tax collection. The skyrocketing cases of corruption and crime implied increased transactions according to analysts.

Kenyans sent a strong signal to the government that they would like to own state owned corporations. This was exhibited by the overwhelming response when the Kenya Generating Electricity Company (KENGEN) offered the public an opportunity to buy shares. The share offer was over subscribed by 233 per cent. Scan Group, a privately owned company that floated shares to the public was also over subscribed by 521 per cent. The Nairobi Stock Exchange (NSE) has witnessed a beehive of activities in recent months with many ordinary Kenyans moving in to invest in shares.

Majority of the people investing in ordinary shares at the Nairobi Stock Market are the Kenyan middle class. Kenya's emerging middle class population of 5 to 10 per cent can afford electronic equipment such as Television, cell phones and access to internet among other sophisticated gadgets. The middle class coupled with Kenyans in Diaspora (who remit an estimated US$ 700 million) have played a crucial role in the growth of the economy besides the entry of China and India. It is estimated that Africa in general has witnessed a 5 per cent increase in economic activity attributable to China and India's quest for raw materials from the continent.

Do we need Aid?

The gap between the rich and the poor in Kenya is expanding at a very high rate despite the improved national outlook on economic growth. Aid expands the political elite as opposed to the business elite. To fight poverty, a business class of innovators is urgently needed to turn Kenyan and by extension African problems into business opportunities.

Aid makes it difficult for local innovators to respond to the needs in their immediate environment. Foreign aid ought to be avoided at all costs and in its place, sound policy that promotes a good business environment be adopted. A business minded population will be more productive for driven by the profit motive, it will provide solutions to famine, disease, and poverty in general. Unless Kenyans learn to feed themselves on a long term basis, over-reliance on aid will sustain the short term approach to food policy which disorganizes both economic and political systems of the country. An increase in Aid to Africa did not stop agricultural production in Africa from declining to 10 per cent from 27 per cent.

Although government to government assistance has played an important role in developing infrastructure in Kenya, it has also eroded political and economic entrepreneurship in Africa. Most of the existing infrastructure has been geared towards exploitation of raw resources for developed nations as opposed to building value added industries in the country. Kenya's fear of taking responsibility to steer their country to economic prosperity has not only created heavy reliance on external support but made Kenya to lose the self-sufficiency in food production that it enjoyed before development assistance came into vogue as illustrated by the country's famine history. Instead of reducing the number of people affected by drought through well thought out policies, the number has grown from 16,000 in 1975 to 3.5 million in 2006.

Famine History in Kenya

Year of Drought	**Number of People Affected**
1975	16,000 people
1977	20,000 people
1980	40,000 people
1984	200,000 people
1992	1.5 million people
1995-6	1.4 million people
1999-2000	4.4 million people
2004-06	3.5 million people

Source: National Disaster Management Policy, Republic of Kenya, 2004

A country that cannot feed itself cannot claim to be on the path to development.

The combination of massive aid increases and uneven or ineffective policy conditionality has ensured the sustainability of policies that would have been disciplined by market forces. Aid has had a powerful effect on state institutions in Kenya, simultaneously sustaining them and stripping them of decision making-power. It has undermined the development of state institutional capacity, by externalizing policy making and arresting the process of policy learning among Kenyan policy elites. At the same time, aid has comforted if not reinforced the state's neo-patrimonial tendencies by turning the decision-making process into a series of largely uncoordinated projects with tangible and excludable benefits controlled by state agents.

Economic Integration

To escape the aid fiasco, Kenya and by extension Africa, ought to encourage growth of businesses. An improved business environment will lead high productivity and quest for an expanded market. The government stands to benefit if more people in the population are productive and help expand the taxation base. Market access ought not to be a big problem given the present drive towards market integration.

At the moment, political elites have been largely left to drive the East African Community (EAC), Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS) and Southern Africa Development Community (SADC). To speed up the process, it is imperative that the African business people and organizations take active role in shaping the future of an integrated African market.

Kenya business people in the aviation sector should push for a speedy implementation of the Yamoussoukro Decision of 1999 to enable creation of regional economic hubs. The Yamoussoukro Decision envisaged liberalized intra-Africa aviation in capacity, frequency and pricing to stimulate African air transport. It will be cheaper to increase air connectivity as a strategic step that will lead to road and rail network. The 382 airports and airfields in East Africa should be expanded and utilized not only for purposes of promoting tourism, but serving as cargo collection centers to enhance regional trade. Increased air connectivity, and reduced delays at customs will increase economic activity and create wealth for Kenyans and Africans.

Involving the interests of the business community in integration talks and international trade negotiations will help give Kenyan and African civil servants the long term approach to decision making. It will also facilitate increase in diversification and specialization because businesses with a particular geographical region might seek to merge, or simply 'surrender' an industry which the competitor in a neighboring country is good at. For instance, Kenya might opt to import cotton from West Africa and specialize in fabric production and release the Cotton growing populations to other sectors.

Conclusion

The future of wealth creation lies in policy makers recognizing that Kenya is but a province in Africa. Economic policies should focus on cultivating a critical mass of business people that can supply the wider market in Africa and the rest of the World. Sound economic policy will lead to an expanded taxation base which is more sustainable than reliance on foreign aid. Rural populations need to be exposed to 'business thinking' to enable them plan long term, engage in efficient agricultural practice and seek to add value to their products. Kenya is in a unique position to act as an incubation center for business people who can help exploit the rich resources of Africa for the benefit of Africa. The resource rich Africa urgently needs regional hubs of economic activity in Southern, Eastern, Western, Central and North Africa that will help transform the continent's economy from over reliance on aid and export of raw materials.

Scaling down foreign aid industry is the best way to get Kenya and Africa tapping into the talents of their people. Foreign Aid has been identified as a major contributor to lack of economic freedom in poor countries. Poor countries are forced to imbibe instruction from wealthy nations that have their own self interests that care less what happens to Kenya and Africa. As William Easterly rightly observes in the latest Fraser Report, "Instead of the Berlin Wall, we have the 'Aid Wall', behind which poor nations are supposed to achieve their escape from poverty through collective top-down plans." The key to economic progress in Africa is certainly the African people. Left free to solve their own problems, free to choose solutions on their own – Africa will definitely be a prosperous place to be.

The 5 per cent economic growth recorded among African countries can be attributable to renewed interest in African raw materials by emerging powers, and the quest towards integrating African markets. The future of Africa's economic prosperity can be achieved through: -

1. The very fact that both established powers (U.S.A. and Europe) and emerging powers (China, India, Brazil) are busy jostling for African resources, is a sure indicator of Africa's wealth. Incentives for both local and foreign investors must therefore be encouraged to enable Africans to transform their raw materials into wealth. Focus on external investment to be done strategically in order to build a critical mass of producers in the continent. Africa needs to improve on her physical and legal infrastructure to facilitate increase in production and consumption. The legal reform must ensure that contracts are enforced and disputes resolved in an efficient manner.
2. Government to government aid has promoted the political industry as opposed to productive manufacturing, agricultural and service industries critical to economic development. It is therefore urgent, that the individual African person, take responsibility to address problems that affect them without waiting for governments and international agencies to prescribe solutions for them.
3. Self confidence and change of attitude is a must if Africa is to make progress. Lack of confidence not only compromises wealth creation but limits risk taking, leading to people being locked up in comfort zones. For Africa to develop, her people must urgently seek to travel the least taken routes.
4. Africans must promote intra – Africa trade in order to spur low level production and consumption as a step towards international market entry. To fit in the global economy, Individual African countries ought to open up their boundaries to enable African innovators to travel and respond to the market needs of the continent.

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