



Report

## East African prospects

An update on the political economy of  
Kenya, Rwanda, Tanzania and Uganda

David Booth, Brian Cooksey, Frederick Golooba-Mutebi and  
Karuti Kanyinga

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### Key messages

- Prospects in Kenya, Rwanda, Tanzania and Uganda are a matter of small variations and stepwise change within 'limited access orders'
- Pockets of crony capitalist success are set to get larger and more dynamic in Kenya, with some spread effects
- Political obstacles to coordinated sector reform are going to endure, with especially damaging effects in Tanzania
- The leadership factors that matter are collective and have to do with political organisation and underlying settlements
- Reforms could be achieved 'against the odds' if practical development organisations were to adopt a different way of working

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# Abbreviations

AFC	Agricultural Finance Company (Kenya)
ASDP	Agriculture Sector Development Programme (Tanzania)
AU	African Union
APPP	Africa Power and Politics Programme (research)
BRN	Big Results Now (Tanzania)
CAADP	Comprehensive Africa Agriculture Development Programme
CCK	Communications Commission of Kenya
CCM	<i>Chama cha Mapinduzi</i> (Party of the Revolution, Tanzania)
CHADEMA	<i>Chama cha Democrazi</i> (Democratic Party, Tanzania)
CIC	Commission on the Implementation of the Constitution (Kenya)
CORD	Coalition for Reforms and Democracy (Kenya)
COW	Coalition of the Willing (EAC)
CP	Conservative Party (Uganda)
CVL	Crystal Ventures Limited (Rwanda)
DFID	Department for International Development (UK)
DP	Democratic Party (Kenya, Uganda)
DRA	Developmental Regimes in Africa (research project)
DRC	Democratic Republic of Congo
EAC	East African Community
EPP	Elites, Production and Poverty (research project)
ETG	Export Trading Group (Tanzania)
FDC	Forum for Democratic Change (Uganda)
FDI	Foreign direct investment
FDLR	<i>Forces démocratiques pour la libération du Rwanda</i>

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GDP	Gross Domestic Product
GMO	Genetically modified organism
HIPC	Heavily Indebted Poor Countries (debt initiative)
IFI	International financial institution (World Bank, International Monetary Fund)
ICC	International Criminal Court
JEEMA	Justice, Education, Economic Revitalization, Morality and African Unity (Uganda)
JSC	Judicial Service Commission (Kenya)
IEBC	Independent Electoral and Boundaries Commission (Kenya)
IMF	International Monetary Funds
KADU	Kenya African Democratic Union
KANU	Kenya African National Union
KCC	Kenya Cooperative Creameries
KEPSA	Kenya Private Sector Alliance
KK	<i>Kilimo Kwanza</i> (Agriculture First, Tanzania)
KNCCI	Kenya National Chamber of Commerce and Industry
LAO	Limited access order
MONUSCO	UN Mission for the Stabilisation of Congo
MP	Member of Parliament
MTP	Medium Term Plan (Kenya)
M23	23 March Movement (DRC)
NAADS	National Agricultural Advisory Services (Uganda)
NAFSN	New Alliance for Food Security and Nutrition (Tanzania)
NARC	National Rainbow Coalition
NGO	Non-governmental organisation
NCPB	National Cereals and Produce Board (Kenya)
NMC	National Milling Corporation (Tanzania)
NRM	National Resistance Movement (Uganda)

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OA0	Open access order
ODM	Orange Democratic Movement (Kenya)
OECD	Organisation for Economic Cooperation and Development
OXFAM	Oxford Committee on Famine Relief
PAC	Public Accounts Committee
PEAPA	Political Economy of Agricultural Policy in Africa (research project)
PIRT	Presidential Investment Round Table (Uganda)
PNU	Party of National Unity (Kenya)
PSC	Public Service Commission (Kenya)
PSF	Private Sector Federation (Rwanda)
REPOA	Research on Poverty Alleviation (Tanzania)
RIG	Rwanda Investment Group
RPF	Rwandan Patriotic Front
SADC	Southern African Development Community
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SRA	Strategy for Revitalising Agriculture (Kenya)
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TD	Tracking Development (research project)
TNA	The National Alliance (Kenya)
TNBC	Tanzania National Business Council
TRA	Tanzania Revenue Authority
UN	United Nations
URP	United Republican Party (Kenya)
UPC	Uganda People's Congress
UPDF	Uganda People's Defence Force
WRS	Warehouse Receipt System

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# Executive summary

This report provides an update on the political economy of four East African countries: Kenya, Tanzania, Rwanda and Uganda. Based on published research, media reports, the authors' inside knowledge on certain topics and recent interviews with well-placed observers in the region, it is intended to provide guidance to any practical development organisation approaching a new phase of strategic planning in East African Community (EAC) member states. The Overseas Development Institute managed the production of the report, but it is an independent study reflecting the perceptions and opinions of the four authors.

The report is not a comprehensive treatment of the many important and interesting things currently happening in East Africa. The focus is on political economy and the implications, in particular, for modalities of support to the development of productive sectors in the four countries. In planning the work, the authors sought to address a number of themes of concern to practical development organisations across the region as well as topical issues concerning particular states. These were grouped under five headings:

- **linkages between political and economic power**, including the incentives and norms that regulate the behaviour of political and economic actors;
- **presidential authority as a source of development leadership**, including its role in either centralising or dispersing the accumulation of rents;
- **political challenges** – the extent to which parliamentary politics has become a force for change – **and institutional constraints**: whether regulatory bodies or governance initiatives are able to check vested interests;
- **issues in the governance of economic growth**, including attitudes to competition; and
- **prospects and risks** in the near and medium-term future, and strategies for addressing them.

The report has four sections that deal in greater or lesser detail with these topics for each of the focus countries. They are preceded by a framing section, which aims to anchor the country analyses in some of the major themes of recent scholarship on comparative development, with particular but not exclusive reference to sub-Saharan Africa. A concluding section pulls together some conclusions and then explores the implications, drawing on recent thinking about how to achieve economic reforms 'against the odds' in countries where the political economy is unfavourable to inclusive development and economic transformation.

## Framing the study

The framing section is largely based on published research. It contains some discussion of particular countries, but mainly to illustrate four propositions that cut across countries and seem important for placing the country details in proper perspective. The following arguments are advanced:

*EAC countries must be expected to exhibit, for years to come, the features of what Douglass North and associates, in an ambitious global study, call 'limited access orders'.* That is, the relationship between political and economic power will be close and strongly shaped by the generation and allocation of various kinds of economic rent. The fundamental relationships will be shaped by an explicit or implicit elite bargain around this issue. The way formal institutions, including elections, parliaments and regulatory agencies, actually function will be shaped by this bargain or political

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settlement, not the other way round. A rapid and once-and-for-all transition to an ‘open access order’ with competitive markets and well-functioning liberal-democratic politics is not on the agenda. On the agenda are small steps in a new direction, and modest differences within the general pattern, which make a large difference to some development outcomes. Three examples are given.

***First, it is certainly possible to build up particular sectors of productive activity.*** In fact pockets of effectiveness – in which political drive, entrepreneurial interest and relevant bureaucratic support come together – are quite significant in certain sub-sectors of some economies of the region. A notable feature of these success stories of ‘crony capitalism’ is that they arise where politicians happen to have the same interests, or to be the same people, as the entrepreneurs, not where sectors are protected from ‘political interference’ thanks to an arm’s length relationship with government.

A major limitation of this form of sub-sectoral success is that it typically does not benefit large numbers of poor people. Unlike the experience in much of Southeast Asia, it does not take hold in major fields of smallholder cultivation or other small-scale rural enterprise. Breaking through into those sectors calls for substantial amounts of market coordination and coordination of reforms.

***Politically supported coordination of sector reforms is a second important factor of variation.*** On this, the best-documented experience suggests that under current conditions, East African governments, with the possible exception of Rwanda, cannot provide the necessary political support to such coordination. That applies even when they attract strong support from a president; the reasons are systemic, not personal.

***Thirdly, this is about leadership, but only if leadership is conceived as an institutional issue affecting country elites as a group.*** Political parties and party systems are the root issue, because it is only through political organisation that elites can overcome the barriers to collective action that ordinarily prevent their pursuing national interests. This is playing out in very different ways in the four focus countries. Kenya is the best placed to host dynamic capitalist development, partly because of the particular way economic enterprise has interacted with ethnicity in that country, but it is a grave anomaly in terms of the conditions for collective action by the elite as a whole.

## Kenya

The intermingling of political and economic power in Kenya has always been intense, but has taken different forms under the presidencies of Jomo Kenyatta, Daniel arap Moi, Mwai Kibaki and now Uhuru Kenyatta. The Kenya section of the report traces the shifts. It gives some grounds for expecting that the era in which political funding depended on large-scale scams may be over, and that the opening of opportunities to new business sectors that began under Kibaki’s first term (henceforth ‘Kibaki I’) may be consolidated under the current government. While the Jubilee alliance between Uhuru Kenyatta and William Ruto remains a coalition, it has shown signs of unusual coherence, partly on grounds of expediency, thanks to the International Criminal Court (ICC) indictments.

Western pressure around the ICC and governance generally was one factor in the ‘Look East’ initiative manifested in the president’s state visits to Russia and China in August 2013. The composition of the business delegation that accompanied the president suggests that there has been a renewal of the leadership of Kenyan business, at least in its more dynamic Kikuyu branches.

Institutionalised political parties play an insignificant role in politics in Kenya, as emphasised in the discussion of overarching issues. Institutions that provide some checks on vested interests have been weak, and their strengthening under the 2010 constitution has produced uneven results. There is much popular support for the devolution measures, based on a new county level of government, but it is not clear that implementation has sufficient champions.

Changes that influence the governance of growth will therefore come primarily from the executive, the best hope being that the growth rate will now stabilise at the high level achieved under Kibaki I. It is apparent that the general climate for business in Kenya is going to remain good. It is less clear whether the Jubilee coalition will have sufficient coherence and determination to tackle the kind of

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reform-coordination challenges discussed in the framing section, given the importance in specific sectors of the holdings and patronage networks of presidents past and present.

## Tanzania

While Kenyan politics revolves around the inclusion or exclusion from power of the five or so major ethnic blocs, political competition in mainland Tanzania reflects the significance of a multiplicity of relatively small African identity groups. Apart from the enduring issue of the union with Zanzibar, the primary ethno-political challenge is that political power is dominated by black-Africans while business remains largely the preserve of Asians, Arabs and expatriates. The Tanzania section of the report explores how this gives continuing force to the anti-capitalist sentiments built up in the Nyerere era, influencing the opposition and NGO campaigns as well as the ruling CCM.

Against this background, government policies for the rural economy, including land, tend to be contradictory and unstable, inspired on the one hand by visions of large-scale investment and fuelled on the other by nationalist fears of various forms of exploitation by non-Africans. Meanwhile, politics is becoming more expensive, thanks in part to factional competition inside CCM. Political funding continues to rely on semi-compulsory contributions by large enterprises. Typically, large contributors in the commercial sectors are rewarded with tax and customs exemptions.

Recent experience suggests that presidential leadership of sectoral reform initiatives will not be sufficient to overcome the systemic constraints produced by this kind of mutuality between political and economic interests. Reform coordination and delivery on the recent 'Big Results Now' commitments are further undermined by the fact that the centre does not control local government. While CCM is likely to face increasing electoral challenges, including in rural areas, there are slight prospects of its being displaced in the foreseeable future. A likely outcome of the selection process for the next CCM presidential candidate is a further victory for 'money politics' based on the least progressive forms of rent-seeking.

Some economic bright spots and potential opportunities remain in spite of all of the above. They include manufacturing for the EAC market and beyond, tourism and large-scale hard-rock mining. There remains a possibility that some of the visualised large-scale agribusiness investments involving smallholders will take off, thanks in part to support from donors or concessional lenders, but too often there is a disconnect between donor thinking and experience and profitability estimates of potential investors. Public expectations of a bonanza arising from the exploitation of oil and gas finds seem unlikely to be met.

## Uganda

The situation and prospects of Uganda are distinguished by the long-term dominance of a single political leader, Yoweri Museveni. Political and business interests are closely entwined; partly because of the way politicians enriched themselves from privatisation during the 1990s. Investors, especially new investors from Asia, are routinely 'facilitated' by politicians via local fixers, to which the business people respond with financial contributions and other favours. Corrupt rent-seeking arrangements of various kinds are widespread, unregulated and seldom penalised effectively despite elaborate formal controls. Museveni presides over an implicit bargain that is highly tolerant of many kinds of private lawlessness on the understanding that his own permanence in power is not put into question.

The president is a crusader for business, but his inclination to monopolise decision-making mirrors the preference among business people for individual rather than collective representation. In combination, these create a rather unfavourable climate for large-scale investors, especially those that prefer to play by the formal rules. There is a fire-fighting quality to the way the government is run. These patterns seem likely to affect the way the nascent oil industry is managed and regulated.

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Over the years, the president has displayed a consummate ability to tame parliaments and the critics in the media. Formal opposition parties show a marked tendency to fragment. The increasingly sharp confrontations between the regime and the opposition movement of Besigye seems unlikely to be a source of real change because both sides treat the issue in highly personal terms and rural voters still credit Museveni with bringing peace to the country.

The section concludes by considering the prospects for significant change in Uganda. It argues that caution is required in interpreting the signals, particularly when these appear to point to alarming scenarios. On the basis of testimony at close quarters over an extended period of time, it seems unlikely that Museveni will retire in 2016, or that he will proceed with the concept of keeping the succession within his family. His ability to manipulate and co-opt any outbreaks of armed opposition should not be underestimated. Resolving the current stand-off with the Buganda monarchy is not expected to be beyond him.

## Rwanda

The report discusses Rwanda last, breaking with alphabetical convention, because the country is undoubtedly an outlier in the region. Although burdened with the least developed economy in terms of income levels and economic structure, the country is benefiting from political arrangements that set it apart. Politics and business are intertwined, as elsewhere, but in a distinct way. By and large, political and economic functions are distinguished. Business people are networked in groups that reflect the differences between long-term residents and returnees as well as the different places of exile of the returnees (Anglophone and Francophone). Despite government efforts, the formal representation of business interests is not very strong. Other distinguishing features are the important roles of the government-instigated Rwanda Investment Group – a public-private investor consortium – and the ownership of a large group of formal enterprises by a party holding company.

Policy-making does not suffer from the acute, politically driven coordination problems that have been highlighted for Kenya and Tanzania. While many observers put this down to Kagame's personal dominance and leadership style, we argue that the explanation is more institutional. It is one of the benefits of a political settlement, enshrined in the constitution since 2003, which includes three basic commitments: power-sharing among registered political parties; development rather than negotiation as the path to national reconciliation; and a style of multiparty politics that does not rely on clientelism and hence can take a hard line against corruption.

These features, together with the depth of the country's poverty and the weakness of capacities in many fields of government, make Rwanda a country where external assistance on the right terms can make a real difference. More than any internal challenges – including the presidential succession – the situation in eastern DRC is a threat to the permanence of the political settlement and the security of the RPF-led regime. Rwanda has suffered significant economic and diplomatic penalties as a result of being accused of supporting the M23 rebellion. The situation will continue to be dangerous for Rwanda, as well as for the populations of the Kivus, if the UN/DRC defeat of the M23 forces is not followed up by equivalent action against anti-Tutsi militias and the FDLR.

## Implications and ways forward

In its concluding section, the report reviews the extent to which the country updates agree with or qualify the propositions in the framing section. There appears to be a high level of agreement with the four broad research findings used to frame the study, but known differences across countries in historical legacies and structural features have been highlighted. Within the set, it appears that things may be getting better in Kenya, at least from the perspective of politics-business relations and the governance of growth; they are probably set to get worse in Tanzania and to stay constant in Uganda in spite of the alarm bells that are sounding; Rwanda is well placed to continue making better than average progress despite its locational and other disadvantages. There are threats to the model, but they are more international than internal.

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These kinds of conclusions, which are in this respect typical of political economy studies, might appear to pour cold water on all efforts by practical development agencies and local reformers to facilitate key reforms. However, this is not the message we want to convey with this report. There is good international evidence that despite political economy constraints such as these, successful sectoral reforms can succeed ‘against the odds’. This suggests careful consideration of the scope for intensive behind-the-scenes work by ‘indigenous reformers’ to identify the specific obstacles to a desired change and discover ways of overcoming them.

This approach capitalises on the high level of uncertainty in complex processes of change and therefore needs to be pursued in an iterative, learning-oriented way. It brings diagnostic political economy work together with a vision of ways of intervening that are capable of releasing the most likely constraints and addressing unanticipated blockages as they emerge. It contrasts with an approach to complex reforms involving multiple stakeholders that relies heavily on a formal partnership with government, especially where large sums of aid are involved.

In the frontal approach to reform, governments are unlikely to be able to deliver on their side of the bargain, regardless of the good intentions they may have. That means more informal working, with a wider range of stakeholders, building alliances for change that may be non-obvious and even uncomfortable. Documented African examples of successful sectoral reforms against the odds are rare, but there is enough experience in Nigeria, among other countries, to suggest a fresh way of thinking about how to promote reform.

The report submits these ideas for consideration by practical development organisations in East Africa. A more detailed political economy analysis may be of assistance in defining strategies of support to selected productive sectors, particularly by providing more fine-grained descriptions of the key stakeholders than has been possible here. However, the challenge is to go beyond one-off diagnostic exercises and to build analysis into everyday ways of working. The aim should be to discover, through trial and error, ways of altering the relation of forces among the stakeholders that enable progressive reforms to happen.

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# Introduction

Under what conditions are equity- and productivity-enhancing reforms likely to prosper in sectors of the East African economy? How likely is it that these conditions will be present in the next decade? What specific features of the current political-economic situation are most relevant from the perspective of practical organisations committed to supporting progressive changes? What strategies and ways of working are likely to be most effective in contributing to positive outcomes? This report contains the findings of an independent study of these issues addressed to a wide range of organisations and interest groups based in or concerned about the prospects in East Africa.

The study builds on the substantial body of research- and experience-based understanding that now exists on the political economy of East African countries. A political-economy approach is distinguished by the effort to provide a realistic perspective on the relationships between and among economic and political processes. Particular attention is given to the way the interests of powerful political actors are shaped by their economic and social environment, and how these interests in turn lead to policies and behaviours that influence the course of economic development. The specific purpose of the study is to summarise the most relevant dimensions of the political economy of four countries, Kenya, Rwanda, Tanzania and Uganda, and to provide an update on any significant recent changes and the prospects ahead.

The report addresses each of the following issues:

- the model of government and leadership that has evolved in each country;
- the incentives and cultural norms that have developed within and between those that control economic power and those that control political power in each country;
- the role, effectiveness and influence of presidents/leadership;
- the extent that rent-seeking is systematic and the extent to which this is centralised and coordinated within the leadership and controlling party;
- the extent to which parliamentary politics is a force for change or, alternatively, that opposition MPs or those within local governance structures are equally embedded within the same political economy;
- the extent that institutions have been put in place that have any influence on the political elite or on holding vested interests in check;
- the specific trends relating to the governance of growth, including whether government is moving down a specific path that clarifies its role in creating economic growth and is building capacity to implement this, and whether government is embracing competition;
- the key efforts that have been made in the past to improve governance (by individuals from the inside or international organisations from the outside) and the extent that they have been effective; and
- what strategies and approaches might be effective for bringing about positive changes in governance that have positive impacts on livelihoods and development processes in the region.

The report addresses these questions, and others of a more country-specific sort, in four sections, each dedicated to one of the focus countries. Here, the analysis draws on the country knowledge of three specialists – Karuti Kanyinga (Kenya), Frederick Golooba-Mutebi (Rwanda and Uganda) and Brian Cooksey (Tanzania) – and on recent interviews conducted by them in the respective countries. The

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country sections are preceded by a discussion of some overarching propositions about the development prospects of East Africa drawing on recent published research. This serves to frame the analysis in the country sections by providing some of the background to the approach adopted. In the final section, we consider the extent to which these broad propositions have been borne out by the detailed country assessments, and the ways in which some of them may need to be nuanced. David Booth has been primarily responsible for the drafting of the framing and implications sections as well as for study coordination and editing.

Throughout the report, our approach is positive, not normative. We aim to describe and understand what is happening, and to make judgments only in the final analysis. Much of the treatment is implicitly – if not explicitly – comparative, but we take the view that the relevant comparators are countries at similar levels of economic and social development, today or in the past. We particularly try to avoid forms of analysis that focus on the often considerable gap between current arrangements and practices in these poor, developing countries and the ‘best practices’ or standards of good governance that have been established in the latest phase of capitalist development in the North. A more relevant criterion of judgement is whether a given country is doing as much as it might to achieve what has been achieved at similar levels of economic and social development elsewhere.

This is consistent with a broad trend in development policy research emphasising the changes that are both feasible and relevant in context (‘good fit’ reforms, ‘good enough governance’). It is also, we believe, the most practical approach in seeking to guide development-support organisations on why some of their interventions succeed and others fail, and what approaches offer the best prospects going forward.

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# 1 East African political economy: some framing propositions

## 1.1 Introduction

Recent research has done a good deal to extend the evidence base for realistic thinking about sector-level reforms in East Africa. In particular, a series of global, historical and comparative studies have led to a new realism about the prospects in poor, developing countries generally. A key insight common to the studies of Douglass North and associates and Mushtaq Khan is that a clientelistic, rent-extracting relationship between politicians and economic actors is virtually inevitable so long as the productive structure, and thus the formal revenue base, of a country remain narrow. In these circumstances, progressive change may well be possible but it will occur in a stepwise fashion as shifts in the ways rents are deployed begin to blunt the worst effects of the prevailing ‘limited access order’ or usher in a more developmental ‘political settlement’.

Working within this type of perspective, but with a focus on Africa, the Elites, Production and Poverty (EPP) project, led by Ole Therkildsen, has shed significant light on why some productive sub-sectors seem to prosper in a generally unpropitious political environment. Case studies for EPP, for the Leiden-led Tracking Development (TD) project and for the Political Economy of Agricultural Policy in Africa (PEAPA) project of Colin Poulton have documented promising initiatives in other sub-sectors that have been fatally undermined by a lack of politically supported reform coordination. The Africa Power and Politics Programme (APPP) and Developmental Regimes in Africa (DRA) project have identified some of the variables explaining why some political regimes are better than others at providing the credible commitments to investors that sustain economic growth. Within this context, views are converging from several quarters on the value of an iterative, adaptive, problem-solving approach to developmental reform, with East Africa as an obvious case for further treatment.

As a whole, this body of work provides a helpful framework for thinking about productive ways of working for reform in specific countries and sectors. It makes clear both the possibilities and the most likely pitfalls. It provides at least some pointers to what may be necessary in terms of revised ways of working for practical development in the region. This framing section presents the main messages and summarises their implications for the discussions of the issues by country that follow. The section contains four sub-sections, respectively dealing with:

- the fundamental reasons why political and economic interests relate to each other in East Africa in ways that are often unhelpful to the emergence of competitive, inclusive markets and liberal-democratic governance;
- how the prevailing forms of ‘crony capitalism’ do nonetheless permit some ‘islands of effectiveness’ in which economic and technological capabilities are accumulated to some degree, with benefits to the wider economy;
- the extent to which the state or public/private bodies have politically supported capabilities for regulation of markets or coordination of reforms, overriding the resistance due to particular entrenched interests; and

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- the importance of whether or not elite groups are able to reach political settlements under which the allocation of rents does not undermine but helps to create the conditions for economic development and social progress.

## 1.2 Political and economic power linkages under ‘limited access orders’

In the plan for this study, set out in the Introduction, the first two priority questions respectively concern the model of government and leadership that has evolved in the focus countries, and the relationship between economic and political power. Three further questions are about the degree to which formal checks-and-balances and governance-improvement initiatives are capable of moderating the effects of these fundamentals. These questions are obviously linked. Sections 2 to 4 of the report provide details on the specific patterns observed in each country, but these could be considered variations on a single theme. According to the broad comparative literature, certain basic features of the way economic and political power are connected, shaping the way government is conducted, are common not just to all of the countries of East Africa, but to all low-income countries.

Comparative history suggests that, as a group, the EAC countries will retain for some time yet most of the features of what North et al. (2009; 2013) call a limited access order (LAO). That is to say, the political and economic power of elite groups will remain closely entwined. Markets will not be highly competitive or inclusive. Capitalism will begin to take hold but in the form of ‘crony capitalism’ in which non-market relationships play a crucial role. The generation and allocation of economic rents will play an important role in limiting political violence and maintaining the fundamental agreements underlying the rules of a patronage-based political game. This will limit the use of rents to finance the learning processes and provide the market coordination required to turn fast economic growth into real economic transformation. It will also prevent politics and policy-making from becoming primarily a battle of ideas based on contending programmes or ideologies, as in today’s advanced capitalist economies, said to be characterised by ‘open access orders’ (OAOs).

Progressive changes do occur under LAOs; indeed development has never occurred *other* than by stepwise changes in the structure of LAOs, for example the removal one-by-one of particular remnants of former feudal, patrimonial or ‘neopatrimonial’ systems (Kelsall, 2013b), enabling processes of economic and social transformation to gather pace. Such changes can eventually acquire a cumulative character. There may be key turning points which, in retrospect, will be seen as having set a country on a new course. But dramatic shifts ushering in an open access order all at once are not on the cards.

The reason is that there are major structural interdependencies between the required changes in economic structures and capabilities, social structures (including class) and the ways political systems function. On the one hand, as Khan (1995; 2010) argues, so long as the productive structure of a country is narrow and largely pre-capitalist, providing a weak formal revenue base, the financing of government necessarily depends on rents of various kinds. Moreover, limiting political violence and avoiding civil war will entail some agreement among the major elite groups and the communities they lead about how the available rents are to be shared out (Lindemann, 2008; Parks and Cole, 2010). In this sense, rents and even ‘rent-seeking’ can perform positive functions, even if they have the effect of inhibiting economic progress.

Looking at it from the other side, well-functioning liberal democracies require not just a development social class structure but organisational capabilities, particularly for the delivery of public goods, that only arise when capitalism is quite advanced (North et al., 2009). So long as these preconditions are not in place, the usual result of introducing formal multiparty competition with elections will be to

*Keeping analysis anchored  
in what is likely to be  
realistic*

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increase the costs of financing politics and, therefore, the likelihood of increasingly onerous forms of rent extraction from economic enterprises, with dampening effects on investment and broadly spread economic growth (APPP et al., 2012).

Since the informal rules governing the political settlement arise from deep-seated concerns about power and the avoidance of conflict, formal parliamentary and legal institutions have few of the effects expected of them in democratic theory. Checks and balances do not work. Donor initiatives to support better governance tend to remain empty shells. As we show in the course of this study, many of the answers that have to be given to questions about regulatory governance institutions in East African countries appear rather negative, but this is partly because the questions may convey unrealistic expectations.

It is important to keep institutional analysis firmly anchored in a sense of what is likely to be realistic. The international policy consensus on Africa since the 1980s has been at best naïve about the prospects that economic and political liberalisation will lead quickly to dynamic, market-based development and comprehensive ‘good governance’. The way international opinion responded to the ‘Arab Spring’ shows that such naivety is still a prevalent way of thinking, at least among journalists and politicians in the West. The literature advancing more historically informed perspectives is substantial and growing,<sup>1</sup> but has yet to make a major impact on high-level global opinion.

*Sub-sectors prosper when  
they attract a particular  
kind of political interest*

Importantly, however, our purpose in starting this overview with a strong dose of evidence-based realism is not to discourage investigation of differences among countries and over time. It is only to point out limits to the likely range of variation, and to suggest what dimensions of variation may need more attention than they have had in the past. This perspective of looking for non-obvious but developmentally important differences among African regimes that have been treated as generically neopatrimonial or of LAO type has been most clearly stated in the APPP-based book by Kelsall (2013b). It is the perspective adopted here.

What kinds of differences should we be looking for and highlighting in this study? The following subsections identify three that seem particularly significant on the basis of completed research. We explore these dimensions of variation, as well as some of the persisting commonalities among East Africa’s LAOs, in the country sections. When we come to drawing out the final implications of the study in Section 6, we consider to what extent the latest evidence supports the emphasis we have placed on these particular issues.

### **1.3 Crony capitalism’s islands of effectiveness**

The weak response of Africa’s productive sectors to economic liberalisation since the 1980s has often been treated as a generic issue, subject to a generic political-economy interpretation. Influential explanations centred on the neopatrimonial character of post-colonial African states (Chabal and Daloz, 1999; van de Walle, 2001). An important innovation of the EPP project mentioned above was to recognise variability of performance not just across countries and periods, in the manner of Kelsall, but across sectors and sub-sectors within national economies. EPP took the sources of sectoral differences in performance as its main research problem.

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<sup>1</sup> Apart from the output of North et al. already cited, see Khan (1995; 2007), Chang (2002), Reinert (2007), Sundaram and Chowdhury (2012), Noman et al. (2012), Kelsall (2013b) and, with some reservations, Acemoglu and Robinson (2012).

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The conclusions reached, on the basis of a series of in-depth case studies, are good pointers to what it takes (and, on the other hand, what may not be needed) to achieve some success in raising productivity, capabilities and incomes in a branch of economic activity. It should be added that the results also indicate why it would not be realistic to rely on a multiplication of the typical type of these sub-sectoral ‘islands of effectiveness’ as a route to progress in East Africa. In this sense, the research agrees with the themes developed later in this section.

The experiences documented by EPP lead to the conclusion that sub-sectors prosper when they attract a particular kind of political interest. In general, politicians support productive sectors when this helps to cement a ruling coalition or otherwise keep them in power. Particular productive activities are favoured when the relationship between elements of the ruling elite and the relevant productive entrepreneurs is important to cementing the coalition in power. Where this primary condition exists, a second condition has proven to be relatively easily satisfied, that of creating a pocket of efficiency within the relevant ministry of public agency, allowing the necessary productivity-enhancing reforms to be driven through (Whitfield and Therkildsen, 2011).

EPP’s East African case studies broadly supporting this interpretation included lake fishing and the dairy industry in Uganda (Kjaer et al., 2012) and sugar in Mozambique (Buur and Whitfield, 2011). This was pioneering work, and unfortunately it is not possible to refer to an equivalent set of case studies covering all of the crops and industries that are potentially of interest to readers. It seems likely that the dairy sector, banking and supermarkets in Kenya would be equally supportive of the argument (see Section 2 of this study). Some branches of manufacturing and tourism might be similarly considered in Tanzania (Section 3). The agro-processing, real estate and construction businesses of Crystal Ventures Ltd. in Rwanda would clearly qualify (Section 5). In this study, we allude to these possibilities at various points, but cannot offer the kind of depth provided in the EPP papers.

It is worth underlining that, contrary to some of the more traditional donor thinking about private sector development, the EPP studies do not point to the conclusion that sectors need to be protected from political interference; on the contrary, active political support seems to be a precondition. Also, the bureaucratic input does not need to correspond to an abstract ideal of technical expertise and independence. The key is a group of officials with genuine interest in, and some knowledge about, the sector and its needs – an ‘embedded autonomy’ vis-à-vis producer interests.<sup>2</sup> The general recipe for success seems to be, in summary, a close triangular relationship between the entrepreneurs, the bureaucrats and the politicians (ibid; APPP et al., 2012). Cases of sectoral reform initiatives that fail, as with fresh pineapple exports in Ghana, are often explicable in terms of the weakness of one or more sides of such a triangle (Whitfield, 2010).

This analysis begins to provide a partial answer to the question in our terms of reference about trends in the governance of growth. It may well be desirable that EAC countries move in the direction of a more arm’s-length relationship between government and the private sector, governments becoming principally regulators and promoters of private effort, as in OECD countries. However, this may not be realistic, in which case dynamic forms of crony capitalism may be well worth having. It is certainly a priority to look out for them in order to take a closer look.

It may be that where a triangular relationship between entrepreneurs, bureaucrats and politicians can work to produce good outcomes in a particular sub-sector, there will be little need or appetite for external support (although Danish technical assistance did play a role in the Ugandan dairy-sector reform). On the other hand, economic sub-sectors that succeed by ‘working with the grain’ of the prevailing political system may offer opportunities to externally funded support organisations, if and when more encompassing reforms seem to be off the agenda. We return to the issue in concluding, having examined recent experiences country by country.

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<sup>2</sup> Borrowing the language applied by Evans (1995) to officialdom in South Korea during that country’s early industrial breakthrough.

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## 1.4 Politically supported coordination capabilities

Studying sectoral success, where it can be found, has big attractions. Even the most successful developing countries in Asia began by transforming the governance of particular sectors; generalised improvements came only later. That is one of the findings of the Tracking Development project, which examined the record of four Southeast Asian countries over the fifty years from 1960 alongside what was achieved in their closest equivalent countries in Africa (van Donge et al., 2012; Berendsen et al., 2013; Vlasblom, 2013).

*Political coalitions are built  
in Tanzania on the basis of  
concessions to powerful  
constituencies*

On the other hand, it does matter whether early success is achieved only in branches of activity that produce socially or regionally concentrated benefits or is also present in at least one sector involving large masses of the population (e.g. a staple food sector). In Southeast Asia, the early successes included food staples and export crop sectors employing large numbers of people. This is the sort of success that East Africa badly needs. It tends to call for well-organised and politically supported coordination of a range of reform inputs. While this may be difficult in a neopatrimonial political context, it is not impossible, as Southeast Asian experience shows. Thus, an important type of variation to which we should be attentive is the extent to which either the state or a public/private body has a politically supported capability to coordinate institutional and market reforms. Regarding the challenges this entails, we may call on other recent research.

Two well-researched case studies are available to illustrate why adequate, politically supported coordination is likely to remain a major problem in the larger countries of East Africa for some time to come. They show that coordination failures can be fatal even when there is real political interest in a productivity-enhancing initiative and, at least, elements of the necessary bureaucratic capacity. They are of particular relevance to the third question in our list of topics: what is the role, effectiveness and influence of presidents or national leaderships?

Therkildsen's (2012a) study of President Kikwete's big push for irrigated rice shows that central political support promises an impressive result at one level – a substantial increase in irrigated land area as well as large increases in total output of paddy. However, for such expansion to be actually realised and sustained, there needs to be coordination with import tariff policy to ensure a market for the increased domestic output. And the physical investments need to be complemented with proper provision for operation and maintenance. In both respects, coordination failed.

First, neither the cabinet nor the leading bodies of the ruling CCM party were able to provide the necessary counter-weight to prevent a concentrated group of politically well-connected importers from smuggling in rice or from getting exemptions from the applicable EAC external tariff. Second, in the context of intensified factional struggles within CCM (see Section 3), the local governments that are responsible for setting up operations and maintenance systems were increasingly in a position to ignore instructions from the centre and indeed to make demands of their own as a condition for political support. Efforts to improve operations and maintenance of irrigation infrastructure were, as a consequence, largely absent

In retrospect, this outcome could probably have been predicted. Political coalitions are built and maintained in Tanzania on the basis of concessions to powerful constituencies, and these normally include major players in the food-trading system. The effects would have been mitigated if paddy growers had themselves been effectively organised as a pressure group, as sugar producers are. But, the more a crop depends on the efforts of a mass of small producers, the less easy it is to organise them as a counter-weight to trading or processing interests. The dependence of productive sector reforms on local-government politicians and bureaucrats who have become liberated from central

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government tutelage poses a major challenge on its own. The remarkably chaotic status of agricultural policy in Tanzania – of which the rice story is a sub-plot – is discussed further in Section 3.

The second study to highlight here is the examination of Kenya's Strategy for Revitalising Agriculture by Poulton and Kanyinga (2013). Again, this shows that even quite considerable political will in key quarters of government may not be enough to deliver actual reform. Given the way governments in Kenya are put together, it can be imperative to maintain the support of coalition members whose own political survival depends on organisations that supply, and/or producer groups that benefit from, the rents created under past policies which are supposed to be the target of reforms. This is what eventually killed the SRA.

Formulated under the 2002 NARC government and substantially incorporated into the Agriculture Sector Development Strategy of the 2008-13 government of national unity, the SRA called for a significant scaling down and transformation of the role of the state in the sector. Its relatively high profile reflected the fact that reform-minded technocrats have occupied key positions in Kenyan governments over the last decade. However, its implementation would have called for unprecedented collective action by a number of interested ministries. Moreover, Ministers of Agriculture in recent governments have tended to be Kalenjins, politico-ethnic junior partners in alliances that were generally considered unlikely to last. Minister Kipruto arap Kirwa, as the lone Kalenjin minister in the NARC government, 'could not be seen to be undermining NCPB, AFC or other state organisations that primarily benefited or were staffed by Kalenjins' (ibid.: 9). Under the second Kibaki administration, Minister William Ruto lost his job after the distribution of fertiliser and maize subsidies became a national scandal, but, significantly, his replacement was another Kalenjin burdened with similar commitments to his support base.

Reforming the institutions of the Kenyan agricultural sector promises significant general benefits to the economy, making it attractive to politicians with economy-wide interests, such as many of the leaders of the Kikuyu community. However, its immediate effects would have undermined the power base of Kalenjin leaders whose loyalty to the governing coalition was then, and in different circumstances remains today, essential to its stability. The key absence, of course, is some higher source of political coordination that is capable of overriding opposition and/or compensating losers in a reform process, as discussed further below. This may be wishful thinking. Without some higher-level resolution, however, technical coordination and reformist drive alone are unlikely to work.

To summarise, politically supported coordination capacity (as distinct from merely technical coordination capacity), including some ability to overcome entrenched interests, is a key element that has often been lacking in East Africa. That applies to Kenya, Tanzania and Uganda at least. In cashew production and processing, coordination failures rooted in the political structure account for Tanzania's failure to match Vietnam's success, a story told in detail by Kilama's (2013) PhD study under the Tracking Development project. In Uganda, the study by Kjaer and Joughin (2010) of the political pressures which led President Museveni repeatedly to overturn the technically approved NAADS and the Plan for the Modernisation of Agriculture involve similar factors. The politician's ability to provide discretionary hand-outs of agricultural inputs at times when elections are approaching is so highly appreciated that other considerations have to be set aside. The result is policy incoherence.

*Politically supported  
coordination capacity is a  
key element that has often  
been lacking*

In the majority of these experiences, the problem is that the interests favouring market coordination – which are no longer insignificant, especially in Kenya – are overridden in the end by forces that rely on agricultural organisations or parts of the market to maintain their vertical patronage networks. A significant exception, or at least a deviant case, within the current East African scene is Rwanda.

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According to the broad-brushed assessment of agricultural policy in Rwanda provided by Booth and Golooba-Mutebi (2012b), policy has improved greatly since the mid-2000s. A major crisis of production and food availability and discouraging statistics on poverty incidence and inequality led to significant policy learning a decade ago. The result has been the adoption and implementation of a sensible strategy for agricultural transformation with a well-conceived crop intensification programme at its centre. Implementation of this programme is showing promising results, which it is to be hoped will lead to its scaling up to a level that exceeds the relatively modest targets set by CAADP (Golooba-Mutebi, 2013). The gains have been somewhat obscured by an academic literature that is radically sceptical of anything other than traditional agricultural practices oriented to minimising famine risk and exhibits a very low tolerance for the social differentiation that often accompanies agrarian change. In any case, this literature is suspicious of the motives of the RPF-led government (Ansoms, 2011; Huggins, 2013). We think there are grounds for a wait-and-see approach.

A factor in our relatively upbeat assessment is the observation that agriculture in Rwanda is politicised in a different way than in the other countries of the region. Improving rural livelihoods is not just a formal priority of the president and the ruling coalition, as elsewhere. There is a real commitment to consistent implementation which arises from the fundamental political calculation that promoting prosperity and ultimately defeating Hutu extremism depend on it. There is also a greater ability to deliver on the commitment, which has to do with the way the political system works. The 2003 constitution and the political settlement underpinning it effectively outlaw clientelistic politics (Golooba-Mutebi and Booth, 2013). Consequently, neither agriculture nor any other policy area is the fiefdom of a politician or coalition member who needs to be kept onside. Meanwhile, local government, far from becoming a constituency that needs to be placated by the centre as in Tanzania, is strictly an implementing machine for central government policies. Under these conditions, improving policy for agriculture may not be plain sailing, but it is not afflicted by the particular difficulties highlighted in this section.

An important implication of this sub-section is that when it comes to sector-wide reforms that require a significant amount of politically supported coordination, the key question is not likely to be whether the president, or a significant subset of ministers or Permanent Secretaries, is sincerely in favour of the reform. The key question is whether the system will support such coordination. Can it override the fact that the exchange of favours on which politics is based will, in the normal course of things, rule out at least one precondition for the reform to work, be it a clean system of tax or duty exemptions, or the withdrawal of an expensive subsidy? Most of the answers to these questions may be negative, but the fact that we have at least one apparent country exception allows us to view this matter as variable and not as inevitable. We return in conclusion to how this finding should affect commitments to sectoral reforms by practical development agencies in the region.

## 1.5 Leadership, group interests and political settlements

It is commonplace and not entirely wrong to say that development is about leadership. As Greg Mills provocatively wrote a few years ago, ‘The main reason why Africa’s people are poor is because their leaders have made this choice’ (2010: 1). We have just seen one sense in which this is *not* true. East African presidents, certainly including Museveni and Kitweke, have demonstrated, on occasion, serious and sincere commitment to actions stemming from a development vision. The trouble is that when it comes to delivering on them, they are shackled by the way politics works in their countries. Ensuring that the actions of different parts of government are consistent and mutually reinforcing is a challenge even in advanced democracies. It is close to impossible where cabinets are constructed to allocate suitable ‘baronies’ and attendant rents in a politically astute way to make up a viable coalition.

Yet Mills is not wrong; leadership choices are crucial. The recent literature has tended to handle this issue by taking it up to a higher level, where the focus is on the *collective* choices that are made and renewed within the national elite as a *whole*. Successful development occurs when different groups of powerful people who make up the elite of a nation succeed in overcoming the collective action problems that ordinarily prevent them working together to pursue national interests. Typically, elites

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are fragmented along regional, ethnic or religious lines. Particular groups are unwilling to invest in ventures that only pay off, financially or politically, in the long run because they fear that others who have not contributed on a similar scale will capture the benefits. There is a need for guarantees against ‘free riding’ (Booth and Cammack, 2013; Kelsall, 2013b).

This is a matter of the prevailing ‘political settlement’. There is continuing discussion about the precise meaning to be given to this term (see Laws, 2012). However, the general intention is to point to something underlying the formal institutional structure of a country: ‘a common understanding between elites about how power should be organised and exercised’ (DFID, 2010) or, better, ‘the arrangements that elites agree to in order to end violent competition over power and resources’ (Parks and Cole, 2010).

Political settlements, in general, define the terms on which elites and their (often ethnically or regionally defined) support groups agree to compete peacefully. Central to this is the way access to rents of both legal and illegal (hence corrupt) sorts is distributed among the more or less powerful groups. Developmental political settlements are those in which there is at least some room for rents to be managed in ways that advance social and economic development, including ways that provide the credible commitments necessary to encourage adequate private investment in long-term projects. Getting from a settlement that keeps the peace by providing an adequate stake in the status quo to all significant power groups to one that *also* allows development is where collective action challenges (free rider problems discouraging first-movers, etc.) loom large.

This discussion adds a further layer to our treatment of the question about the role and influence of presidents. It also points us towards the fourth topic in our list: the extent to which rent-seeking is systematic and/or centralised by the leadership or a controlling party. There are important differences across countries in this respect, which are highlighted in the later sections. But once again it may be useful to anchor those focused treatments in a wider comparative framework, one that is not limited to Africa.

In recent Asian history, solutions to collective action problems at this level have most often been achieved either by military or communist dictatorships (Indonesia, Vietnam) or by dominant national parties operating under formally competitive conditions (Malaysia, Cambodia). Party structures that are sufficiently comprehensive in terms of the ethno-regional make-up of a country, and have sufficiently robust internal processes and disciplines, can forge and enforce a wider bargain that keeps anti-developmental rent-seeking under a degree of control. The evidence is growing that the character of the leading political party structures is the most significant institutional variable affecting the sustainability of economic growth as well as the long-term viability of developmental political settlements (Putzel et al., 2010; Keefer, 2011; Putzel and Di John, 2012; Kelsall, 2013a).

On the current East African scene, Tanzania, Uganda and Rwanda interestingly occupy different positions on the spectrum of possibilities in this respect. In all three countries (in sharp contrast to the case of Kenya), there may be said to be a dominant and enduring party organisation at the centre of politics, but the similarities end there. An outline of the major differences may serve to introduce the country-by-country analysis in Sections 2 to 5.

Many followers of Tanzanian history have been shocked by the decentralised and apparently chaotic rent-seeking that has emerged as the main feature of the political settlement presided over by CCM during the last 20 years (Cooksey and Kelsall, 2011). It did not seem preordained that CCM would lose its ability to restrain inner-party factionalism in the way that it has. Individuals and groups made choices at various critical junctures starting in the 1980s without which a different trajectory of change might have emerged (although the detailed story has still to be told).

*The evidence is growing  
that leading political party  
structures are the most  
significant variable*

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Museveni's regularly renewed choice not to institutionalise NRM as more than a personal patronage machine is a very significant feature of the political economy of Uganda (Golooba-Mutebi, 2008). It does much to explain why, when it comes to key decisions about agricultural inputs or infrastructure, the president continues to be obliged to prioritise patronage over development.

The contrast in both cases is with Rwanda. We have argued elsewhere that the quality of development policy-making in Rwanda needs to be less associated than it usually is with Kagame's personal qualities. The institutional solidity of the RPF as an organisation should be given greater prominence. However, the complete story is that Kagame and the RPF have presided successfully over the construction of a national political settlement that provides an exceptionally favourable context for the design and implementation of national development efforts. In our assessment, the settlement – enshrined in and giving substance to the 2003 constitution – has three elements: a commitment to considerable power-sharing but with firm boundaries and exclusions; a wager on development, not negotiation, as the route to national reconciliation; and a formula for political competition that is distinct from competitive clientelism (Golooba-Mutebi and Booth, 2013). This analysis sheds doubt on the way several recurrent topics are usually handled in reporting on Rwanda, including the theme of 'limited political space' and the matter of the presidential succession.

Kenya is clearly in a different category from the other countries. It is better placed to achieve real development success on account of its substantial advances in building capitalist economic enterprises in several sectors (with, very significantly, a large black-African ownership and management stake). On the other hand, there is no dominant party. Indeed there is some question whether political parties may be said to exist at all (Anderson and Githongo, 2009). The way politics functions is generally recognised to be both unhelpful to the control of political violence and very damaging to the environment for the investment necessary for Kenya to realise its development potential.

It cannot be said that the research literature has a solution to this problem. However, it may be helpful to note that it includes more than one basic approach. A common view of Kenya starts with the ethnic structure of the country and argues that the problem is that the country has never had an appropriate (i.e. federal) constitution capable of accommodating such diversity and harnessing it to collective objectives. One major international tradition of political economy (the interest-group theory associated particularly with the work of Gordon Tullock) provides quite a powerful academic version of this approach, supported by major Kenyan contributions (Kimenyi, 1997; Kimenyi and Mbaku, 1999; Kimenyi and Shughart, 2008). This says that in defining the jurisdictions that are responsible for the provision of certain public goods, serious attention needs to be given to the fact that ethnic groups may be the optimal units of collective choice. Therefore, rather than treating ethnicity as irrelevant to the building of a modern state, due attention should be given to creating structures, such as service-delivery jurisdictions, that release its potential contribution to efficient public goods' provision.

This approach, which is similar to some of the thinking underlying the devolution element in the 2010 constitution (Nianjom, 2011), faces two major difficulties. First, no imaginable constitutional reform would do enough to address the implications of a diagnosis that says *only* ethnically based jurisdictions can be efficient in delivering public goods. The current measures creating a new 'county' level of government are far too weak to capture the gains for efficient collective choice that the theory promises. Second, a different political economy analysis supported by a great deal of research suggests that the persistence of ethnic voting in Africa generally, and in Kenya in particular, is not reflective of any fundamental tendency for Africans to self-identify by 'tribe' rather than nation. Instead, the way identities are defined is, and has been since the colonial era, a response to the particular incentives offered by the prevailing political system (Posner, 2005). Co-ethnics may find collective action and the control of free-riding easier than ethnically mixed groups, but this may not be because they have strong loyalties to the group (Habyarimana et al., 2009).

In the Kenyan case, the way voters choose may have less to do with fundamental sentiments than with the relative credibility of the commitments that politicians make to voters in general, as against to particular ethno-regional constituencies; in brief, the former commitments tend to be regarded as non-

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credible. The latter may be relatively more credible (Keefer, 2007), although perhaps only because they are often accompanied by concrete tokens – gift giving and material vote buying (Keefer, 2010). The low credibility of commitments to the nation as a whole must in turn be attributed to the political arithmetic that prevails in Kenya under its winner-takes-all constitution. This creates the virtual certainty that the winning coalition will exclude at least one substantial ethno-regional group from direct participation in government.

On the face of it, a remarkable feature of the current political economy of Kenya is how little attention is apparently being given to *this* constitutional issue, as opposed to the devolution process on the one hand and the matter of restraining the power of the Executive on the other. Any shift in the balance of attention among these issues would be seem very significant for the ability of the Kenyan state to manage effectively the next stages in the country's economic advance. We return to this issue after the fuller discussion of recent economic and constitutional changes in Kenya that is provided in Section 2.

*In the Kenyan case, the way  
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make*

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# 2 Kenya

## 2.1 Background

Kenya became independent in 1963 with a Westminster model of government comprising first-past-the-post multiparty elections and a bicameral legislature. It also had a federal government comprising seven regional governments with semi-autonomous regions. Ethnicity has been important to the pattern of politics from the outset, a key feature of the basic ethno-political map being the presence of five relatively large groupings, with no single group exercising dominance. The effect has been that whatever the configuration of the currently governing coalition, one or more substantial groupings feel themselves excluded from power.

Initially, two major political parties were formed along ethno-regional lines: KANU represented numerically large Kikuyu and Luo communities, while KADU represented numerically smaller groups who were worried that the large groups would dominate them after independence. KANU won the independence elections and formed the first government with Jomo Kenyatta, a Kikuyu, as president and

*Whatever the configuration of the governing coalition, one or more substantial groupings feel themselves excluded*

Oginga Odinga the vice president. A few years into independence, the KANU government began to dismantle the federal institutional arrangement as well as the multiparty political set up. The ruling party manipulated the political system in a way that compelled the opposition, KADU, to wind up in the national interest. The party joined KANU and its leaders were appointed into government. At the same time, many colonial settlers who were uncertain about the future were selling their land and leaving the country. The government assisted the new leaders in both KANU and KADU to get large tracts of land in the settler areas or the White Highlands that were scheduled for settler economy.

As the above suggests, from the early period, political and economic interests in Kenya have been intertwined. To consolidate political power, the ruling party from the early period enticed the opposition with material interests – land. This enabled the Kenyatta government to begin centralisation of power with limited opposition. In time, the government began to amend the constitution to provide for a centralised executive. The federal system was abolished in 1966 and opposition political parties were banned in 1969. The bicameral legislature was also abolished alongside the federal system. From then on, Kenya remained without functional opposition political parties until 1991 when the constitution was repealed to allow for multiparty system.

The return of multiparty politics did not alter governance in any significant way. The ruling party continued to dominate both the economic and political spaces. This constrained the economy; many economic institutions collapsed under the weight of political patronage and general plunder by elites around President Moi, who had taken office after Kenyatta's death in 1978. However, our main concern in this section is with the period since 2003, when Moi's nominee lost the election and some significant reordering of relationships began to occur. We discuss the extent and limits of these changes under five thematic headings.

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## 2.2 Political and economic power linkages

A central feature of Kenya's political economy is the inextricable link between political and economic interests. There is deep involvement of politicians in business affairs. Those with economic power, in return, always tend to look for political cover from those with political influence. This has been the practice since the colonial period. Indeed, Frank Holmquist (2002), writing about the nature of this relationship in the 1990s and seeking to find out the extent to which political liberalisation had affected this relationship, observed that in business–state relations in Kenya, there is 'deep involvement of government in private sector capital accumulation, and government targeting of certain ethnic and racial communities for advance, indifference, and sometimes harassment' (Holmquist, 2002: 6). Holmquist noted that 'three successive regimes – the colonial (to 1963), Kenyatta (1963 to 1978), and Moi (1979 to 2002) – pursued economic policies with an eye to facilitating accumulation and legitimacy in keeping with the political economies they inherited or wished to create' (ibid: 6).

*New forms of interaction  
between business and politics  
hemmed in the Kenya Asians  
after KANU lost in 2002*

This form of intermingling of politics and business intensified in the 1980s under Moi, who set about creating his own economic elites by squeezing out Kikuyu who had been at the centre of political and economic power throughout the Kenyatta regime. This was a major undertaking, as Kikuyu economic and political influence did not begin with Kenyatta's accession to power in 1963. Accumulation of capital by Kikuyu began early and was visible during the colonial regime.<sup>1</sup>

Moi's presidency altered the structure of economic and political power in one significant way. Using Kenyan Asians as allies, he brought to the centre of economic and political power elites from his own Kalenjin community. The Kalenjin entered into joint ventures with Kenyan Asian business people who, in many instances, acted as fronts for newly moneyed Kalenjin. Although some such as Himbara (1994) have identified cultural factors in the success of Kenyan Asians, Cowen and MacWilliam (1996) have evidence that the success of many of the Asians was the result of their increased access to public resources. Those who were most successful used the state to obtain public sector contracts in association with the Kalenjin elites around Moi.

Much has been written about this subject and, therefore, the matter need not detain this discussion.<sup>2</sup> Suffice it to mention that new forms of interaction between business and politics hemmed in the Kenyan Asians after the ruling party, KANU, lost in the December 2002 general election. A new coalition of opposition parties, the National Rainbow Coalition (NARC) with Mwai Kibaki as the candidate, won the election, thus bringing an end to Moi's period of influence and Kalenjin-Asian domination of business and political interests.

President Kibaki's NARC regime lasted until December 2007. As is notorious, it had an unhappy ending. Although economic growth was boosted, political leaders from outside the president's Kikuyu community felt excluded. Grievances accumulated about perceived imbalances and inequities in regional development. All this laid the foundations for violence on an unprecedented scale prompted by the disputed 2007 presidential election results.

International mediation ended the violence after Kibaki's new party, the Party of National Unity (PNU), agreed to share power with the main opposition, the Orange Democratic Movement (ODM) of Raila Odinga. The resulting coalition government, corresponding to Kibaki's second term (henceforth Kibaki II), lasted from 2008 to March 2013, when a new general election was held.

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<sup>1</sup> For a discussion on this, see Cowen and Shenton (1998).

<sup>2</sup> See Himbara (1994); Cowen and MacWilliam (1996); Chege (1998); Cowen and Shenton (1998).

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This election was conducted under a new constitution, promulgated in August 2010. The new constitution radically alters the formal structure of government and introduces new checks on executive power. The Jubilee government, formed after the election, is an alliance of two major political parties representing two numerically large ethno-political groups: the Kikuyu and the Kalenjin. President Uhuru Kenyatta is a Kikuyu representing The National Alliance (TNA) party, while Deputy President William Ruto is a Kalenjin representing the United Republican Party (URP).<sup>3</sup>

Kalenjin and the Kikuyu violently fought each other in the early 2008 post-election violence. Their leaders, Kenyatta and Ruto, were indicted by the International Criminal Court (ICC) for crimes against humanity committed during this period. The charges against both were confirmed and prosecution of Deputy President Ruto, alongside journalist Joshua rap Sang, began at The Hague in 2013. Uhuru Kenyatta's prosecution was rescheduled to February 2014. Whether he will attend the court sessions or not has been uncertain. Those supporting the president have been urging him not to attend the court, which they have labelled 'imperial' as well as demeaning of African leaders. At the time of concluding this report, all of the prosecutions are in doubt, as many key witnesses have withdrawn.<sup>4</sup>

What forms are business and political interests taking in the context of this fluid and uncertain political situation? What, if any, are the discernable or distinctive features of this relationship? And how does the intermingling of business and political interests during the early phase of the Jubilee regime differ, if at all, from what was observed under previous regimes? We need to begin with a bit more history. Those that are familiar with events in Kenya between 2003 and 2013 are invited to skip to page 26.

### **2.2.1 Kibaki's first presidency**

Political leaders who came to power following the NARC victory in the December 2002 general election lacked economic power compared to those who served the KANU regime under Moi. The new government under President Kibaki had in its cabinet many leaders who came from the opposition and civil society groups that had been active in opposition politics since the early 1990s. These leaders had devoted their resources to election campaigns against KANU-financed opponents. After NARC won the elections, they found themselves occupying powerful positions.

The new leaders owed their positions to their political pronouncements against the KANU regime and to promises to improve on governance and economic recovery. However, they lacked economic power (indeed, one of the new cabinet ministers had, at one time, his household goods presented for auction because he had failed to pay a bank loan). Three cabinet ministers were perceived as especially powerful. Importantly, the three came from the president's Mt. Kenya region (home to the Kikuyu and allied Meru ethnic communities). They were generally referred to as the Mt. Kenya mafia because of the influence they had on the president and the government in general.<sup>5</sup>

This ethnic cabal became even more powerful when President Kibaki was hospitalised in January 2003 for injuries suffered in a motor accident. Although he had been treated for the injuries in London before the election, almost immediately after the new government was formed his health deteriorated and he was re-admitted in hospital. This created an opportunity for the group to accumulate more power by making important pronouncements on behalf of the president. Throughout 2003 and part of 2004, the cabal became a central feature of the presidency. They influenced the making of key decisions including government appointments by rendezvousing in Hurlingham, in the outskirts of the Nairobi city centre.

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<sup>3</sup> There are two other numerically smaller political parties in the Jubilee alliance. These are the National Rainbow Coalition of Charity Ngilu and the Republic Congress Party of Najib Balala. Jubilee elected both leaders into the cabinet as cabinet secretaries (ministers). They are required to disengage from politics because the new constitution does not allow cabinet secretaries to engage in politics.

<sup>4</sup> T. Escritt, 'Kenyatta trial doomed unless Kenya helps: ICC prosecutors', *Reuters.com*, 5 Feb 2014.

<sup>5</sup> The minister for finance; minister in the Office of the President in charge of internal security; and the minister of justice and constitutional affairs.

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Alongside this group of senior Mt. Kenya politicians, there emerged another group of powerful business elites, also from the president's Kikuyu community. This group was credited with mobilising campaign resources for his election in December 2002. It also included some people who had contributed campaign funds for President Kibaki's previous presidential election attempts in 1992 and 1997. Together with the president, they were members of the Muthaiga Golf Club where they teed up together for many years. The Muthaiga group had a history with President Kibaki. However, their access to the president was limited or constrained by the presence of the Mt. Kenya elite – the Hurlingham group. All the same, they could influence the making of key economic decisions whenever they had access to the president. The elites had business interests in the service sector – banking, insurance, tourism – as well as in the agricultural sector. Some of them were Kibaki's business partners.

The Muthaiga and the Hurlingham groups of influence stood in opposition to each other. The Hurlingham group was interested in political influence; the Muthaiga group was interested in influencing business or economic decisions.<sup>6</sup> They were also keen to limit each other's power. To wield more influence, each group courted the support of Kibaki's family members. Two women in Kibaki's life were amenable in this respect. The Hurlingham political elite sought the support of a renowned woman politician and Kibaki's alleged second wife, whom the media had covered as 'Kibaki's other wife' almost immediately after he was elected president.<sup>7</sup> On the other hand, the Muthaiga business elite got support from the first lady – Kibaki's first wife. Aligned with family factions in competition for the president's ear, the two groups got into fierce competition. They often blamed each other for giving wrong advice and so on. The divisions widened as the president recuperated.

The political interests of the two groups also transformed fast into economic/business interests. The Hurlingham political group gradually got interested in business initiatives using government contracts for the ministries they controlled. They became interested in business to raise funds to fight internal wars within the coalition. NARC was fragmenting along ethno-regional lines, with communities outside the Mt. Kenya region complaining that the president was isolating them. There were also complaints that the government was favouring the Mt. Kenya people in key appointments. In tandem with these grievances, a constitutional review was kicking off, with opposing groups keen to shape the future constitution in different ways.

Lacking money to support their initiatives at the constitution-making assembly, the Mt. Kenya Hurlingham political elite turned to the 'government contracts' in their ministries. With the Ministry of Finance on their side, they sought to influence the contracting process to generate funds to support their political manoeuvres and, of course, rents for themselves too. They identified a non-existent company, Anglo-Leasing and Finance, which would be contracted to deliver non-existent services. The company would be paid millions of dollars for services that were not delivered.<sup>8</sup>

The Anglo-Leasing company was linked to a Kenyan Asian who was renowned for fronting the interests of political leaders in contracts for government services during the Moi and KANU regime in the 1990s. Another Kenya Asian was prominent in the contracts raised by the new elites. He had edged his way in close to Kibaki before the elections, having contributed to Kibaki's campaigns for over 10 years. He had paid for Kibaki's medical bill in London, where Kibaki was hospitalised following the motor accident in 2002. The same Asian had featured in some of the egregious corruption scandals in the security and defence sector in the 1990s (ibid.).

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<sup>6</sup> Interview with an investigative journalist.

<sup>7</sup> Mike Pflanz, 'Kenya's Mwai Kibaki in "foul mood" mood over second wife claims', *The Telegraph*, 4 March 2009. Kenya's mainstream media had covered the story of Kibaki's alleged secret wife from the time he got into office, but State House continually denied the existence of another wife.

<sup>8</sup> Letter to President Kibaki by John Githongo, former Permanent Secretary, Ethics and Governance, 22 Nov 2005.

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The Mt. Kenya political elites got lodged into moneymaking deals using these networks. In the meantime, the Muthaiga group improved their accumulation of capital using their proximity to the president and general access to political power. The two sets of business elites had one thing in common. Some of them were members of the investment club Trans-Century, formed in the late 1990s for the purpose of investing money in business ventures. They were rich in their own right; some of them were part of the ‘old money, because they had made investments during the Kenyatta regime. They had also made money during the Moi regime, although with difficulties because they were Kikuyu’.<sup>9</sup>

Members of this group ‘identified and bought an underperforming cable-making company – East African Cables – with a view to building its potential’.<sup>10</sup> Using their knowledge of the government’s economic policies, they invested in making cables to sell to the government’s electric power distributing company. Earlier on, the president had appointed one of the members of the group as chief officer of the electricity generating company. Even though the market was in theory liberalised, they became the main distributors of cables to the government. In a short period of time, they expanded their market reach to several other countries in the Eastern and Central Africa region. They eventually listed their company in the stock exchange in Kenya. From investing a few million, they became new billionaires.

Also rising from millions to billions were political friends in the banking sector. The Equity Bank rose from its origins as a privately owned micro-finance institution to become a major bank in the course of Kibaki’s first government. Some argue that Kibaki’s campaign finances were transmitted through the bank during both the 2002 and the 2007 general elections. In his first government, the bank received development funds for youth and women initiatives. One leader of a business association says of the rise of the Equity Bank that ‘this had the effect of spreading access to credit facilities to thousands of smaller depositors; the entire finance sector benefited’.<sup>11</sup> The Equity Bank is now the largest bank in terms of number of depositors in the country.

In his first government, Kibaki gave up on campaign promises to improve governance following the internal disputes within his coalition. The focus shifted to economic recovery. He adopted a liberalised approach to the economy, providing space for people to engage in economic activities without major restrictions. The government also began to undertake major infrastructural programmes, such as building new roads and rehabilitating existing ones. The recovery of the economy provided an opportunity for all: ‘even those without political connection and influence got a share of the expanding economy because Kibaki’s approach opened the market to everyone’ (ibid.). The economy’s growth rate recovered from under one percent in 2003 to seven percent in 2007.

Growth of economic activities in all sectors, and particularly service sectors, took place during the period. It is this growth that provided opportunities for ‘profiteering’ by both politically connected groups and those that lacked political influence. Growth in the agricultural sector, for instance, witnessed a revival of the dairy industry, from which peasant dairy farmers benefited.

*The laissez-faire approach adopted by Kibaki resulted in increased business opportunities in all sectors and for everyone*

Upon winning the election, Kibaki appointed a very close associate from his own party – Democratic Party (DP) – to head the Ministry of Cooperatives. His other associate, in the National Rainbow Coalition, was appointed to the post of

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<sup>9</sup> Interview with an investigative journalist working with one of daily papers (Oct 2013).

<sup>10</sup> Interview with a former Chief Executive Officer of a company associated with this process. He also headed a government agency involved in guiding development policies (Oct 2013).

<sup>11</sup> Interview with a Chief Executive Officer of private sector advocacy association (Oct 2013).

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Minister for Agriculture. The minister for cooperatives began by seeking to get back the main farmers' cooperative body – Kenya Cooperative Creameries (KCC) – from private individuals (including former President Moi) who had run down and bought up the dairy corporation. The new government decided to pay off the new owners and returned KCC back to the farmers. The government also appointed President Kibaki's close political friend and business associate, Matu Wamai, to chair the new body. Wamai began initiating the revival of KCC by expanding its operations and paying farmers for their delivery of milk. He got support from both the ministers of agriculture and of cooperatives. From then on, KCC expanded its operations; it regained its health as a farmers' body (Atieno and Kanyinga, 2008).

In addition, this period saw a huge expansion of the Nairobi stock exchange. The number of companies trading and the volume of shares traded both increased. Government revenue from taxes also increased. It is also during this period that some of the Kenyan companies expanded into other countries in the region. For instance, by 2009, there were over 48 Kenyan companies in Tanzania doing business in the manufacturing, financial, tourism and natural resource sectors. Kenya also became the second largest investor in Tanzania after the UK.<sup>12</sup> On the whole, the *laissez-faire* approach adopted by Kibaki resulted in increased business opportunities in all sectors and for everyone, including those with and those without political influence.

In this context, corruption scandals had two consequences. First, they weakened the government. Second, they caused the government to turn towards the East, to China and India, for loans and grants, as the donors questioned the track record of the government in fighting corruption. Within the government, the divisions that had emerged over the sharing of power deepened. Those groups from outside the Mt. Kenya region were critical of the government's war on corruption. They took sides with the international community's verdict in this regard. Kibaki's relations with the international community, and the West in particular, deteriorated because the West had backed his campaign on account of the promise to fight corruption. As corruption undermined government's internal coherence, factionalism deepened and this slowed performance of the government in many respects.

The two elite groups – the Muthaiga golfers and the Hurlingham politicians – had a hand in the move towards the East. The Hurlingham group urged the President 'to look [e]ast and get support from China on [the] argument that China would give grants and loans without strings attached and without criticising the government over governance issues'.<sup>13</sup> The move to the East was also an opportunity for the Hurlingham group to undermine the commercial interests of the Muthaiga group. The latter had grown by trading with companies in the West. They had invested in multinational corporations and were therefore keen to preserve government relations with the West. All the same, they could not prevent the move to the East, given the West's stand on corruption in government. It also presented an opportunity for them to engage in new trade ventures.

President Kibaki did not bother about relations with the West once China appeared keen to engage in business. However, the government was now keen to initiate development projects to compensate for its failure to build a politics of inclusion. Failure to develop an inclusive political agenda for the country had widened divisions and laid the foundations for the violent conflict that the electoral contest of 2007 reproduced with precision.

### **2.2.2 The coalition government, 2008-13**

The relationship between business and politics altered after the coming to power of a coalition government (what we call Kibaki II) in 2008. The post-election agreement, brokered by Kofi Annan, led to President Kibaki sharing power with the leader of ODM, Raila Odinga, as prime minister. The constitution was altered to create the new post of prime minister. Each party in government engaged differently with the business community; there were essentially two governments in one.

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<sup>12</sup> [http://www.timespublications.com/publications/corporate\\_africa/articles/kenya.html](http://www.timespublications.com/publications/corporate_africa/articles/kenya.html)

<sup>13</sup> Previously cited interview with investigative journalist.

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Power sharing imposed certain constraints on linkage between politics and business. Kibaki continued to surround himself with ‘old money’ and, in particular, the same group that had enhanced accumulation of capital in his first government; the Muthaiga group around him was well entrenched in several sectors of the economy by this time.

Corruption scandals weakened and obliterated the influence of the Hurlingham group; ‘The Hurlingham group was severely weakened by their engagement in Anglo-Leasing corruption scandal’.<sup>14</sup> Two of the most influential cabinet ministers in the group lost their seats in the December 2007 election to new individuals. One of them was in a constituency in Kibaki’s Nyeri district. He lost because constituents observed that his involvement in corruption weakened the Kibaki regime; it weakened ‘their own’ and therefore their government. The other minister, from Meru, lost because constituents said they did not see the benefits of his patronage. They argued that he had nothing to show in terms of development despite having enormous power and being in the cabal around the president.

Information is scant on how the ‘old money’ influenced the government in Kibaki II. It suffices to mention that the old networks were keen to ensure the new partner in the coalition did not overshadow Kibaki and his (PNU) faction. To maintain influence in the coalition, they had on their side the government bureaucracy and the Head of the Civil Service, whose functions overlapped with those of the new Prime Minister in terms of coordinating government functions. Furthermore, by the time the coalition government was formed, Kibaki had already constituted half of the cabinet and allocated some of the powerful ministries, such as Finance, Interior and Foreign Affairs, to close allies. The new partner ODM appealed to the power sharing agreement to negotiate on allocation of new ministries. This resulted in the creation of a large cabinet of 44 ministries. The coalition partners split important ministries to accommodate the demand for the equal sharing of power.

Several challenges characterised the operations of the coalition government. It lacked internal cohesion; sometimes conflicts over important decisions would cause policy gridlock. There were delays in making decisions, particularly if one side thought such decisions were not favourable to them. Each was keen to cast the other as corrupt, even though cases of corruption would be reported in all ministries whether headed by a PNU or ODM affiliated minister. To PNU, ODM comprised cabinet ministers who were keen to make money quickly to increase their chances in the next general elections. Because they shared cabinet positions, ODM members felt they got ‘half [a] loaf of bread which was insufficient to share among members’.<sup>15</sup> Blames and counter-blames marked the partnership.

The business community financed both parties in the 2007 general elections. Some business people would give to both Kibaki of PNU and Raila Odinga of ODM in almost equal measure because they were not sure which of the two would win (Masime and Otieno, 2010). And because Kibaki had shifted attention to China and to infrastructural projects, those seeking access to him included construction companies with an interest in getting contracts. Those around Kibaki in his second government were well established in business and had ventured into new sectors. Trans-century, for instance, was operating in Eastern and Southern Africa and the Horn of Africa. Its product range had also increased, from producing cables to engineering and transport.

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<sup>14</sup> Interview with a prominent business investigative journalist who has investigated business-political linkages and subsequent scandals for over two decades (Oct 2013).

<sup>15</sup> Interviews with various analysts (Sept 2013) and media commentaries (2008-09); South Consulting (2009).

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ODM received support from other (non-Kikuyu) business leaders and Kenyan Asian and Arabs in particular. Interestingly, many commentators observe that Kenyan Asians prefer a non-Kikuyu president because Kikuyu business elites are their competitors in various sectors. The desire to have leverage over the Kikuyu by using government-based influence ensured that some of the Asians provided campaign finance to ODM. Thus, there were other business people around Raila, but they were not as well entrenched in business as those around Kibaki. Those around Raila ‘were not solid investors; they were people who were interested in beginning investments.’<sup>16</sup>

*Oil and gas are new sites for  
connecting business and  
political elites*

Rent-seeking was significant on both sides of the coalition government. Among the corruption scandals involving ODM ministers was the maize scandal, which followed government’s relaxation of maize importation rules to allow those capable of importing maize to supplement diminishing national reserves. Millers had asked the government to relax the rules to allow them to import maize, so as to bring down the food prices. Once the maize was in the hands of the government’s National Cereals and Produce Board (NCPB), it began allocating millers a share of it. Some of those who were allocated the imported maize included ‘briefcase milling companies’, some of which were defunct at the time the importation was done. They belonged to friends of the minister for agriculture and other senior politicians in ODM, and a few in PNU. Some of those who were allocated their share sold the maize in neighbouring countries. Others sold in the local market at exorbitant prices. This way, they made millions by using a government-subsidised maize import scheme.

The business people who financed ODM in 2007 had interests in grain importing. The scandal, therefore, could have been about ‘pay back’ for the election financing of ODM. With regard to PNU, many are of the view that construction companies did contribute and may have got ‘pay back’ through engagement with the Chinese construction companies. There is generally no coherent narrative on how this may have taken place.

On the PNU side, it is worth mentioning the Grand Regency Hotel scandal, in which the Ministry of Finance directed the Central Bank to sell the Grand Regency Hotel to Libyan government investors. The hotel was under receivership because the owner had obtained millions of dollars from the government through another corruption scandal, the Goldenberg scandal of the 1990s. In 2007, Kibaki’s PNU allegedly received finance from the Libyan investors. In the middle of 2008, it was the turn of Kibaki’s team to pay back the gesture. The minister for finance, a member of PNU, oversaw the sale of the hotel. There was no bidding of the sale and, as a result, the hotel was most likely sold at a price below its market value.

There were other scandals on both sides of the coalition. The government intensified infrastructural development projects during the period of the coalition. Chinese government firms were contracted to undertake expansion of roads, airports and the port at the coast. Although there is scant information on how the contracts were awarded, some with knowledge about these sectors claim that the Chinese contractors gave part ownership of these companies to the families of senior politicians. While there is no evidence to counter or corroborate these narratives, it is evident that local construction companies are not visible in the on-going construction projects undertaken by the Chinese firms.

Oil and gas are observed to be the new sites for connecting the business and political elites. It was, again, during the tenure of the coalition government that oil exploration companies found major oil fields in Northern Kenya. Politically powerful individuals had already acquired the oil exploration blocks and sold their rights to the oil exploration companies. This happened in the energy sector, too;

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<sup>16</sup> Previously cited interview with a CEO of a private sector association (Oct 2013).

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the government was expanding geothermal energy capacity and political elites rushed to get blocks for exploration. Again politicians with an interest in the sector acquired the blocks of land and sold the rights to the companies contracted to develop the geothermal energy.

How has the 2013 general election changed this pattern of interaction between business and politics? How is business relating to politics under the Jubilee government? These are the issues to which we now turn.

### **2.2.3 The Jubilee government: first steps**

A new government was formed in April 2013 after the Supreme Court upheld the election victory of the Jubilee alliance: Uhuru Kenyatta of TNA as the president; his running mate, William Ruto of URP, as the deputy president. The two leaders took a while before they composed the cabinet and appointed principal secretaries. They had to submit to the requirement of the 2010 constitution that the cabinet be appointed from outside Parliament; that principal secretaries be appointed through a competitive process; and that the composition of the government reflect Kenya's diversity. Partly because of this requirement, and wanting to be seen as different from the coalition government of Kibaki and Raila, they took charge of interviewing candidates for the posts of Cabinet Secretaries in-person. In a clear break with tradition, they briefed the media on the progress made with interviews. The Public Service Commission (PSC) advertised the posts of Principal Secretaries and interviewed candidates, after which they shortlisted candidates for appointment by the president and his deputy. Parliament also had to vet them before the president could make appointments.

Arguably, the constitution would have made it difficult for the executive to act in any other way. Parliament would have stood in the way if MPs felt the appointment of any person to have been inappropriate. Nevertheless, the initial steps by the new government showed a clear break with the past. Successive Kenyan governments from the 1960s appointed people to senior public posts through political patronage without interviews and without the knowledge of the public.

*The initial steps by the new government showed a clear break with the past*

This is not to suggest that there was no political patronage influencing these new appointments. Without exception, political leaders and business elites allied to the president and his deputy sourced the candidates for the cabinet secretary posts and presented their names for consideration. The president formally appointed them after the parliamentary vetting. They are loyal to the appointing authority, just like their predecessors who were appointed from among the politicians in Parliament.

There were also suspicions that at least three principal secretaries who served in the Kibaki government were appointed without having applied for the jobs or being shortlisted by the PSC. Some of these individuals claimed they had applied for the jobs, but the published list of those who had applied did not show their names. The cloud of uncertainty surrounding these three appointments clearly shows the old order is still very much in place.

### **2.2.4 Business community relations under the Jubilee government**

The Kenyatta-Ruto government has barely completed a year of existence, so it is difficult to make a clear judgement about how it relates to the business community, or which business people tend to influence political decisions, in which sectors and how. Relations between the new government and business elites are slowly taking shape. Few observers are certain about the final form these relationships will assume, but there are accounts that reveal to which business elites, groups and sectors the new government is keen to pay attention. A few highlights may be mentioned.

First, the Jubilee government began by casting itself as 'business friendly' and has been far more open to business than the previous governments. Upon being sworn in, the president and his deputy promised to improve the business environment and to consult the business community regularly in

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making key decisions about the economy and business. The president promised to appoint the private sector leaders as advisors on how to improve the business environment. In fact, the government has been consulting a representative of the Kenya Private Sector Alliance (KEPSA) on relevant issues and on a regular basis.<sup>17</sup>

This attachment to the private sector and the business community has not been crafted out of the blue. President Uhuru Kenyatta's family is one of the richest – if not the richest – in the East African region today. In 2011, Forbes ranked him the 26<sup>th</sup> richest person in Africa, but did not include his name in the subsequent publication citing uncertainty about who is the custodian of the Kenyatta family's property. The family has vast amounts of land (estimated to be about 500,000 acres) in different parts of the country. The family also owns a bank (Commercial Bank of Africa), International Schools (Peponi and Brookhouse schools),<sup>18</sup> a chain of hotels (Heritage Hotels), tented camps in some of the National Parks and Game Reserves, and insurance companies and agricultural holdings, among other properties. The family's dairy company, Brookside, has over a 40 percent share of Kenya's milk market and has opened new operations in the East African region.

*The Jubilee government  
casts itself as friendly to the  
private business sector*

The family enterprises are expanding into other countries in eastern Africa. They have bought into the Ethiopian dairy market and are establishing dairy operations in Nigeria.<sup>19</sup> The Commercial Bank of Africa is also establishing itself in other countries in the region. In one year, the bank has grown to be the second largest bank in terms of the number of depositors.<sup>20</sup>

William Ruto owns properties in land and in the tourism industry. He made his money in the early 1990s when he joined 'Youth for Kanu, 92' (YK 92), a youth group that was campaigning for President Moi and KANU against a growing wave of opposition politics. Some argue that Ruto, among others close to Moi, had unlimited access to government funds to mobilise support for the party. And, as was the practice then, they had access to patronage resources including public land, which they would acquire and sell to parastatals. These resources formed the base of his businesses.

To repeat, the situation is still evolving, but some of the networks of influence established previously are still effective. Within the bureaucracy and the Office of the President in particular, there are strong cartels influencing security sector tenders. Outside of the bureaucracy, there are powerful individuals in business who are the links between the political elite and the government on one hand and companies, such as the Chinese firms that are engaged in major infrastructural projects, on the other. It is generally believed that President Kenyatta himself wishes to avoid being seen as a corrupt president and is therefore keeping clear of these deals. However, the networks are so established that he would be hard pressed to unravel them.

On the other side of the ledger, the business elites around the new government are of a younger generation, as compared to those that established themselves around the first government of President Kibaki and the coalition government. They are also new faces in Kenya's mainstream businesses. They are 'not the established group of industrialists and entrepreneurs found around the Kibaki government, or wheeler-dealers around Raila in the last coalition government'.<sup>21</sup> When asked for examples, our interviewees referred us to the business people in an August 2013 government-led trade

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<sup>17</sup> Telephone interview with a member of KEPSA (Oct 2013).

<sup>18</sup> It is not very easy to ascertain actual ownership or shareholding of these schools. This information is from different blogs. Information on other properties was corroborated in a story in the *Business Daily*, 12 Nov 2013.

<sup>19</sup> *Business Daily*, 12 Nov 2013, has extensive coverage of the family businesses and their planned operations in the region.

<sup>20</sup> Ibid.

<sup>21</sup> Interview with a journalist with a business daily (Nov 2013).

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delegation to China, and to those attending a business luncheon in honour of a visiting Nigerian trade mission in September 2013.

In August 2013, President Kenyatta made state visits to Russia and China. The government profiled the visits as the Jubilee government's initiative to grow new markets for Kenya's exports of coffee, tea and fresh produce. The visit to China was to seek new trade agreements and investment opportunities. Kenyatta's opening to the East came almost a month after the US President had shunned Kenya, the birthplace of his father, and visited the neighbouring Tanzania instead. Earlier in May 2013, Kenyatta had visited London for a Somalia conference, but failed to get what the media called 'a photo opportunity' with the British prime minister. These two events were generally seen as humiliating and those around the president quickly crafted a new agenda to intensify contacts with the East.

The 'Look East' initiative that then happened was a continuation of what the Kibaki and the coalition government had already established. The visit to China in particular resulted in the government signing a number of agreements worth about 5 billion USD in investments in several sectors, including the building of a new standard-gauge railway line from Mombasa to Malaba on the border with Uganda as well as energy projects. While the 'Look East' initiative has a political motive, as a response to how the West has treated the president because of the cases at the ICC, it is also aimed at generating economic opportunities.

The Kenyan National Chamber of Commerce and Industry (KNCCI) organised the delegation that accompanied President Uhuru Kenyatta on his visit to China. Close to 70 business leaders were in the KNCCI delegation. There were several others outside the Chamber's list. Those in the KNCCI delegation were drawn from several sectors, including four companies in mining, five in manufacturing, three in real estate, three in trade, two in energy, four in construction, two in agriculture, two in hospitality, three in information and communication, one in finance and banking, four in mining and five in manufacturing.<sup>22</sup> Also interesting is the ethnic and racial composition of the delegation (Table 1).

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<sup>22</sup> Tabulated from the list of the delegation by the Chamber.

**Table 1: Members of Kenya’s trade and investment delegation to China, August 2013**

Sector	No. of companies	Areas of interest	Kikuyu delegates	Non-Kikuyu delegates <sup>23</sup>
Mining	4	Gemstones; exports; Soda ash;	2	2
Manufacturing	4	Gemstones; medical equipment; building materials; milling machines	4	None
Real estate	3	Real estate (looking for partners/financiers)	3	None
Energy	2	Oil and gas	1	1
Trade	3	Advertising and publicity; clothing; construction materials	2	1
Construction	4	Planning projects	3	1
Agriculture	2	Coffee	2	None
Hospitality	2	Tourism	2	1 <sup>24</sup>
Information and communication	3	IT development; IT cabling; suppliers	1	2
Finance and banking	1	Finance/banking	1	None

Source: Tabulated using ‘Trade and Investment Mission to the People’s Republic of China: Members of the Delegation’.

There were about 28 companies/corporations led by a delegate each. The majority of the delegates leading the companies were from the Kikuyu community; there were very few from other communities and racial groups. It is possible that the entire delegation had a more diverse composition in terms of ethnic mix. However, Kikuyu business leaders headed many of the firms in the delegation. The racial and ethnic composition of the delegates may not tell us much by itself; however, it is clear that Kikuyu elites are now a dominant group in various sectors. It is not by sheer coincidence that they are heading these companies.

The composition of the sectors in the delegation also reveals something about the sectors to which the government is likely to give priority attention. Mining, manufacturing and construction had more companies than the traditional sectors that Kenya has relied on for export earnings: agriculture, hospitality and trade in general. Mining is one new area in which the government has developed a keen interest. Indeed, for the first time since the 1960s, there is a new ministry for mining. Previous governments often placed mining as a department of the Ministry of Environment and Natural Resources. The department often lacked profile and resources to operate as an important department of government.

Many of the faces in this delegation to China were younger individuals heading relatively new companies – companies established after 2003, when Kibaki came to power, or even later – but there were also old investors and well-established industrialists among those who accompanied the president. They included Chris Kirubi, who has investments in real estate, manufacturing and media, and is a shareholder in several companies listed in the Nairobi Securities Exchange. The delegation also included the Governors of the Bungoma and Nairobi counties, established under the new structure of government, who signed separate investment agreements with Chinese investors.

In general, it is not possible to obtain detailed information about which business people are allied to the new government. There are several reasons for this. First, Uhuru Kenyatta’s family financed the bulk of his election campaign. Because of this, he is not beholden to anyone in terms of paying back

<sup>23</sup> Identified based on the name of the delegate and therefore may not be very accurate.

<sup>24</sup> One company had two delegates.

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for the support received; ‘he does not owe thanks to anyone’.<sup>25</sup> This distinguishes him from Kibaki and Raila, both of whom were surrounded by people who financed their campaigns and therefore people to whom they had to show gratitude.

*Many of the faces were  
younger individuals heading  
relatively new companies*

Secondly, Kibaki’s side of government provided tacit support for Uhuru. Once the Independent Electoral and Boundaries Commission (IEBC) upheld Uhuru’s candidacy, Kibaki’s people mobilised the government machinery – the part of government they were in control of – to support Uhuru’s campaign. This mobilisation included putting in resources to support his campaign, but this was done in a discreet manner. It is therefore difficult to identify who exactly did what and how much.

Finally, those funding candidates do not do so openly. Those who contributed will not be known unless the candidates and their campaign secretariats are compelled to reveal their identities. However, the Parliament has yet to pass a campaign financing law that would compel parties to disclose the identity of those financing their campaigns.

Notwithstanding this lack of knowledge, instances have been reported where ‘some business people would pay for certain services during the campaign and inform Uhuru later; they would say this and that has been done’.<sup>26</sup> One of the shareholders of the vehicle importer Cooper Motor Corporation (CMC) is said to have made huge contributions in this way. Because of his contributions, he has retained an open access to the president up to date. Related to this, an influential businessman in the Kibaki regime also has unlimited access to the president because he raised some money. He has relations with many Chinese construction firms that are involved in road-building projects in the country. During the Kibaki regime, he acted as the link between government bureaucrats, politicians and Chinese interest in infrastructure projects. He has maintained this influence because the bureaucrats are still in their posts.

Several people are observed to have financed the deputy president’s campaigns. These include elites who made money in the Moi regime. Among them is one businessman with huge interests in the technology and communication sector and another businessman with vast interests in real estate. All the same, some argue that the deputy president was not able to raise as much as the president could raise from his family resources alone

These observations imply that the government is able to approach the business community from a relatively independent point of view. By Kenyan standards, the president and his deputy do not have many people to whom they owe financial loyalty. This is not to imply that they are free of obligations to the leaders of different communities of interest that supported their campaigns. But, there appears to have been a relative shift. The same applies to the proportion on ‘new faces’ in business forums.

### **2.3 Presidential authority and development leadership**

President Uhuru Kenyatta and his deputy came to power when people’s confidence in the ability of the government to fight corruption was generally low. But they did not campaign on a platform of fighting corruption; they campaigned on a platform of national unity and peace, with the impending ICC trials in the background. They also promised efficient delivery of services and double-digit economic growth, arguing that such growth was required to address unemployment problems among the youth. Their manifesto was weak on issues of governance.

This notwithstanding, there are several observations to make based on information from field interviews. First, the Kenyatta/Ruto government is operating as a coalition in which power is equally

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<sup>25</sup> Previously cited interview with an investigative journalist with a daily paper.

<sup>26</sup> Interview with a person who worked in a campaign secretariat of a leading political party, Oct 2013.

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shared. Even though the president has executive powers, he literally consults his deputy on most of the decisions he makes. This is the result of an agreement they reached prior to the election of March 2013. They signed a Memorandum of Understanding (MoU) and deposited it with the Registrar of Political Parties, as required by the law on coalitions. A legally binding MoU prevents either of them from reneging openly on what they agreed. In turn, this gives the coalition the potential to hold together, probably for the entire five-year electoral term.

Second, and more decisively, the Jubilee alliance is the product of political expediency. Both the president and his deputy are facing crimes against humanity charges at the ICC. They unified because they have a similar burden and, therefore, would prefer a joint approach to the ICC. After they won the election and the ICC continued to hover over their heads, they had to hold together and present an image of ‘unity of purpose’. This expediency may hold them together for some time yet, although it could also be a spoiler, depending on the evidence the ICC prosecutor eventually produces against them.

*The Kenyatta-Ruto coalition  
has the potential to hold  
together, probably for the  
full five years*

At the time of writing, the partners seem to be working well together. They seem to be united in their pro-business stance. Of course, they are pursuing this at the expense of attention to issues of corruption, freedoms, rights and governance in general. This is also an attitude that they share.

A key question is whether Jubilee’s pro-growth and pro-business orientation will translate into robust efforts to push through long overdue sectoral reforms. It is reported that the president showed some initial willingness to amalgamate and bring in private-sector people to certain parastatal organisations (such as crop boards). However, this stirred a continuous stream of lobbyists on behalf of vested interests, which caused the president to reconsider these plans.

As we have argued, the fact that Kenyatta funded his own campaign gives him more freedom of action than previous presidents have enjoyed. But he obviously struck some pre-election deals, and these may now be inhibiting his willingness to insist. But, this is not over. It is true the amalgamation of some parastatals has stalled. The Parliamentary Departmental Committee on Agriculture (National Assembly) has said it will be summoning the cabinet secretary for Agriculture to say why the parastatals have not been merged as planned (<http://www.thepeople.co.ke/54186/mps-want-10-parastatal-accounts-frozen/>).

## **2.4 Political challenges and institutional restraints**

### **2.4.1 Lack of a party system**

An important point to bear in mind about Kenya’s political economy is that political parties are not institutionalised. Parties are formed as vehicles for electoral politics and specifically for the purpose of carrying political leaders from one election to another. For this reason, few political parties last one election period. New parties are formed every election year, while the old ones disappear or remain as empty shells.

For instance, President Kibaki campaigned on a NARC party platform in 2002. The party fragmented along ethnic lines two years after the elections. Politics over the constitutional review in 2005 weakened the party so much that two factions emerged, one led by Kibaki and the other by Raila Odinga. For the purposes of the 2007 general election, Raila registered his faction, the Orange Democratic Movement (ODM), as a political party. On the other hand, Kibaki did not have a party because the official and legally recognised leader of the party, Charity Ngilu, declined to ‘give’ him the party to run on. Ngilu allied with Raila to deny Kibaki a political party. Kibaki had to quickly form a new party a few months before the December 2007 general election, the Party of National Unity (PNU).

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By 2013, PNU was a shell, as Kibaki was not standing. Uhuru Kenyatta also jumped from his party, KANU, and took over another little known party The National Alliance (TNA), which he re-branded to campaign on. Similarly, William Ruto did not have a party. He had left ODM, the party in which he campaigned in 2007. He formed a new political party, the United Republican Party (URP), to contest in the 2013 elections. The only older parties in the presidential election were ODM for Raila Odinga, and ODM-K for Kalonzo Musyoka, who was the vice president under Kibaki in the coalition government.

All the parties have an ethnic basis of support. And they fragment along ethnic lines. TNA draws support from among the Kikuyu, while URP draws support from the Kalenjin. ODM has support among the Luo, and ODM-K has support from among the Kamba community of eastern Kenya.

Both ODM and ODM-K are in the CORD alliance, the main opposition alliance. Both were in the coalition government where the ODM leader served as the prime minister and ODM-K leader served as the vice president. In opposition, the two have yet to demonstrate an opposition political party's agenda. So far, they have not identified a shadow cabinet or developed a policy position on any part of the Jubilee government's agenda for development. In other words, the opposition alliance remains weak and has yet to show itself as a force of change.

*Parties are not institutionalised but formed to carry political leaders from one election to another*

One reason why the opposition remains in an enfeebled state is that they did not expect defeat in the March 2013 general election. Opinion polls had shown a close contest, which a second round of presidential polling would have settled; none of the candidates were predicted to win in the first round. Because of this, there was general complacency on the part of the CORD leadership. Both the prime minister and the vice president were part of the incumbent executive and appeared to have counted on a second round. On the other hand, the Jubilee candidates were working from a position of weakness, given that the ICC had indicted them. Aware that pulling together was critical, they mobilised huge numbers for voter registration in their home regions and later mobilised these numbers for voting. Jubilee won in the first round, and although their victory was challenged by CORD, the Supreme Court upheld it.

The elections did not lead to a repetition of the violence of 2008, but they did divide Kenyans along major ethno-regional lines. The country remains polarised, with the Kalenjin/Kikuyu alliance opposed by the Kamba, Luo, Luhya and coastal groups, among others.

#### **2.4.2 Institutions that check vested interests?**

Even though institutionalised political parties are lacking, Parliament – both the Senate and the National Assembly – seems to exert pressure on other organs of the government. Sometimes this is in a manner suggestive of Parliament being a force for change. There are parliamentary committees. The National Assembly has close to 30 committees, while the Senate has about 13. These committees scrutinise government's activities, policies and programme implementation by department. They also conduct investigations on matters within their mandates, which in many instances concern the activities of ministries and public corporations.

In addition to the departmental committees, there are seven standing committees with broad mandates. These include the Public Accounts Committee, whose main responsibility is to examine and report on public expenditure, and the Public Investments Committee, which reports on public investments. These committees have important mandates, but in practice rarely hold the executive to account. Even though the Public Accounts Committee conducts investigations that find government officers culpable and recommend prosecution, there are no known instances of anyone being prosecuted successfully on account of the recommendations of the committee. The executive has the final word on such

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prosecutions and therefore nothing really happens. This is a common practice in all issues where the executive is implicated.

One reason for the poor track record in prosecutions is the generally weak culture of rule of law and constitutionalism in general. Laws are in place, but enforcement is generally weak. Deeply entrenched vested interests prevent the police and other institutions from holding people to account in the manner suggested by the constitution.

Having the responsibility to oversee the operations and activities of government ministries, departments and parastatals nevertheless makes committees quite powerful. They have powers to raise questions about the operations of any particular government agency. And, because they deal with a wide range of issues, it is not uncommon to hear allegations of corruption. Allegations of corruption were quite common in the last parliament.

### **2.4.3 Efforts to improve governance**

Since 2010, Kenyans have been looking to the new constitution as a key to improving governance. The constitution has created several new centres of power in the quest to reduce the powers of the executive. One is the judiciary.

The constitution provides for an independent judiciary by guaranteeing the judiciary's financial independence. In the past, lack of financial independence was used to undermine it. Today, there is an independent Judicial Service Commission (JSC) that is responsible for formulating policies for the judiciary. The JSC recruited the head of the judiciary, the Chief Justice, using a competitive process which involved opening the interviews to the public by televising them. The public was invited to submit reports on the candidates. The commission recruited new judges through a similar process. Public confidence in the judiciary was increased. The judiciary also started by making judgements that demonstrated independence from the executive. For instance, a judge ruled against the president's appointment of some state officers, a judgement that would have been rare under the previous constitution. Further, the judiciary compelled a Deputy Chief Justice to resign an integrity issue.

Currently, the judiciary is rated as among the most reformed institutions. All the same, anti-reform forces within and outside of the judiciary have constrained the change process, with a persisting struggle between the status quo and progressive elements.

The new constitution has established independent commissions and offices with broad mandates. They have oversight over a number of executive functions. They include the Commission on the Implementation of the Constitution (CIC), which oversees the making of laws and general operationalisation of the new constitution; the Commission on Revenue Allocation; the Kenya National Human Rights and Equality Commission, with mandate for the promotion and protection of human rights; the Salaries and Remuneration Commission; and the Ethics and Anti-Corruption Commission. In addition there are independent offices, such as the Controller of Budgets and the Auditor General.

*The effectiveness of the new bodies varies considerably*

The main purpose of the commissions and independent offices is to provide a check on executive powers. The previous constitution had given the executive (the presidency) very broad powers, which were subject to abuse. The new bodies have responsibilities that would otherwise have been undertaken by the executive. Arguably, they have helped in trimming the powers hitherto held by Kenya's 'imperial' presidency. However, the effectiveness of the new bodies varies considerably. Some like the CIC have dispensed their mandates in a manner showing independence and a desire for constitutionalism. There are others that are not bold in spite of the powers they enjoy under the constitution.

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Under the new constitution, Cabinet Secretaries (ministers) are not elected officials but technocrats. The idea behind this is that they are not answerable to politicised constituencies that would make them partisan in the way they make decisions. But, they are answerable to the president – and tend to be more concerned about what the president wants to be done rather than what the constitution requires of them. Although, they are relatively independent compared to the past, the decisions they make reflect the wishes of the appointing authority: the president and his deputy.

As we argued above, an issue of growing importance is the role of parliamentary committees. The growing requirement on ministers to engage with the relevant departmental committees in both the Senate and the National Assembly is surely a good thing, on the understanding that we are in a transition period – things are not yet settled down and there are many things that are not clear. Supremacy battles are being fought out between various institutions: Senate vs National Assembly, Senate vs Governors, and all vs the judiciary.

Finally, as we have seen, hiring for public posts in a competitive manner has been adopted with a view to improving governance in the public sector as a whole. But, vested interests are deeply embedded in the public sector; powerful individuals have a way of ensuring their nominees get the posts. This is usually done by appealing to regional and ethnic diversity, etc. There are also instances where the president has appointed chairpersons of public institutions without subjecting them to public competition – the law allows the president or the minister to appoint heads of parastatals.

## 2.5 Issues in the governance of growth

### 2.5.1 Planning for growth

The first government under President Kibaki set an important precedent in implementing policies drawn from the party manifesto and the government development policy. NARC's party manifesto was used in developing the government's blueprint for the 2003 to 2007 period, the Economic Recovery Strategy for Wealth and Employment Creation. The government pursued a policy framework in implementing key development priorities. Even though the government performed less well on governance than on economic recovery measures, it did pursue governance reforms based on this policy framework. The coalition government, for its part, launched Vision 2030 in 2008 and later a Medium Term Plan I (2008 to 2012) identifying projects that the coalition would pursue within the five years of its existence.

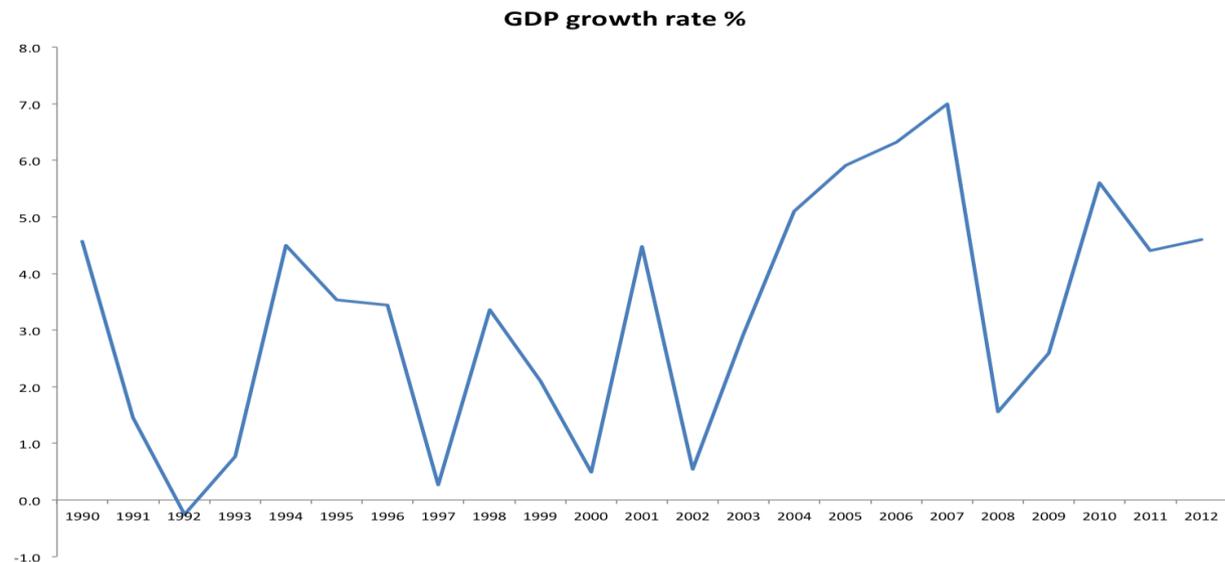
In line with these precedents, the Jubilee government has a manifesto, 'transforming Kenya and securing its prosperity', that promises accelerated economic growth, poverty alleviation, equity, higher living standards, better health care and more jobs. The manifesto has three pillars: Unity (*Umoja*), Economy (*Uchumi*) and Openness (*Uwazi*). The government has incorporated the priorities of the party into the second Medium Term Plan (MTP II) for the period 2013 to 2017 or the five-year tenure of the government.

MTP II identifies many priorities drawing from Vision 2030 and the Jubilee government's party manifesto. The government has set itself an ambitious plan for growth, but it has come to office with one particularly important advance – the economy has recovered from the consequence of the 2008 post-election violence. Also significant is that the 2013 general election was peaceful and did not disrupt economic growth. In fact, this is the first time since the return of multiparty elections that an election has been held without interrupting growth. Previous elections have tended to disrupt growth in significant ways, as illustrated by Figure 1.

Figure 1 shows that, historically, GDP growth rates have been highly variable. Growth collapsed in 1992 when the first election was held after the return of multiparty democracy in 1992. It fell again in 1997 when the second multiparty election was held. Both elections were held against a backdrop of violent ethnic conflicts in which many people were displaced, especially in the Rift Valley, the stronghold of the then ruling political party, KANU. Growth was interrupted in the subsequent electoral periods of 2002/3 and 2007/8. It declined also in 2000 when there was a major crisis around

how to undertake the constitution review process: whether to have a people-led or a parliamentary-led initiative.

**Figure 1: Variations in Kenya's economic growth, 1991-2012**



Source: Adapted from Karuti Kanyinga, 'The Kenya 2013 General Elections and Implications for Development' (Powerpoint presentation to GIZ, Nairobi, June 2013)

In contrast, growth did not decline in the period from 2012 but continued to increase after a decline in 2010. In 2013 the economy was projected to grow at around 5.0 percent. Also, the new government came to office when there were new opportunities to support growth. The coalition government undertook considerable infrastructural development; the election was peaceful; and there have been major discoveries of commercial oil deposits and gas as well as precious minerals and coal in different parts of the country. Effective exploitation of these opportunities should spur growth and generate resources for further investment.

If precedent is anything to go by, the government bureaucrats will follow the MTP II as a national development plan for the next five years. Government ministries and public sector institutions, in general, have already submitted their annual benchmarks for performance contracting, an approach that is already institutionalised in the public service. The benchmarks are drawn from the annual operational plans for MTP II.

There are, equally, a number of challenges, some of which contributed to the post-election violence of the 2007/8 period. They include growing youth unemployment, rising insecurity, especially because of Kenya's intervention in Somalia, and the distraction provided by the ICC indictment of Kenya's leaders. All these challenges will have an impact on how the Jubilee government will implement its development agenda and, specifically, how it will grow the economy.

### 2.5.2 A dynamic crony capitalism

Despite Kenya's governance challenges, the economy is on a growth path. But, the growth itself is below Kenya's potential. The Jubilee campaigned on a platform of growing the economy to a 10 percent growth rate, and Vision 2030 similarly aspires to induce growth to this level for several years. But the 7.1 percent growth that was achieved under Kibaki I in 2007 is the highest that Kenya has achieved in several decades. There are several challenges to be addressed to lay a foundation for such a take-off. However, as suggested in Section 1.3, these mostly involve the further encouragement of

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crony capitalism, not the kind of growth that orthodox economists expect, where a hands-off state liberates purely private business effort.

There may be some sub-sectors in which it is possible to make money under the radar of the politicians. However, in line with our earlier argument, a positive alignment of political, business and bureaucratic interests is a more likely cause of sectoral dynamism. The mobile phone industry, for example, has significant political support. Among its shareholders are senior political elites who invested especially in Safaricom's stocks on the Nairobi Securities Exchange. Other main shareholders are the government of Kenya and Vodafone. In Kenya, Mobitelea Ventures owns 12.5 percent of Vodafone, which in turn owns 40 percent of Safaricom Kenya. The owners of Mobitelea Ventures are not known to the public, but are all rumoured to be senior politicians associated with both the regimes of President Moi and President Kibaki.

*Despite Kenya's governance challenges, the economy is on a growth path*

The role of crony capitalism in the mobile phone industry came to light as recently as August 2012 when the president's private secretary wrote a letter to the Communication Commission of Kenya (CCK) stopping them from implementing the Mobile Termination Rate. He was doing this on behalf of Safaricom and Telkom Kenya. In the same period, the prime minister had written to the CCK on behalf of a Kenya Royal Media Services, owned by his close associate, stopping CCK from revoking frequencies allocated to Royal Media.

## **2.6 Prospects and risks**

The election of the Jubilee government raised two important concerns from the outset, which continue to inform and shape political developments in the country. The first is the question of implementation of the constitution and commitment to the devolved system of government. The second is the extent to which prosecution of the two leaders, the president and his deputy, by the ICC will pose challenges at diplomatic and political levels, and the extent to which these challenges may affect the economy and the general investment climate.

### **2.6.1 The constitution and devolution**

The concern about the constitution arises, first of all, because within the new government there are leaders who voted against it at the time of referendum in August 2010. These leaders include the Deputy President William Ruto and many other leaders in his URP wing of the Jubilee government. At the time of the referendum, Ruto joined the churches and mobilised his Kalenjin ethnic constituency to vote against adoption of the new constitution. About 30 percent of voters were against it.

Uhuru Kenyatta also took a long time to publicly support the constitution at the referendum. He certainly lacked passion for it. Some argued that he did not like to support it because the then prime minister had gained considerable political capital by campaigning for it. It was only after President Kibaki came out to mobilise his main constituents to support it that Kenyatta came into line.

A related concern about the constitution lies in whether there are champions to support a radical implementation of the various provisions. For example, it has introduced two levels of government: national government and devolved governments in 47 new counties. Questions are being raised because in the 1960s Kenya introduced a federal form of government, but the central government dismantled it almost immediately. The central government denied the regions funds for operation and with that the regions could not effectively undertake their functions. Today, there are still arguments about how much power to give to the county governments. The national government argues that

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certain functions such as security are functions that only the central government can perform. It also deployed county commissioners, who are answerable to the national government, even before the county governments could be established.

Although these actions suggest an attempt to slow the process of devolution, the devolved system of government is well protected by the constitution in several ways. First, it would require a referendum to alter the structure of government again. And, the process towards a referendum is also lengthy because it requires mobilising popular support for it through the collection of signatures in the counties. Second, the national government is required to devolve not less than 15 percent of all revenue collected to the counties. This is funding in addition to counties' own revenue collected through taxes and other means in their respective areas. The national government therefore cannot starve the counties, as was the case in the 1960s.

Opinion polls suggest that the support for devolution is widespread. Many people supported the new constitution in the belief that devolution somehow implies an end of biases by the central government in allocating development resources. Areas opposed to the government in power have, in the past, been marginalised or denied certain benefits because they were not loyal. Areas populated by numerically smaller groups are also generally ignored; they are marginalised because their numbers are too small to matter in a first-past-the-post electoral system. Even the Kikuyu, who have had three presidents since independence, tend to favour devolution. They are afraid that a president from another community may come to power once again and marginalise them; devolution appears to guarantee access to public resources whether a community has national political power or not.

The new constitution is important in another significant way; it seeks to address Kenya's longstanding challenges around the land question. It establishes the National Land Commission with powers to address historical injustices around land and to regulate control of land in general. In the past, grievances about land comingled with political competition on ethnic lines have aroused violent ethnic conflicts in multi-ethnic areas. The Commission has a mandate to study and facilitate implementation of recommendations to address some of these problems. The trouble is, however, that the structure of land ownership in Kenya is equivalent to the structure of political power. The Kenyatta family, for instance, owns large tracts in different parts of the country. Similarly, Moi has large holdings in parts of the country. Kibaki also owns large pieces of land, especially in central Kenya.

*An important concern is  
whether there are  
champions to support  
implementation*

The land question is inextricably linked to issues of control of political power and therefore the Commission will have to identify clear strategies to address the problem. It is possible that it will identify squatters and acquire public land to settle them. It is also possible that it will buy land from some of the powerful individuals and settle landless people on it, because it is the land-hungry groups that are the most violent when issues of land are raised.

The Commission may also want to accelerate the process of privatisation where land tenure is not yet privatised/individualised. The process of titling is on-going in several parts of the country. Demarcating land rights in some of these areas is a process that can be completed with ease if the government commits enough resources to it. And now that the county governments have responsibility over communal land in their respective regions, the governors will be under pressure to complete the process of land adjudication and titling where it is not complete. The main motivation, of course, will be the usual market-based motive that titled land will enable farmers to utilise their holdings effectively; and some may use land as collateral for loans to undertake investments.

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### 2.6.2 Oil and gas revenues

This issue is just emerging and it is not certain how it will evolve, but a number of issues are clear enough. One is rent-seeking – this has begun in earnest in the energy sector. Senior politicians are alleged to have bought huge tracks of land in the area where oil exploration is taking place. They have done this with a view to selling the blocks to prospecting companies. Interestingly, the local communities are also getting involved, arguing that they need to be given first priority in allocating the jobs advertised by the oil prospecting companies. Devolved governments – counties – may be transforming into battlegrounds for national and local interests. Crony capitalism may throw up new national-level actors who want to influence local events. The local actors may resist this.

### 2.6.3 The ICC indictments

The ICC continues to put the country in an important political dilemma. It is a dilemma not only for the two leaders facing charges but also for other political leaders and the country in general. The first difficulty it raises is that of Kenya's relationship with the West, its traditional trading partner. Already the West has snubbed Kenya on a number of occasions and Kenya has reacted to this by refusing to receive accreditation letters from some ambassadors on the basis that the 'President's diary is full.' The government has advised various countries not to send new ambassadors until further communication is received. The diplomatic consequences will continue to unravel as long as the ICC cases remain in place.

*Kenya's 'Look East' policy  
was a reaction to support for  
the ICC*

As mentioned earlier, Kenya's 'Look East' policy is in part a reaction to the international support for the ICC. And it is being observed, especially by the opposition, that the loans that China is advancing to Kenya are more expensive than those the West has been giving. Moreover 'the West has been giving grants for development of various sectors and this is not replaceable with the loans from China'.<sup>27</sup>

The ICC has also stirred a new momentum on pan-Africanism. Kenya has mobilised support against the ICC at the level of African Union (AU). Cabinet ministers have been on errands to various countries to mobilise support against the ICC. As a result, the AU agreed to petition the UN Security Council to defer Kenya's cases by a year, although the petition did not succeed. Through this newfound pan-Africanism, Kenya has signed trade and investment agreements with Nigeria and has been seeking to accelerate EAC's agreements on regional trade.

The ICC has more adverse consequences at the domestic level. The election held in March 2013 resulted in deep polarisation along ethnic lines. The two leaders, whose communities fought against each other, formed an alliance that excluded their hitherto allies. Because of this, those in areas outside where the president and his deputy come from have tended to support the ICC. In contrast, the communities of the president and his deputy have been against the ICC intervention. This polarisation has taken place at a time when the country has not addressed in any substantive manner the underlying causes of electoral violence. Further, the lower- and middle-level perpetrators of the violence have yet to be held to account. At one time, the police claimed to have been investigating over 6,000 individuals for perpetrating violence, but only less than three people had been convicted.<sup>28</sup> The majority of those prosecuted were discharged for lack of evidence.

Kenya's poor record in prosecution is one of the reasons many support the ICC. There are also worries that the on-going prosecution of the deputy president reveals poor-quality investigations by the ICC because some witnesses thus far have appeared not to recall some of the major events over

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<sup>27</sup> Interview with an opposition politician (Nov 2013).

<sup>28</sup> International Commission of Jurists – Kenya Chapter.

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which they were questioned. Further delays in the prosecution of these cases will lead to lack of witnesses, given that witnesses have been withdrawing and/or recanting their evidence.

## 2.7 Conclusions

The intermingling of business and politics is not a recent phenomenon in Kenya. It has historical antecedents that reach back to the colonial period. At the same time, as we have seen, cronyism has passed through several distinct periods since independence and it continues to evolve. The form of relationship between business and politics that emerged during the first of tenure of President Kibaki did not prevent the government from achieving high annual growth rates – the economy recovered quite quickly from the stagnation of the later Moi years. The growth prospects under the Jubilee government are also encouraging for related reasons. In principle, Uhuru Kenyatta is well placed to preside over a period of capitalist development comparable to that which Kenya enjoyed under his father. A key question still to be settled is whether he has sufficient autonomous authority to drive through the institutional reforms needed to set development, especially rural development, on a more inclusive, more poverty-reducing path.

Success in reviving economic growth, if it comes, will not automatically imply success in addressing the profound structural problems that Kenya faces, which are rooted in land distribution and ethnicity. Nor will it necessarily bring more just and effective governance. The constitution of 2010 promises a new beginning for the country, and a new way of doing things is slowly gaining ground in Kenya. However, it is challenging to implement the letter and the spirit of the constitution given Kenya's poor record on rule of law and constitutionalism in general. Meanwhile, the country faces significant risks, from elements of the 'Look East' policy and from the further intrusion of the conflict in Somalia into domestic politics.

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# 3 Tanzania

## 3.1 Background

Especially when considered alongside the case of Kenya, mainland Tanzania is distinguished by the multiplicity of its ethnic identity groups. Combined with the widespread use across the country of a *lingua franca*, Swahili, this feature facilitated the construction of an embracing national identity during the first decades of independence. This remains a major background feature of the political economy of Tanzania, along with the somewhat fragile unification of the island of Zanzibar and the mainland. Another major feature is the fact that the country emerged in the post-colonial period without a significant black-African business class due to late-colonial industrial development having been concentrated in Kenya and commercial investments falling largely to East Africans of South Asian descent. The period of socialist-oriented rule under Julius Nyerere interrupted, but did not fundamentally alter, the pattern in which political power is mainly the province of black-Africans and business is largely the preserve of Asians and Arabs (Aminzade, 2013).

*The country emerged in the post-colonial period without a significant black-African business class*

Unresolved issues around ethnicity and business exercise an unfortunate influence on the investment climate and the prospects for developmental reform in Tanzania. Economic liberalisation has benefited foreign and local non-African capitalists more than African capitalists. The current political settlement includes strong elements of state capture by a few local Asian and Arab businessmen. As in several other countries of sub-Saharan Africa, the non-indigenous and non-national origins of merchant and industrial capitalists influence the way economic issues get politicised. Commentators routinely contrast the unprecedented levels of foreign investment, economic growth and export earnings with persisting mass poverty and rising inequality. Policies that appear to favour foreign over local investors, for example permitting 'land grabs', offend both ruling party and opposition parliamentarians as well as energise international and local NGOs concerned with poverty and food security, genetic engineering and biodiversity. Populist and nationalist elements in public policy increase as a result.

These factors combine to make it very difficult to enforce strategic and robust agricultural and industrial policies, which are essential for long-term development. They help to channel the rent-seeking behaviour of the political elite into ventures that serve short-term political advantage, with little benefit to the economy. This enhances the dampening impact on the climate for major investment (Cooksey, 2011; 2013; Hoffman, 2013).

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## 3.2 Political and economic power linkages

It is inherently difficult to map business-political relationships and networks because of their opaque and unstable nature. For various reasons, there is very little serious investigative journalism or research in Tanzania on these necessarily ‘sensitive’ topics. In some cases, state-business relationships can be *inferred* from decisions favouring one or another company, including granting tax exemptions and low levels of tax payments compared to turnover. Private companies accounted for roughly a quarter of all tax exemptions granted from 2011 to 2012. Table 2 lists the main corporate taxpayers during the 2005 to 2011 period.

**Table 2: Major corporate taxpayers, Tanzania, 2005-11**

Company	Taxes paid, TShs billion
Tanzania Breweries Ltd.	165.4
National Microfinance Bank	108.6
Tanzania Cigarette Company	92.1
National Bank of Commerce	89.9
CRDB Bank Ltd.	79.2
Tanzania Ports Authority	76.8
Tanzania Portland Cement	73.4
Airtel (T) Ltd.	63.6
Tanga Cement Company Ltd.	43.6
Standard Chartered Bank Ltd.	40.0
Citibank (T) Ltd.	35.7
Resolute (T) Ltd.	32.1
Tanzania International Container Terminal Services	25.9
Tanzania Distillers Ltd.	13.4
Group Five International (PTY) Ltd	9.5

Source: Policy Forum (2013), citing Hotuba ya Waziri Mkuu, 26 Aug 2011.

Reacting to the list, Chadema Member of Parliament Zitto Kabwe asked why a number of major companies were not on the list, citing Mohamed Enterprises, Bakhresa/Azam, IPP, CocaCola, Pepsi (SABCO), Vodacom,<sup>1</sup> Serengeti Breweries, Barrick Gold, AngloGold Ashanti and the oil marketing companies.<sup>2</sup>

The main Asian companies with close political connections are family businesses. The importance of the Asian business-political linkage cannot be overstated. Some conspiracy theorists claim there are just a handful of Asian and Arab families/businesses that virtually ‘control’ the Tanzanian economy. The only significant African player is Reginald Mengi of IPP. Mengi, through his media outlets and the Tanzania Private Sector Foundation, which he currently chairs, is a vocal advocate for ‘black empowerment’, challenging the government to give local capitalists the opportunity to invest in the leading economic sectors, especially oil and gas.

Listings of Africa’s richest people feature a number of Tanzanians. A consolidated list includes Reginald Mengi (soft drinks, media), Said Bakressa (milling, food processing), Rostam Aziz (construction, media, telecommunications), Ali Mufuruki (IT, retailing) and Gulam and Mohamed Dewji (agricultural trading and processing). These listings are inevitably flawed: some of the wealthiest Tanzanians would not want to be publicly described as such. For example, though well connected, Fidahussein Rashid (transport, property development), Subash Patel (Estim Construction) and Yusuf Manji (Quality Group) keep a relatively low profile on such issues. Information on the

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<sup>1</sup> Vodacom claims to have paid Shs 36.5 billion in corporation tax in FY2011/12 (Reporter, ‘Vodacom spells out why it’s among top taxpayers in Tanzania’, *Citizen*, 10 Nov 2013).

<sup>2</sup> Zitto Kabwe blog, 26 Mar 2012.

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linkages of these and other private actors with the ruling elite is necessarily anecdotal. The full story has yet to be written.

### 3.3 Presidential authority and development leadership

Issues on which adequate information exists to judge the nature and limits of presidential power in Tanzania include agriculture, industry, mining and oil and gas. Recent presidential initiatives have a prominent but highly problematic place in the current political economy of Tanzania. Beginning with agriculture, Box 1 itemises President Kikwete's main agricultural policy initiatives since becoming president in December 2005.

#### Box 1: President Kikwete's agriculture initiatives

- In a post-election meeting between president Kikwete, Minister of Agriculture Joseph Mungai and employees of the MAFC, Mungai proposed a national target of 5 million ha of additional irrigation within a decade, nearly twenty times the Agriculture Sector Development Programme (ASDP) target. The president responded that a more realistic target would be 1 million ha over five years, which was still seven times the original ASDP target. It was subsequently included in his inauguration speech and became the main component of the ASDP.
- In June 2009, President Kikwete chaired the Tanzania National Business Council (TNBC) meeting that launched *Kilimo Kwanza*. At the end of the meeting, Kikwete exhorted TNBC members to 'Take up this initiative. Do not wait for the government...If we had one million acres under...large-scale farms, we could do wonders...Invest in large-scale farming'. 'Leave the small-scale farmers to the government, while you plan on your own', he is quoted as saying (Ambali 2009).
- At the annual 'Nanenane' agricultural show in Dodoma in August 2009, President Kikwete endorsed the KK strategy, claiming that 'the private sector has been the only missing link in past agricultural declarations and initiatives'.
- In April 2012, President Kikwete attended the high-level 'Grow Africa' Investment Forum in Addis Ababa. He said, 'We are ready to do business, that's why we came to this meeting...When we bring in the private sector, it is to benefit the smallholder farmers. We need to modernize agriculture and make it more attractive to youth'. 'President Kikwete added that governments have an important role to play in providing support in areas of irrigation, inputs and building commodity markets. However, private sector investment is also essential to avoid over-dependence on subsidies'.
- In December 2012, President Kikwete had this to say on cashewnut marketing: 'We know some [private cashew] buyers want WRS [Warehouse Receipt System] to fail, but we can't go back on this. Private dealers who fail to comply with the new system will lose their licences'. The president 'would rather see the Cashewnut Board of Tanzania (CBT) take over bulk purchasing than allow traders to exploit smallholders'.<sup>3</sup>
- President Kikwete has a commercial pineapple farm in his home district of Bagamoyo. When officiating at REPOA's annual research workshop in April 2011, he complained that the price he received from traders was too low compared with the retail price of pineapples in Dar es Salaam.

Sources: Cooksey (2013); Veneranda Sumila, 'Warehouse receipt system increases costs to farmers', *Citizen*, 23 May 2013.

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<sup>3</sup> Kikwete could hardly have chosen a worse example of crop mismanagement than the Cashewnut Board of Tanzania (CBT). Monopoly cashew-buying cooperatives are building up large debts with the commercial banks, which finance the costly and inefficient WRS. The losses are passed on to the treasury and the taxpayer/donor. Numerous press reports cite farmers complaining about the WRS.

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In different contexts, then, President Kikwete supports smallholders, local capitalist farmers, foreign capitalist farmers/agribusiness and cooperative monopoly crop purchasing against private traders. Support for both local and external capital and investment policies are compatible with the KK vision. TNBC foresees joint ventures in which the locals provide the land and the external investor brings the capital and the expertise. Most members of the elite own land and many are already involved in or planning JVs. These are powerful reasons for supporting KK and the New Alliance.

*Kikwete and the ruling elite  
face contradictory incentives  
concerning agricultural  
policy*

Yet there are also powerful incentives pulling in other directions. The president gets very emotional when it comes to the involvement of private buyers (local and foreign Asian companies) in the cashew market. The widely shared dislike of ‘greedy’ and ‘unscrupulous’ middlemen justifies support for cooperatives, official price setting and other market-constricting interventions.<sup>4</sup> This does not mean allying with the perceived or expressed interests of the mass of smallholders, who may criticise private traders but are also suspicious of cooperatives and crop boards.

However, some of the ruling party’s major private funders are precisely these local Asian family conglomerates that are heavily involved in commodity trade and processing, and often referred to as ‘monopolists’ and ‘cartels’. These include some of the leading beneficiaries of the tax exemptions cited by Therkildsen (2012b) and Hoffman (2013) and mentioned in the framing section of this report. Ostensibly to make up for recent shortfalls in local sugar and rice production, the government awarded permits to trading companies to import huge volumes of these commodities *duty-free*, leaving local estates and outgrowers with large unsold stocks and severe cash flow problems (Africa Confidential, 2013a) (also interview C, 7 Nov 2013). Local Ugandan rice traders complained they were losing their markets to cheap imports from Tanzania.<sup>5</sup>

In sum, President Kikwete, and by extension the ruling elite, face diverse and contradictory incentives concerning agricultural policy, reflecting ideology (mistrust of non-indigenous merchants), vote-seeking (promoting small-scale irrigation), material self-interest (owning land, farms and businesses), political expediency and commercial lobbying (waiving import tariffs). Not surprisingly, the policy incoherence described above is reflected in incoherent policy implementation. Unpredictability undermines the investment climate and business environment, which seems to be getting worse, not better. With large investments in sugar and rice planned – including the EcoEnergy sugar processing plant in Bagamoyo<sup>6</sup> and the expansion of Kilombero Plantation Ltd’s (KPL) rice project<sup>7</sup> – investors will require guarantees that they will not be undercut by cheap imports as described above.

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<sup>4</sup> All governments intervene in agricultural markets. The issue is whether interventions make practical sense and are within the technical and logistical capacity of the implementing agency.

<sup>5</sup> Local sugar production shortfalls were estimated at about 80,000 tonnes, while duty-free imports permitted during 2012 were 200,000 tonnes (Reporter, ‘15 years of Kilombero Sugar Company Ltd under privatisation’, *Guardian*, 14 Sept 2013. Recently, the Tanzania Sugar Producers Association claimed members were holding 82,000 tonnes of sugar worth 62.5 million USD. Minister of Agriculture Christopher Chiza defended the imports on the grounds that they brought down retail prices. In addition, “...producers are complaining because the decision to import denies them an opportunity to maximise from the shortfall,” he said.’ (Ray Nalugaya, ‘Sugar producers in cashflow crisis over imports’, *East African*, 5 Oct 2013).

<sup>6</sup> The 11,000 ha sugarcane plantation (including 3,000 ha for outgrower development) could produce up to 150,000 tonnes of sugar a year as well as ethanol (from molasses) and power (from bagasse) using the Brazilian model (Elias Msuya, ‘Project seeks end to sugar deficit’, *Citizen*, 5 Nov 2013). Total planned investment is 500 million USD. (Interview P, large investor, 5 Dec 2013).

<sup>7</sup> With 40 million USD invested to date and as much again planned, future investments will depend on ‘improvements in the infrastructure and tax regimes’. KPL plans to produce 33,000 tonnes of rice and 5,000

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A growing number of private equity and venture capital funds are investing in Tanzanian agribusiness. In late 2012, the Carlyle Group announced that they, the Pembani Remgro Infrastructure Fund and Standard Chartered Private Equity, were investing 210 million USD in Export Trading Group (ETG).<sup>8</sup> ETG is described as a ‘Global Agricultural Supply Chain Manager.’<sup>9</sup> ETG are said to be politically well connected at the highest level in Tanzania.<sup>10</sup> What the Carlyle-ETG deal will mean in practice remains to be seen.<sup>11</sup> Another more recent deal saw Rand Merchant Bank (RMB) arrange ‘a \$100 million syndicated loan facility for the trading arm of MeTL (Mohamed Enterprises Tanzania Ltd.), one of Tanzania’s largest diversified conglomerates.’ The loan is syndicated with China Construction Bank, Citibank and Nedbank.<sup>12</sup> Is it possible that the duty-free importation of Pakistani rice in early 2013 was financed by this credit line?

We did not have time to investigate whether the plans of local agribusinesses include substantial up- and/or down-stream diversification as opposed to more commodity trading, including the opportunistic importation of rice and sugar. One interviewee suggested, however, that for at least one major player – ETG – Tanzania is too small a market to consider making major up- or down-stream investments. Other local family businesses, with a diversified assets portfolio, are unlikely to invest in significant long-term agricultural ventures in the current unpredictable business environment.<sup>13</sup>

Though there is little information available, there are hints that the National Food Reserve Agency (NFRA) is a high-level rent-seeking mechanism. Efforts by the NFRA to buy increasing volumes of maize are premised on claimed production shortfalls in ‘food deficit’ regions and districts. USAID consultants have advised the government to reduce the size of its grain reserve, but the government plans a substantial increase. In January 2014, the NFRA had reached its target of 250,000 tonnes of maize.

It appears that access to inside information is a key component of the recent importation of duty-free rice and sugar, allowing favoured companies to ‘win’ import licence tenders. By the time the tenders are announced, the shipments are already on the high seas.<sup>14</sup> More importantly, the potential rents from the tax waiver on the proposed 120,000 tonnes of rice could have been about 40 million USD. In any such event, if ‘only’ 60,000 tonnes were imported, it would still be more than enough to undermine local large- and small-scale producers.<sup>15</sup>

### 3.4 Political challenges and institutional restraints

#### 3.4.1 Growing political turbulence

Since Tanzania returned to multiparty politics in the mid-1990s, the ruling party Chama cha Mapinduzi (CCM) has won all four presidential and parliamentary elections quite comfortably (Figure 2). But, competitive politics has proven increasingly costly, dividing the ruling elite, fuelling political

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of beans and pulses (Interview C, 7 Nov 2013; Mike Mande, ‘British firm to boost rice farming in Tanzania’, *African*, 4 Nov 2013).

<sup>8</sup> Africa Confidential (2013a).

<sup>9</sup> Carlyle Group, press release, 2012. The Carlyle Group (NASDAQ: CG) is described as ‘a global alternative asset manager with \$156 billion of assets under management in 99 funds...as of June 30, 2012. The Standard Chartered investment is USD 74m’. See also: Finnigan wa Simbeye, ‘Smallholder farmers to benefit from 114.3bn/- WB loan’, *Daily News*, 13 June 2013: ‘The loan will help ETG to increase its annual purchases from farmers and entrepreneurs from 491 million US dollars...to 2.7 billion US dollars by 2017.’

<sup>10</sup> Interview K, investment risk analyst, 2 Nov 2012.

<sup>11</sup> Kack Farchy and Emiko Terazono, ‘Carlyle finds cashew group to its taste’, *Financial Times*, London, 13 Nov 2012, report that the ‘capital injection will be used to fund...processing facilities that produce...vegetable oils, flour or ground coffee’. Could it be that the funds also help finance tax-free imports of rice and sugar?

<sup>12</sup> Agencies, ‘Mohammed Enterprises gets a \$100 million loan facility’, *Citizen*, 29 Jan 2013.

<sup>13</sup> Interviewees H and I.

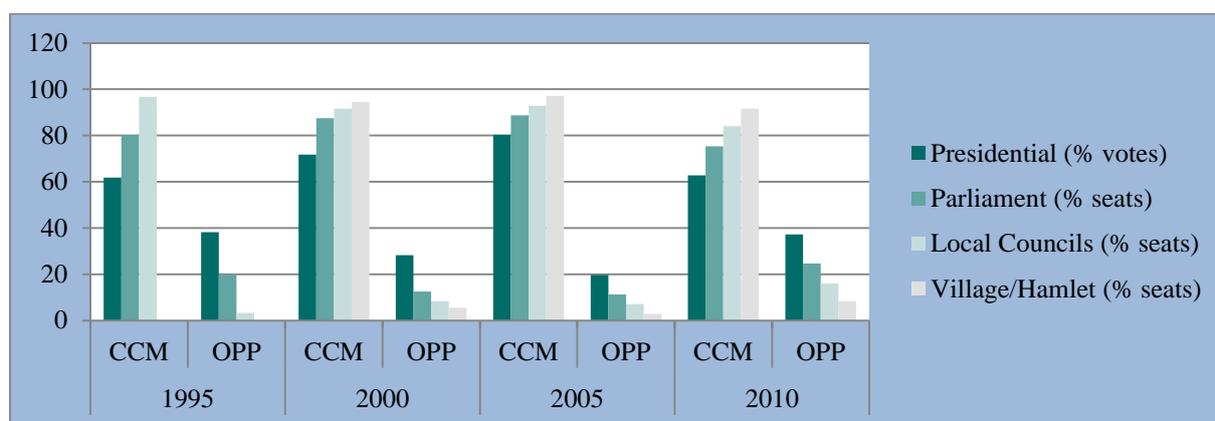
<sup>14</sup> Interviewee K (24 Oct 2013); Malela Kassim, ‘Sugar, grain import tenders not transparent – farmers’, *Guardian*, 4 Nov 2013; Polycarp Machira, ‘Analysts appeal for new imports board’, *Citizen*, 4 Nov 2013.

<sup>15</sup> Interview C (7 Nov 2013).

corruption and undermining public confidence in state institutions. As a consequence, Tanzania's long standing reputation for 'peace and tranquillity' in a politically unstable region is under increasing threat.

In the 2010 elections, the ruling party captured 78 percent of the seats in Parliament, but only 60 percent of the popular vote.<sup>16</sup> Jakaya Kikwete received 80 percent of the presidential vote in 2005, but only 63 percent in 2010. His apparent declining popularity is explained in terms of lacklustre leadership, inability to reign in corruption among senior party leaders and failure to deliver on electoral promises (Hoffman, 2013).<sup>17</sup>

**Figure 2: CCM and opposition parties' performance in national elections, 1995-2010**



Source: USAID (2010).

Rather than vote for unknown and untested opposition parties, in 2010 many rural Tanzanians appear to have abstained (Policy Forum, 2012). At the same time, incidents of violence related to political rivalries have risen sharply, as have confrontations between citizens and the state, the most recent example being the unprecedented mass protests that broke out in Mtwara Region in late 2012 over the proposed construction of a gas pipeline from Mtwara to Dar es Salaam.<sup>18</sup> The incidence of crimes of violence also appears to be on the rise.

Between 2007 and 2012, popular support for multiparty politics increased from 45 to 65 percent, with the biggest increase in rural areas where the proportion of citizens favouring multiparty politics increased by an astonishing 64 percent (REPOA, 2013). These major changes in political attitudes mirror perceived trends in personal welfare. For example, despite rapid growth in GNP lasting more than a decade, half the Dar es Salaam VOP respondents and 57 percent of those in rural areas reported that their personal economic circumstances had deteriorated between 2009 and 2012, as compared with 19 and 23 percent, respectively, who said their situation had improved.<sup>19</sup> Finally, 19 percent of

<sup>16</sup> The comparable figures for 2005 are 86 and 70 percent.

<sup>17</sup> President Kikwete recently warned regional and district party leaders, "If we do not change in corruption, we will have a very difficult time in the 2015 elections, and even if we will be lucky to win and take the government, we would not be able to come back to power in the year 2020", adding that the level of corruption among party leaders was gaining momentum every day, making the electorate lose trust in them' (Staff Writer, 'JK to CCM: Corruption will force us out of power', *Guardian*, 26 Oct 2013).

<sup>18</sup> Reporter, 'Scores protest over gas benefits', *Citizen*, 28 Dec 2012; Hassan Simba, 'Mtwara residents oppose gas pipeline construction plan', *Daily News*, 28 Dec 2012.

<sup>19</sup> Though the validity of official figures is contested, there appears to have been little or no reduction in rural poverty over the last decade, and only a modest reduction in urban areas. From 2001 to 2007, those below the basic needs poverty line declined from 35.7 percent to 33.6 percent (REPOA, 2011: 9). Tanzania is unlikely to meet the Millennium Development Goal for poverty reduction by 2015.

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rural respondents said they ‘frequently’ and 43 percent said they ‘sometimes’ didn’t have enough to eat during the previous year (2011).<sup>20</sup> According to Afrobarometer, the proportion of Tanzanians negatively assessing government efforts to reduce poverty increased significantly between 2005 and 2012. In the latter year, four-fifths or more considered that the government was handling ‘badly’ or ‘very badly’ the efforts to improve the living standards of the poor, job creation, inflation and inequality (Hoffman, 2013: 7).

One strand of the ruling elite’s strategy to retain power is cynical vote buying at election time, when the plunder of state coffers is likely to peak. ‘Good policies’ represent at most a small part of the medley of options for appealing to voters as the elections approach. It is true that ‘agriculture’ receives twice the share of the budget compared to a decade ago, but the additional funds have not improved many farmers’ lives, if the official poverty trends and survey results are anything to go by. This would give weak credibility to campaigning based mainly on the government’s record.

### **3.4.2 An increasingly patronage-driven ruling party**

Growing factionalism within the CCM has raised hopes among opposition parties and their supporters that the 2015 elections could see the end of nearly half a century of one-party hegemony. At the same time, local politico-administrative and economic sub-elites have come to enjoy more political leverage, demanding more in exchange for their loyalty to the political centre (Therkildsen, 2012b; Therkildsen and Bourgoignie, 2012). As central political control weakens, latent identities and conflicts based on race and ethnicity, religion, culture and access to land risk becoming politicised. In this context, CCM is likely to invest major resources in staying in power by buying support through a combination of natural resource plunder, tax exemptions for key supporters and the conduct of non-competitive tenders. This will be at the expense of longer-term development concerns (Cooksey and Kelsall, 2011; Kelsall, 2013b).

Our conclusion about Tanzania so far is that the current political settlement is an unstable alliance of public and private interest groups practicing competitive patronage around the ruling party and president. Growing competitive factionalism has increased the costs of keeping the ruling elite together, while the attendant corruption and disarray in public administration weaken its popular support base and play into the hands of the opposition. Tanzania’s declining performance in the ease of doing business suggests that state-business relations are, arguably, getting worse.<sup>21</sup>

While the decline and eventual fall of CCM as a political hegemon remains a possibility, it seems unlikely that such a change of scene would radically improve the life chances of Tanzanian voters in the short- to medium-term. Though seen as pro-business, CHADEMA’s top cadres share many of the negative attitudes towards foreign investment and ‘land-grabbing’ shown by CCM’s rank and file. Kigoma MP and Shadow Minister of Finance Zitto Kabwe has described himself as a socialist. Together with his colleague Tundu Lissu, he was at the forefront of challenging foreign mining companies over tax evasion and human rights abuses.<sup>22</sup>

Recent reforms in the parliamentary committee structure have consolidated the position of former Attorney General Andrew Chenge, MP for Bariadi in Shinyanga. Last year, Speaker of the House Anna Makinda set up a parliamentary committee, led by Chenge, to look into the committee structure and standing orders. Subsequently, the Public Organisations Accounts Committee (POAC), chaired by CHADEMA MP Zitto Kabwe, was abolished and Kabwe was made chair of the Public Accounts Committee. Journalist Orton Kiishweko described Kabwe as ‘a thorn in the flesh’ of corrupt officials heading parastatals when managing the POAC. A new Parliamentary Budget Monitoring Committee

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<sup>20</sup> The comparable figures for Dar es Salaam were seven and 27 percent. In 2007, three-quarters of Tanzanians below the basic needs poverty line were ‘primarily dependent on agriculture’ (REPOA, 2011: 9).

<sup>21</sup> Tanzania was ranked 133 out of 185 countries in the World Bank’s ease of doing business index in 2012, falling to 145th in 2013 (Alawi Masare, ‘Tanzania decreases further in WB’s doing business ranking’, *Citizen*, 30 Oct 2013. See World Bank (2013) and World Economic Forum (2013).

<sup>22</sup> One senior Chadema politician (name withheld) told the author that he feared his party would not be able to run the country even if it won the 2015 (or subsequent) elections (pers. comm., Dec 2011).

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was established with the remit of plugging tax exemption and other losses to the treasury. Chenge, whose political career was temporarily put on hold when Britain's Serious Fraud Office (SFO) traced a million USD in bribes to his Jersey bank account in relation to the egregious BAE radar scandal during the last Labour government, is chair of the new committee. Central to its remit will be a clampdown on tax exemptions to big companies in order to close the widening budget deficit that has forced the government to resort to commercial borrowing. Therkildsen (2012b) argues that the rise in tax exemptions is the consequence of heightened political competition since the mid-1990s. He shows that exemptions are enjoyed by politically well-connected companies, and that past attempts by the IFIs to get the government to plug these tax loopholes have failed (Policy Forum, 2013).

CCM's inability to rid itself of its most compromised leaders is best exemplified by the parallel trajectory of Edward Lowassa, who was forced to resign after a CCM committee of enquiry named him as a key player in the Richmond power scandal, which served to worsen the country's energy problems during President Kikwete's first years in power. The scandal saw the end of the political career of Rostam Aziz, a wealthy businessman (mobile phones, construction, media, etc.), former CCM treasurer and one of Kikwete's key backers for the 2005 presidency (Cooksey, 2011).

### **3.4.3 Factional struggles and electioneering within CCM**

During his political career, Lowassa has amassed considerable wealth, and is likely to be the man to beat for CCM's presidential candidacy in 2015. Unlike the haughty Chenge, Lowassa actively solicits the support of different constituencies, including the CCM youth wing, church leaders, regional and district commissioners, educational institutions and even 'bajaj' drivers. His political re-anointment after the Richmond scandal was symbolised by his appointment to head the new Foreign Affairs Committee. Recently, former Prime Minister Frederick Sumaye took a swipe at Lowassa, virtually calling him a liar, implying he accumulated wealth through corruption, and lamenting the 'dirty politics' ahead of the 2015 elections. If CCM selects a presidential candidate 'tainted by corruption' he would leave the party, he said.<sup>23</sup> This choice will face members of the anti-Lowassa camp if, as seems likely, he is selected as presidential candidate in 2015. Defections in both directions are possible, with CCM's less compromised personalities, led by Minister of Transport Dr Harrison Mwakyembe and former Speaker Samuel Sitta, moving to the opposition and some opposition politicians defecting to CCM in anticipation of a Lowassa victory.

In early February 2014, CCM leaders and the president declared that the race for the party's nomination had not officially started, even though unnamed politicians had been on the campaign trail. In Lowassa's case, he had been campaigning (unofficially) for some time. The jury is still out on Lowassa's chances of securing the CCM candidacy in 2015 (the elections are due in November or December). CCM's central committee would do well to find reasons for passing over him in the forthcoming race on the grounds that he is a divisive presence within the party. An excuse currently being touted among the chattering classes would be to disqualify Lowassa on health grounds.

*Unlike Chenge, Lowassa actively solicits the support of different constituencies*

Kikwete will seek a successor who will not challenge the 'elite settlement' or try to make political capital by culling corrupt elements from the outgoing regime, including perhaps Kikwete himself, his family and close associates. The practice of promoting a relatively unknown and un-networked person to the presidency is well established in Tanzania; this is how Julius Nyerere brought Ali Hassan Mwinyi (1985) and Benjamin Mkapa (1995) onto the big stage. Kikwete is the first president of the post-ideological era, where money is the dominant political medium of exchange.

But, image and track record matter too. A strategic move by CCM would be to promote a relative newcomer with no known political base but with major assets in her favour, namely Asha-Rose

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<sup>23</sup> Polycarp Machira, 'Here's why I might quit CCM: Sumaye', *Citizen*, 6 Nov 2013.

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Migiro who, until recently, was Deputy Secretary General at the United Nations. Formerly a teacher in the Faculty of Law at the University of Dar es Salaam, the youthful Dr Migiro, who shuns wigs and hairpieces in favour of a glossy Afro hairstyle, is currently the Minister for Justice and Constitutional Affairs. She might improve her presidential chances (if she has any) by playing to the gallery in the on-going constitution reform process, which in February selected a large Constituent Assembly, embracing almost every interest group in society but nevertheless dominated by CCM MPs. The most difficult task facing the Assembly is to resolve the Zanzibar question. The proposal for the new constitution is to retain the union between the mainland and the isles, but within a three-government system (Mainland, Zanzibar and Union). The official CCM position is to retain a two-government Union, but many in Zanzibar want full independence. The climax of the constitutional reform process and the build-up to the presidential elections will occupy much of the 2015 political space. The most one can hope is that the state keeps politically-initiated violence under control, and that the theft of public resources to finance election campaigns does not get totally out of hand.

#### **3.4.4 Alternative political prospects**

Policies-as-implemented are overpoweringly patronage driven, and this will likely continue under any future CCM president. While front-runner Lowassa's patronage network involves Asians, Arabs and Europeans, it is not self-evident that a Lowassa presidency would allow these groups' virtual stranglehold of key sectors of the economy to continue unchallenged. Though he operates across the racial spectrum, Lowassa is not particularly beholden to any one group. It is most unlikely that programmatic agricultural or industrial policy would develop under Lowassa in a way that would attract more foreign and local investors.

What would an opposition victory imply? An opposition victory would energise many (especially younger) Tanzanians and would strengthen the legitimacy of competitive party politics for the society at large, but this democratic dividend might not last long. Nothing suggests that a new CHADEMA government would be able to govern any better than the current regime, including crucially maintaining law and order. CHADEMA lacks CCM's organisational depth, and a CHADEMA government would be hard put to effectively mobilise its supporters against a post-electoral backlash by CCM loyalists. At the time of writing, CHADEMA is embroiled in a damaging internal tussle opposing the high-profile Zitto Kabwe against the rest of the party leaders. Zitto, who is currently chair of the parliamentary Public Accounts Committee, is not going quietly and has a case in court challenging his attempted ouster. CHADEMA's claim to be a serious contender for power has taken a hit as a result of the Zitto saga.

A younger generation of potential voters, both urban and rural, has no emotional or ideological ties to CCM. The majority of voters in 2015 will have grown up under the formal competitive politics introduced in 1995, and will only have second-hand knowledge of the liberation struggle and the legacy of Father of the Nation Julius Nyerere. The populist strain in Kikwete's political discourse has failed to deliver, leaving many – especially younger people – with a sense of betrayal. Kikwete's generally positive international image took a knock in February when Britain's *Daily Mail* tabloid virtually accused his government of protecting those involved in ivory poaching in Tanzania, which has reached unprecedented levels. Two days later Kikwete was attending an anti-poaching conference in London hosted by Prince Charles, heir to the British throne. Kikwete's attempt to bring ivory poaching under control through a military-style campaign ('Operation Tokomeza') was an embarrassing failure, leading to the sacking of four ministers for allowing the campaign to deteriorate into the harassment of pastoralists said to have encroached into game parks as well as other alleged human rights abuses. The outgoing Minister of Natural Resources and Tourism, Ambassador Khamis Kagasheki, more or less admitted that the biggest obstacle to his efforts at a clean-up was the number of senior public figures implicated in the trade.

The failure of Kikwete's house-cleaning exercise leads many, including political commentators, to conclude that the ruling party is beyond redemption. The rural correlates of this trend are discussed below.

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The generational divide is likely to become increasingly evident during the build-up to the 2015 elections. Under Kikwete, a number of younger politicians were intentionally fast-tracked, in particular Lawrence Masha and January Makamba.<sup>24</sup> CHADEMA also has a group of young politicians with more appeal for younger voters. These young leaders are drawn from a small urban elite of educated and social media savvy Tanzanians who are impatient with the political dinosaurs of their parents' generation. It is likely that many relatively young politicians of both sexes will oust many of the old guard during the selection of candidates and at election time.

While donors and think tanks continue to sing the praises of competitive politics in Tanzania, a more sober appraisal would flag the destabilising effects and the negative consequences for development.

### **3.4.5 Weakness of formal accountabilities and other countervailing forces**

State public goods creation and maintenance functions (e.g., power, ports, roads) are seriously undermined by political and grand corruption, and service delivery performance is compromised by state plunder and uncoordinated 'rent-scraping' at all levels (Cooksey, 2011). Parliament has been the scene of unprecedented challenges of executive power, including forcing ministers and senior officials to resign. But, formal accountability has not progressed, and the most corrupt elements have re-asserted their political dominance within CCM. Formal institutions of accountability (courts of law, Prevention and Combating Corruption Bureau (PCCB), Ethics Commission) are largely ineffectual.

We still have to explain why the Kikwete government pushes the pro-liberalisation/foreign investment strand of agricultural policy when all signs point to the fact that rural voters are turning increasingly to opposition parties for their political salvation. Recent research investigating the impact of political liberalisation on agriculture in sub-Saharan Africa finds that, in most African countries, farmers have not benefited from democratic transitions (Poulton, 2012). The explanation offered is that ruling elites are likely to take the rural population's voting power seriously when export revenues are heavily agriculture dependent and/or when elite survival is threatened by rural populations' potential mobilisation. If these forces are weak, patronage politics that deliver few tangible benefits to the majority of rural households are likely to predominate. Are these forces strong or weak in Tanzania?

Tanzania's dependence on agricultural exports has declined dramatically over recent years as a result of the rise of gold, tourism and other 'non-traditional' exports. In 2010, traditional agricultural exports accounted for only 16.4 percent of total exports (ESRF, 2011: 42). Cooksey (2011) suggests that this dramatic decline in the importance of 'traditional' agricultural exports has allowed crop-specific sub-elites to control key elements of the relevant markets in order to capture rents that would otherwise accrue to producers and private intermediaries. The failure of boards and cooperatives to manage export crop markets effectively and efficiently is the main cause of their generally lacklustre performance under liberalisation. The compact between sub-elites and the political centre is weakened to the extent that rents accruing to boards and cooperatives are reduced by diverse market failures, largely of their own making. If the fiscal consequences get out of hand, with the treasury picking up the tab for loss-making cooperative unions and societies, pressures for deeper liberalisation could well re-emerge.<sup>25</sup>

Do 'farmers' constitute a threat to the current ruling elite and its strategy for staying in power in 2015 and beyond? Prior to 1985, CCM was extremely successful in incorporating rural producers into the political settlement on the basis of ideological mobilisation. To date, CCM is the only institutionalised political party in the country with a structure reaching right down to the village level. CCM's resilience in the face of the economic crisis precipitated by ujamaa policy is proof that its grassroots

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<sup>24</sup> While IT-savvy Makamba has established himself as a serious parliamentarian and committee member, Masha, who was made Minister of Home Affairs during Kikwete's first term, was a spectacular failure and was ditched by his regional backers.

<sup>25</sup> This brief sketch conceals important differences between the official management of different crops. Not all boards and unions are equally inefficient, corrupt and loss-making. The argument is not that regulation should be abandoned in favour of freeing private actors, but that market coordination should be based on value chain considerations, not just patronage.

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support was robust. It is striking, therefore, that Kikwete's party and government are prepared to further undermine their flagging rural base by taking the side of local and foreign investors over farmers and pastoralists in land disputes.<sup>26</sup>

Such disputes are no longer insignificant. For example, in May 2013, Maasai elders from Loliondo in the Ngorongoro District warned President Kikwete that his party would lose the Maasai vote unless a long-lasting dispute with a hunting company from the United Arab Emirates was resolved.<sup>27</sup> It is becoming increasingly common for farmers to vent their frustrations violently: torching police posts, local government offices and politicians houses; blocking roads to prevent dignitaries from passing; killing and being killed. Such a development is unprecedented.

### 3.4.6 Politics around land

Land policy illustrates the elite's difficulty in navigating a course between appearing to be concerned with the welfare of smallholder households and providing public goods for their benefit, and opening up Tanzania's land and existing farm communities to the interests of large-scale investors. International and local land rights and anti-GMO civil society groups continue to oppose 'land-grabs', large-scale agribusiness investment (see below) and GM trials. Land rights' activists fear that officials may allocate large areas of village land to investors by claiming that it is general land. With World Bank and other donor support, the GoT has embarked on an ambitious land titling programme, but the process is slow and costly and the task vast, with no guarantee that it will lead to greater security of tenure for smallholders.<sup>28</sup>

In a by-election in the Arumeru district (Arusha Region) in February 2012, both CCM and CHADEMA candidates vowed to repossess European-owned flower farms and a luxury recreational estate if elected. After the election, which was won by CHADEMA, the promised 'invasion' duly took place. An Asian-owned estate was also invaded. The Silverdale Farm case, in which small-scale British investors in Kilimanjaro were forced to flee the country in the face of sustained intimidation and biased press reporting, highlights the vulnerability of small investors. Other examples suggest that political and personal rivalries between Africans can also trigger land 'invasions' and violence.<sup>29</sup> If local land conflicts are turned into party political conflicts, the outcome is also likely to be more violence. Depending on the locality, this could be bad news for both foreign and local investors in commercial farms, estates, ranches and plantations.

*Large numbers of erstwhile rural CCM supporters are likely to turn to the opposition*

To sum up, efforts to retain rural support through additional spending on such initiatives as irrigation and input subsidies have largely failed as a result of the 'extremely limited capacity of existing state agencies to deliver anything in the way of agricultural development' (Poulton, 2012: 20). Therkildsen (2012b) and Cooksey (2012a) suggest that additional rural spending has empowered local patronage networks that may and may not be able to 'deliver the vote', by fair means or foul, in 2015 and

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<sup>26</sup> Some critics see members of the ruling elite as 'land-grabbers' in their own right. See Lucas Liganga, 'Tanzania: MPs accuse ex-Presidents over land grabbing', <http://allafrica.com/stories/201108170003.html>, 15 Aug 2011; Bernard James, 'Tanzania: Big shots lead in land grabbing, says report', *Citizen*, 8 Jan 2012.

<sup>27</sup> Advertisement, 'President Kikwete: save our lands and our livelihoods or lose our vote', *East African*, 25 May 2013. An Avaaz.org internet campaign logged nearly 1.8 million supporters for the Maasai cause.

<sup>28</sup> Howard Stein, 'Transformation of Property Rights and Poverty in Rural Tanzania', Seminar held at REPOA, 21 Oct 2011.

<sup>29</sup> Reporter, 'IPP Executive Chairman loses UK libel case', *Guardian*, 4 Dec 2012; Reporter, 'London court censures Mengi's IPP media', *Daily News*, 5 Dec 2012; Adam Ihucha, 'Arumeru, Arusha land invasions threaten commercial farming', *East African*, 14 May 2012: 'A fresh wave of commercial farm invasions is threatening Tanzania's horticultural exports and could drive away foreign investors from the multimillion-dollar industry'.

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beyond. Our earlier discussion suggests that large numbers of erstwhile rural CCM supporters are likely to turn to the opposition, a trend already visible in urban areas.

### 3.5 Issues in the governance of growth

Kelsall (2013b: 99) identifies the following crucial factors affecting Tanzania's economic development:

- the failure of policies intended to raise productivity in agriculture;
- the decentralised, opportunistic rent-seeking that infects areas of crucial strategic importance to the economy, in particular energy;
- the lack of direction in the country's industrial policy, meaning that investments in key sectors lack the support and coordination that would maximise their contribution to sustainable growth;
- endemic and unproductive corruption in the country's ministries, departments and agencies that diverts resources from the production of public goods and social services essential to long-term investment; and
- corruption in Tanzania's regulatory agencies, especially the Tanzania Revenue Authority, which increases the cost, nuisance and unpredictability of doing business.

What Khan (n.d.) terms 'growth enhancing governance capabilities' are in short supply as a result of historical factors, including the non-indigenous nature of the capitalist class from the time of independence to date.<sup>30</sup>

#### 3.5.1 A contradictory and unpredictable agricultural scene

Despite attempts to appeal to rural voters, for example through agricultural subsidies and irrigation schemes, the ruling party has failed to craft a poverty-reducing rural development strategy incorporating private interests. Promising presidential initiatives have been undermined during their implementation by the need to service important political constituencies, as discussed in Section 1 and in more detail later in this section. On the other hand, some important external developments suggest a possible loosening of the statist policy tradition, with unpredictable longer-term consequences (Cooksey, 2013).

Donor assistance to governance, private sector development and agriculture has been undermined by national and local patronage networks, leading to project failure, waste and corruption. However, donors have not responded well to this experience. Despite their access to considerable political economy analysis, they continue to treat governance reforms as a matter of strengthening formal institutions rather than acknowledging the ultimate power and adaptability of informal institutions. Lack of aid coordination and honest assessments of why programmes and projects fail undermines donors' potential for doing good. Chinese and other new sources of development aid are challenging established state-donor relations, but whether this will usher in any genuinely new ways of working with aid is, as yet, unclear.

Efforts to retain rural support through additional spending on such initiatives as irrigation and input subsidies have largely failed as a result of the 'extremely limited capacity of existing state agencies to deliver anything in the way of agricultural development' (Poulton, 2012: 20). Therkildsen (2012b) and Cooksey (2012a) suggest that additional rural spending has empowered local patronage networks that may or may not be able to 'deliver the vote', by fair means or foul, in 2015 and beyond.

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<sup>30</sup> Khan argues that the 'development of this class will require significant political effort to address the market failures in land and capital markets that prevented the emergence of such a class in the past' (Khan, n.d.: 96).

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Without rapid and sustained gains in smallholder productivity and rural incomes, Tanzania's hopes of reaching 'middle income' status by the year 2025 will be frustrated. About 30 million Tanzanians (two-thirds of the population) directly depend on farming. The majority of them are members of poor, semi-subsistence households, employing diverse livelihood strategies to assure food security and a minimum cash flow. There are an estimated 1,000-2,000 large-scale farms and estates with an

average size of 1,100 ha. Only about a quarter of Tanzania's 44 million ha of potential arable land is said to be cultivated. Tanzania has about 30 million ha of potentially irrigable land of which 3 million ha are considered high potential. Currently, only about 300,000 ha are irrigated, with only 20,000 ha under modern, large-scale systems. Tanzania regularly imports significant amounts of wheat, rice, sugar and (in drought years) maize (FAO, 2013).

*Donor assistance to governance,  
private sector development and  
agriculture has been undermined by  
national and local patronage  
networks*

### **3.5.2 Policy incoherence writ large**

Agricultural liberalisation began in the late 1980s under strong external pressure. The main benefits of liberalisation were macro-economic: the Treasury stopped underwriting the losses incurred by the National Milling Corporation (NMC), crop boards and cooperatives. At the level of individual crops, the gains to farmers were partial and in some cases negative. In an earlier critique, Cooksey (2003) noted the re-empowerment of crop boards and cooperatives after a brief period of semi-liberalisation during the 1990s.

Overall, the re-empowered boards and cooperatives have seriously underperformed their marketing functions as a result of patronage, inefficiency and corruption (Cooksey, 2012a). The Warehouse Receipt System (WRS) – which was designed to protect farmers against low post-harvest prices – has been used in some cases to give cooperatives crop-buying monopolies. Bulk procurement through input funds is abused at the expense of farmers. In an attempt to reduce 'political interference' in cooperatives, the government recently enacted the Cooperative Societies Bill (October 2013), which *inter alia* disbands cooperative apex bodies.<sup>31</sup> But, experience has left most farmers indifferent to cooperatives. Views of the People 2012 asked farmers across the country about their crop marketing preferences (Table 3).

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<sup>31</sup> Interviewee G, 24 Oct 2013; Special Correspondent, 'Removal of Apex, politicians from coops hailed', *Daily News*, 10 Sept 2013. The Tobacco Cooperative Apex was singled out for particular condemnation for mishandling and overpricing inputs. See also David Mtei, 'Politicians, poor leadership, lack of stringent laws killing co-op societies', *Guardian*, 3 Oct 2013; Elisha Magolanga, 'Cooperatives Bill endorsed after widespread criticism', *Citizen*, 5 Oct 2013; Reporter, 'Passed bill bans politicians from cooperative unions', *Daily News*, 6 Oct 2013. According to Mtei, 'lawmakers said that most cooperative leaders embezzled...cooperative funds knowing that there are...big shots to defend them'.

**Table 3: Marketing preferences, Tanzania (percent)**

	Poorest third	Middle third	Least poor third	All
Private buyer	30	39	36	35
Mixed system	30	28	29	29
No preference	22	20	19	20
Cooperative, farmers' association	18	13	16	16
Total	100	100	100	100

Source: REPOA (2013: 27); N=1302.

Two-thirds of respondents preferred a wholly private or a 'mixed' private-cooperative arrangement. Yet many politicians still support cooperatives as an alternative to private sector involvement in input and output markets, not as a complementary part of the value chain.

In recent years, contract farming and outgrower schemes have become popular and economically more robust alternatives to cooperative marketing for a number of crops. The success of sugar, tea, rice and horticulture outgrower schemes has encouraged external support for these sectors. Yet official support for these innovations is not consistent. For example, despite being endorsed by President Kikwete, having the support of the Cotton Board and most of the leading ginners and many farmers in pilot areas, contract farming has been met with resistance from various politicians, cotton buyers and ginners who risk being put out of business by contract farming. As a result, only a small area of the Western Cotton Growing Area (WCGA) was cultivated through contract farming arrangements during the 2012-13 season (Poulton, 2013) and cotton sales slumped.<sup>32</sup> This policy incoherence needs to be explained. A starting point is the various strands of official policy.

One strand of Tanzanian agricultural policy embraces the 'private sector' as the driver of growth and development. The other privileges the state (Cooksey, 2012a). The main policy initiatives since the turn of the century – the Agricultural Sector Development Strategy (ASDS) and the Agricultural Sector Development Program (ASDP2, 2013) – have focused on enhancing agricultural services and inputs for smallholders rather than developing market linkages. Donor aid was channelled through a basket fund. In 2008, the 'indigenous' Tanzanian private sector launched *Kilimo Kwanza* (KK), apparently challenging the ASDP's state-centred rationale. From mid-2009, the ruling elite embraced KK – which advocated public-private partnerships and joint ventures in large farms and estates between external and local investors – as the government's vision for agricultural transformation.<sup>33</sup>

A third policy initiative, the Tanzania Agriculture and Food Security Investment Plan (TAFSIP 2011) grew out of Tanzania's 2003 commitment to the African Union's Comprehensive Africa Agriculture Development Programme (CAADP), which urges governments to spend 10 percent of national budgets on agriculture in order to achieve rapid sector growth and improved food security. While expanding ASDP's scope and more than doubling projected investment costs,<sup>34</sup> TAFSIP retained ASDP's overall state-led agricultural development philosophy, again focusing on inputs for small farmers rather than markets and sectoral transformation. In aspiring to reclaim policy leadership, TAFSIP built on ASDP, dismissing KK as a mere 'slogan' (Cooksey, 2013).

In early 2013, consultants were recruited to work with MAFC officials to craft a second ASDP for 2014 and beyond. One consultant confessed to being unable to make much sense of the current

<sup>32</sup> Prosper Makene, 'Cotton output drops by 33 percent in 2012/13 season', *Guardian*, 14 Nov 2013.

<sup>33</sup> Respondent G (24 Oct 2013) claimed that the draft ASDP targeted 'private sector' development more than the final programme document. Dissatisfaction with being crowded out by ASDP led Tanzanian (African) agribusiness interests close to the president to assert their policy interest, with the added incentive provided by the rise in global food prices in 2008. KK was not costed, since it would depend largely on private investments.

<sup>34</sup> From just under 2 to 5.3 billion USD (Cooksey, 2013: 9).

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official policy ‘landscape’. The preparation of the ToR for ASDP2 was put on hold while the MAFC tried to sort out the contradictions between the various policy strands.<sup>35</sup>

While all this was happening, President Kikwete endorsed a new initiative, known as ‘Big Results Now’ (BRN), to take the lead in agricultural and other key sector policy implementation through a high-level President Delivery Bureau (PDB).<sup>36</sup> Three quick wins were selected for priority implementation: setting up 78 collective rice irrigation and marketing schemes, signing 25 commercial farming deals for paddy and sugarcane and creating 275 collective warehouse-based marketing schemes, all within three years.<sup>37</sup> How BRN relates to pre-existing policy initiatives is not explained. When the president adopted KK in 2009, the prime minister and other ministers promoted it enthusiastically. Three years later, BRN is being given the same ministerial and prime-ministerial treatment in parliament. Any future successes attributed to BRN will contribute to Kikwete’s political legacy, but cannot be expected to improve his party’s chances of staying in power in 2015.

### 3.5.3 A new external environment

External factors constitute a possible ‘game-changer’ to the confused policy mix created by the GoT and donors that is sketched above. Since global food prices began to rise in 2007 to 2008, industrialised countries and multinational companies have shown a growing interest in investing in African land and agriculture.<sup>38</sup> Tanzania is deemed to possess huge tracts of underutilised agricultural land and is consequently one of the main targets for foreign investment on the continent. In mid-2012, President Obama announced a major G8 initiative known as the New Alliance for Food Security and Nutrition (NAFSN). Aligning with the CAADP/TAFSIP policy stream, NAFSN proposes new investment and regional trade agreements, signalling a radical policy shift and bringing G8 and other global agribusiness interests into the policy mix. CAADP/TAFSIP is the US/G8 vehicle for promoting large-scale agriculture in Tanzania even though the content of US/G8 policy displays little affinity with the TAFSIP blueprint (Cooksey, 2013).

At the NAFSN launch, Tanzania committed to ‘...increase stability and transparency in trade policy; improving incentives for the private sector; developing and implementing a transparent land tenure policy; developing and implementing domestic seed policies and encourage increased private sector involvement...and aligning the National Food and Nutrition Policy with the national Nutrition Strategy.’ Finally, the GoT committed to freeing up inter-regional trade as a means of increasing ‘stability and transparency in trade policy, with reduced tariff and non-tariff barriers.’<sup>39</sup>

The aid community, philanthro-capitalists and venture capital funds are all aligning with the emerging strategy. Yet there is still a lack of synergy between aid agencies and those with hands-on experience of large-scale farming and value chain management.<sup>40</sup> Cooksey (2013) lists global and country-specific initiatives targeting all aspects of agricultural development, including productivity enhancement (research on seed varieties, including GMOs, bulk importation of fertiliser, crop storage), financing commercial investments in crop production and trade (commercial banks, venture

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<sup>35</sup> Respondent C (May 2013). See ASDP2 (2013). To add to the confusion, the Mission noted that the MAFC had commissioned the Economic and Social Research Foundation (ESRF) to ‘formulate a comprehensive Agriculture Sector Development Phase Two (ASDP2)’, with Terms of Reference overlapping those of the mission (emphasis in the original).

<sup>36</sup> Financed by DFID (and now the US as well), BRN is inspired by Malaysia’s successful policy implementation strategy. At the end of October 2013, the President’s Delivery Bureau was recruiting senior staff, including 34 posts for Master’s degree holders.

<sup>37</sup> Big Results Now (2013). The Minister of Agriculture and his permanent secretary are the key stakeholders for the three priority BRN activities. The lab was designing an increase in commercial rice production after the government had already issued permits to importers for half of the planned importation of Pakistani rice. Eventually, one of the senior participants in the lab complained to the head of state, who ordered cancellation of the tender for the second 60,000 tonnes (Interview C, 7 Nov 2013).

<sup>38</sup> Interest in biofuel production was a second factor stimulating interest in African resources, but the discovery of massive natural gas deposits and developments in ‘fracking’ technology have undermined this interest.

<sup>39</sup> Cooksey (2013), citing the G8 Cooperation Framework 2012:3.

<sup>40</sup> Interview L, Oct 2013.

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capital funds, grants), and enhancing food security. The test case for the emerging strategy is the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), discussed later in this section.

In sum, multiple agricultural policies threaten to cancel each other out and provide little guide to practice. Donors contribute massively to the lack of policy direction with their own largely uncoordinated initiatives. Though the head of state, ministers and senior officials frequently repeat their commitment to the primacy of the private sector, official initiatives tell a different story. Examples include:

- *ad hoc* export bans in border areas;<sup>41</sup>
- detailed regulations for the release of new commercial seeds from neighbouring countries;
- lengthy procedures for setting up and running a business;
- road blocks restricting and taxing crop movements;
- restrictions on where crops can be grown (e.g. cotton) and when they can be harvested (e.g. yellow maize);
- cooperative monopolies in crop purchasing (e.g. cashew, sesame);
- guaranteed loans from private banks to cooperatives in order to buy crops;
- input vouchers and small-scale irrigation schemes that are state-managed at all levels and incorporate the private sector as a dependent actor;
- the National Food Reserve Agency (NFRA) buying large amounts of maize to iron out crop surpluses and deficits, thereby undermining the role of the private sector and the rationale of the Warehouse Receipt System (WRS).<sup>42</sup>

*There is still a lack of synergy between aid agencies and those with hands-on experience of large-scale farming and value-chain management*

According to FAO, ‘The situation is further complicated by the inconsistent interpretation of laws, rules and regulations, including the acquisition of land rights and imposition of taxes. The resulting uncertainties undermine confidence and incentives to both local and foreign investors’.<sup>43</sup>

### **3.5.4 SAGCOT**

Kikwete’s government has invested much hope for the successful implementation of *Kilimo Kwanza* in the Southern Agriculture Growth Corridor of Tanzania (SAGCOT), which includes all of Tanzania’s main food surplus regions (Box 2).

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<sup>41</sup> These were officially suspended prior to the 2010 elections.

<sup>42</sup> The government set aside TShs 110 bn (68m USD) to buy 200,000 tonnes of grain during 2013/14 to be stored by the National Food Reserve Agency (NFRA) (Reporter, ‘State sets aside 110bn/- for grain purchases’, *Daily News*, 5 Sept 2013). A USAID expert claimed that only 100,000 tonnes of maize was required to cover shortages every five years, making plans to increase storage capacity to 200,000 tonnes or more a waste of money (Ludger Kasumuni, ‘Grain reserve too costly, govt told’, *Citizen*, 12 Sept 2013).

<sup>43</sup> Consultant to FAO, 2013.

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## Box 2: SAGCOT, Tanzania's agricultural growth corridor

Agricultural Growth Corridors are described as 'an innovative private partnership that can be used to encourage investments in agricultural development to the benefit of smallholder farmers.' The governments of Norway, Tanzania and Mozambique joined with Norwegian fertiliser giant Yara, AGRA, the World Bank, Prorustica and Infraco to come 'together to promote the implementation of AGCs in Africa.' SAGCOT 'was born out of the deliberations of the World Economic Forum on Africa held in May, 2010 in Dar es Salaam.' 'Building on *Kilimo Kwanza*...the SAGCOT Investment Blueprint describes how \$2.1 billion of private investment will be catalysed over a twenty year period, alongside public sector commitments of \$1.3 billion. The result will be a tripling of the area's agricultural output. Approximately 350,000 hectares will be brought into profitable production, much of it farmed by smallholder farmers, and with a significant area under irrigation.' SAGCOT's partners are: the GoT and the government of Norway and Norfund; international/aid organisations AGRA, FAO and USAID; global food and drink, seed and fertiliser corporations Unilever, YARA, DUPONT, General Mills, Monsanto, Syngenta, SAB Miller, and DIAGEO Africa; banks STANBIC and National Microfinance Bank (NMB Tanzania); Tanzanian umbrella organisations Agricultural Council of Tanzania (ACT), Confederation of Tanzania Industry (CTI), Tanzania Sugarcane Growers Association; AgDevCo; the Tanzania Agricultural Partnership (TAP), and Prorustica.

*Adapted from Cooksey (2013).*

Opinions are divided on the chances of success of this hugely ambitious project. The optimists see signs that the politico-bureaucratic obstacles to large-scale private investment in agricultural value chains can be discounted. Donors, including the World Bank, are supporting SAGCOT with targeted infrastructural investments. The cynics point to Tanzania's declining performance in the ease of doing business and the lack of coordination, supervision or sanctioning in government procedures.

### 3.5.5 Aid as part of the problem, part of the solution?

A number of interviewees had good things to say about donor support to various agricultural interventions, including getting help with setting up sub-sector coordination mechanisms, outgrower schemes, farmers' associations and research to influence policy.<sup>44</sup> However, overall, aid cannot be said to have contributed much to governance or agricultural reforms. While the purveyors of political economy are increasingly confident in their claims that aid to governance is misconceived and ineffectual, the deliverers of this aid seem to soldier on regardless.

Since independence, aid to agriculture has been largely ineffectual in achieving its stated objectives. While donor interest in the sector waxes and wanes, there is no evidence that increased aid improves productivity in any significant way, or that withdrawing aid has had any serious negative consequences for the mass of small-scale producers. Ineffective public oversight of government and donor agencies has generally allowed extremely weak performance to continue unchallenged. Neither parliament nor civil society has ever questioned the rationale for financing government departments to implement large and complex programmes and projects when implementation capacity (i.e. the number of qualified officials with appropriate motivation and attitudes, functional viability of formal institutions) is so limited.

The good news is that aid agencies now have the chance to support private sector development as integral components of the new commercial approach to agricultural development. Bilateral aid agencies have adjusted rapidly to the emerging 'multinationalisation' of African agricultural policy by

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<sup>44</sup> Coordination mechanisms include the Tanzania Horticulture Association (TAHA) (Dutch, USA); farmers' associations include rice outgrowers (USA, FAO); and research on cross-border trading (USA). SERA is one of a number of initiatives advocating free trade in the region. Others are TradeMark East Africa and BEST-AC.

financing equity funds to help crowd in private investments and by financing targeted infrastructure out of aid budgets. Aid-financed investment funds take equity in green field or existing ventures.

### 3.5.6 Other productive sectors

As summarised in Section 1, Whitfield and Therkildsen (2011) alert us to the interest shown by ruling elites in certain ‘productive sectors.’ Much of our discussion has suggested that Tanzania’s ruling elites relate to productive sectors in a very particularistic manner that frustrates attempts to open economic opportunities to a wider range of investors and entrepreneurs. But, if the picture is so gloomy, what explains the unprecedented levels of investment in recent years and the success of certain sub-sectors, including manufacturing?

Manufacturing and mining have been driven by foreign direct investment. By 2008, the manufacturing sector accounted for around a fifth of total FDI stock, second only to the mining sector (Gray, 2013). Manufacturers are concentrated in a rather narrow band of products: food, beverages, tobacco and textiles. The value of a selection of Tanzania’s main exports in 1997 and 2010, according to one source, are shown in Table 4.

Manufactured exports to the EAC increased from 20 million USD in 2000 to 183 million USD in 2010, accounting for 20 percent of all intraregional manufactured exports, up from five percent in 2000.<sup>45</sup> Although Kenya continued to dominate the sector, Tanzanian manufactured exports grew rapidly between 2005 and 2010 (Table 5).<sup>46</sup>

**Table 4: Selected Tanzanian exports by value (USD m)**

	1997	2010
Processed fish	53	133
Curtains	5	98
Non-ferrous metal waste and scrap	< 1	146
Steel	< 1	48
Flour	2	43
Cut flowers	2	36

Source: Sutton and Olomi (2012: 6).

**Table 5: Manufactured exports of EAC members, 2000, 2005 and 2010 (USD m)**

	2000	2005	2010
Kenya	586	1,988	2,525
Tanzania	129	292	1,904
Uganda	30	120	401
Rwanda	22	4	93

Source: Policy Forum (2013: 84).

Does this positive trend challenge the view that a weak business environment stymies investment and growth? Are the companies involved enjoying the fruits of cronyism, or genuine ‘infant industry’ protection? Research looking into the somewhat puzzling rise of Tanzanian manufactures is under way.

Mining is a different issue. Together with the media and civil society, the opposition was a major contributor to President Kikwete’s about-turn on mining policy, which led to the 2010 Mining Act

<sup>45</sup> UNIDO (2012: 50). According to the Society for International Development, trade between EAC states expanded from \$2.2 billion in 2005 to \$4.1 billion in 2010 (SID, 2012: 2). This source contains a mass of information on social, economic and political conditions in the EAC member states.

<sup>46</sup> Trade statistics have to be handled with care. There is a lot of informal trade across borders (i.e., smuggling) and a tendency for Tanzanian statistics to underreport cross-border trade.

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that, along with continued duels with the TRA in Dar es Salaam and local artisanal miners adjacent to their mines, led the main foreign mining company, the Canadian corporation Barrick Gold, to attempt to divest its Tanzanian portfolio. In late 2012, Barrick entered into negotiations with a Chinese mining corporation to take a majority share in Africa Barrick Gold (ABG). The proposed deal broke down at quite an advanced stage. In November 2013, ABG announced the sale of its Tulawaka Mine to the State Mining Corporation (STAMICO).<sup>47</sup>

For the moment, further large-scale investments in gold exploration and mining are on hold, pending an upturn in the global investment climate. Even such an upturn would not necessarily dynamise the sector, given the poor business environment. One-off investments in aluminium, uranium and rare earth are also on hold, while Chinese-financed coal mining for power production is going ahead.<sup>48</sup> All this notwithstanding, tax and royalty revenues from the big three mining companies have risen significantly in recent years (though there are suspicions that Barrick should have paid more corporate taxes).

*It is becoming clear that public expectations of a gas bonanza are misplaced*

Is 'resource nationalism' in Tanzania's emerging gas industry tempered by the failure of external investment to trigger sustained growth in hard rock mining?<sup>49</sup> As in mining, CHADEMA's Zitto Kabwe has been at the forefront of the efforts to get the best deals for Tanzania, arguing (unsuccessfully) for a postponement of the October exploration licensing round while policy and regulatory issues are clarified. Reginald Mengi, who was recently appointed chairman of the Tanzania Private Sector Foundation, has lobbied strongly for giving local investors a greater role in the industry. Despite optimistic statements by major players such as British Gas and Statoil, it is becoming clear that public expectations of a gas bonanza are misplaced, and there is no guarantee that the proposed multi-billion dollar liquefaction plant will ever be built.<sup>50</sup> Even if it is, liquefied natural gas (LNG) production will not start before the end of this decade.<sup>51</sup> Demonstrations in Mtwara at the end of 2012 did nothing to increase potential investors' confidence. Managing public expectations is likely to become increasingly difficult. It may be equally hard ensuring that over-optimistic assessments of eventual revenues do not lead to a new cycle of indebtedness, comparable to that which was experienced in the years before the HIPC initiative.

Tanzanian tourism has been a major success in the last decade, overtaking the Kenyan industry in terms of revenues. It has displaced gold mining as the country's number one foreign exchange earner. While gold earnings declined from 2.15 billion to 1.75 billion USD between 2011 and 2012, tourism receipts increased from 1.6 billion to 1.82 billion.<sup>52</sup> Threats to the industry include ivory poaching, which has reached epidemic proportions, and possible terrorist attacks, particularly in Zanzibar, where religious intolerance has been increasing in recent years.

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<sup>47</sup> Cooksey (2012b); Pius Rugonzi, 'STAMICO formally takes over Tulawaka goldmine operations', *Daily News*, 16 Nov 2013. Given its track record, the prospect of a STAMICO-managed gold mine turning a profit is remote.

<sup>48</sup> Respondent D, various dates; Cooksey (2012b).

<sup>49</sup> Adam Green, 'Tanzania gas: Here comes the state', *African*, 11 Nov 2013; Derek Hudson, 'Future of oil and gas in Tanzania', *Citizen*, 16 Nov 2013.

<sup>50</sup> Statoil (2013) warns that LNG projects elsewhere are 'competing for the same markets.'

<sup>51</sup> Derek Hudson, 'Future of oil and gas in Tanzania', *Citizen*, 16 Nov 2013; Africa Confidential (2013b).

<sup>52</sup> Alawi Masare, 'Tourism beats gold in earnings', *Citizen*, 13 Nov 2013.

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## 3.6 Prospects and risks

### 3.6.1 Constitutional review and the Zanzibar question

Much of the current political debate revolves around the constitutional review process, which is supposed to result in a new constitution before the 2015 elections. Key issues include reducing the power of the executive as well as the advantages the present constitution affords the incumbent party, and resolving the Zanzibar question. It is difficult to argue that a weakened executive, with more checks and balances on presidential power, is necessarily a good thing. The current debate revolves around loosening CCM's stranglehold of power: once achieved, this would merely mean a weaker government. It is not clear how this would address the problems of competitive patronage and politically motivated corruption described above.

The perennial problem of the status of Zanzibar within the union is likely to take centre stage in the build-up to the planned referendum on the new constitution. The Reform Commission was not given a mandate to consider full independence for Zanzibar. Yet full independence appeals to many Zanzibaris across the political spectrum, and the continuation of the present union, which is one current option, would not resolve the long-standing grievances felt by the union's junior partner. Recent violence against Christians and tourists has soured communal relations and threatened to undermine the tourist industry, Zanzibar's main source of foreign exchange.

*It is difficult to argue that a weakened executive would necessarily be a good thing*

### 3.6.2 The region

In recent months, the Kikwete regime has taken an increasingly confrontational stance on regional issues. A border dispute with Malawi led to a temporary stand-off between the two countries, with Foreign Minister Bernard Mwebembe challenging Malawi's claim to all the waters of Lake Malawi. In July, the government started repatriating thousands of illegal migrants, particularly in the north and west of the country (*Operation Kimbunga [hurricane]*), and people without work permits more generally. Many Ugandan and Kenyan private English-medium schoolteachers are said to have been sent home.<sup>53</sup> This move can be seen as part of Tanzania's growing alienation from the EAC.

Cross-border infrastructural projects are being planned without Tanzania's involvement. The co-called 'coalition of the willing' (COW), consisting of Kenya, Uganda and Rwanda, sees Tanzania as dragging its feet on issues of deeper regional integration. Apart from the fear of being swamped by EAC teachers and managers, Tanzania is wary of competition from Kenyan industry and neighbours' designs on the country's vast land mass. All this threatens to undermine Tanzania's growing role as a producer of industrial and agricultural products for the EAC and the region more generally. Box 3 reproduces one authoritative comment on this state of affairs.

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<sup>53</sup> Salome Gregory, 'After Cyclone, teacher shortages bite schools', *Citizen*, 15 Oct 2013; Saumu Mwalimy, '1,500 foreign teachers leave', *Citizen*, 19 Oct 2013. A two-year work permit costs 2,000 USD.

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### Box 3: An insider view of the current EAC impasse

'EAC, I am afraid, is under stress largely for unreasonable causes and Tanzania is mostly to blame. We all know and appreciate that regional integration is fundamentally politically driven...Tanzania should feel free to opt out openly from areas of cooperation and integration it finds unreasonable at this time. But it fails to do so and instead either blocks or delays decisions towards deepening or widening EAC integration. Kenya, Uganda and Rwanda, on the other hand, want to move with speed. I describe the on-going situation as "a clash of speeds". Unfortunately Tanzania is now crying wolf and accusing others of isolating her. On the contrary, Tanzania is isolating itself.'

*Juma Mwapachu, former Secretary General of the EAC, email 4 Nov 2013.*

## 3.7 Conclusions

The prospects do not appear good for broad-based economic growth bringing benefits to large numbers of poor Tanzanians. The policy regime for investment outside large-scale mining, tourism and import-substituting manufacturing and food processing is worse than it could be. The causes include some long-term structural problems in the political economy (the ethnic composition of business) and some medium-term trends, notably CCM's headlong rush into factional money politics. These trends do not lead us to expect any significant moderation of the effects on business incentives of the Tanzanian-variant clientelistic politics.

More importantly, perhaps, our analysis of the fate of presidential initiatives in the agricultural sector does not suggest that reforms at the level of particular crops or regions may be counted on as likely winners. Some hope that President Kikwete's final period in office and his conversion to Malaysian-model policy delivery will make a difference at the margin. However, our conclusion remains that the obstacles to delivering the necessary coordination for successful sectoral reforms are systemic – arising from the way CCM presidents keep themselves in power. They are not the result of leaders' personal beliefs or commitments.

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# 4 Uganda

## 4.1 Background

The ethno-political background of Uganda is distinct from that of both Kenya and Tanzania. Like Kenya, the country has a relatively small number of relatively large groupings, but unlike Kenya several of these, especially in the centre and west of the country, were formerly centralised kingdoms. Unlike Tanzania, and especially Kenya, the country was never a focus for European settlement, giving rise to historical legacies regarding land and the accumulation of capital that are hardly trouble-free but certainly distinct. Like neighbouring Rwanda, Uganda has experienced extended periods of civil war and armed insurgency, which gives special dimensions to the general features its political settlement under President Yoweri Museveni shares with other ‘limited access orders’.

## 4.2 Political and economic power linkages

Wielders of economic power in Uganda today are not necessarily holders of political power. However, those who have political power also tend to exercise significant economic power, which has given rise to a significant intermingling of political and economic power. Several factors have made this possible. First, wielders of political power make easy use of public resources to secure opportunities in the business and productive sectors that would otherwise have been unavailable. Also, after they assumed power, senior NRM leaders, using their offices, started acquiring prime landed estates. They have invested in large-scale farming, mainly livestock rearing and real estate development, or have sold them on to the government or foreign investors at colossal sums.<sup>1</sup>

Others positioned themselves appropriately during the privatisation of state-owned enterprises and bought some at give-away prices and, for the most part, sold them on at a handsome profit (Mwenda and Tangri, 2001). Some are said to have used their offices to insert themselves into joint ventures with foreign investors.<sup>2</sup> Others, again, acquired significant shares in businesses owned by returnee Asians such as Sudhir Ruparelia (owner of Speke Hotels and Crane Bank) or Asians who braved Idi Amin’s rule and stayed in the country while others left, such as Karim Hirji (Imperial Group of Companies). Yet others are said to have made good use of successful indigenous members of the business community, such as Bob Kabonero of Kampala Casino, Patrick Bitature of Simba Telecom and Charles Mbire, a top executive within MTN-Uganda, as proxies or fronts for their own businesses.

*Holders of political power make easy use of public resources to secure opportunities in business sectors*

Specific information on enterprise ownership is difficult to come by, because of the widespread use of proxies and because attempts by investigative journalists to source it from the Office of the Registrar-

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<sup>1</sup> C. Obore, ‘NSSF scandal: Jamwa spills more beans’, *Sunday Monitor*, 5 Oct 2008.

<sup>2</sup> See, for example, S. Musasizi and J. Mbanga, ‘Mbabazi, Nzei sued by their Dubai partners’, *The Observer*, 18 Mar 2012; E. Kiggundu and H. Bogere, ‘Kutesa’s in-law cited in dubious bus deal’, *The Observer*, 22 Aug 2012.

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General have not been successful.<sup>3</sup> Consequently, many of the claims made about the business activities of the ruling elite could amount to unfounded rumours. For example, according to such unconfirmed rumours:

- The Museveni family is linked with the following businesses: several businesses owned by Sudhir Ruparelia and family (Speke Hotel, Kabira Club, Crane Bank, Gold Star Insurance, Kabira International School, Kampala Parents School, Victoria University); Patrick Bitature and family (Simba Telecom, Protea Hotels); Karim Hirji and family (the following hotels: Equatoria, Grand Imperial, Imperial Royale, Royal Botanical, Imperial Botanical); and the Aya brothers (Marriott Hotel).
- Foreign Minister Sam Kuteesa is linked to businesses, such as the cargo-handling firm Enhas at Entebbe Airport, and also real estate investments allegedly in partnership with Somali businesswomen Amina Hersi.

To piece together a comprehensive list of such alleged business links would take considerable time.

That having been said, well-placed sources and circumstantial evidence suggest that many of the stories in circulation are well founded. For example, the rumoured ownership of several pieces of prime estate by senior politicians,<sup>4</sup> and by military and other security officials,<sup>5</sup> has in some instances been confirmed by tenants, among them retail traders in downtown Kampala,<sup>6</sup> or former owners from whom they were bought. Some of the properties owned or co-owned by government officials house government departments or ministries at inflated rates according to media sources.

#### **4.2.1 The networks and how they work**

The collusive networks bringing together politicians and military and security officials on the one hand, and members of the business community on the other operate on the basis of mutual interdependence. Investors can exchange shares in their businesses for ‘facilitation’, which comes in the form of assistance to smoothen or clear whatever obstacles may arise along the way. This happens when a newly arrived investor discovers that it helps to be introduced to someone high up, sometimes the president, just in case at some point a problem emerges whose resolution may require high-level intervention. They then react by looking for a suitable contact with the connections or clout necessary to arrange appointments with the president, or whomever the investor may want to meet and make himself and his investment known.

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<sup>3</sup> Interviews and personal communication with senior investigative journalists (several years).

<sup>4</sup> Such as Foreign Minister Sam Kutesa, Prime Minister Amama Mbabazi, Minister of Justice Kahinda Otafiire and former Minister of Internal Affairs Hilary Onok.

<sup>5</sup> The most frequently mentioned among property moguls with links to the military and security circles is Colonel (Ret.) John Mugenyi, who owns a string of prime properties in Kampala and once worked in the Finance Department at the Ministry of Defence – see, for example, D.T. Lumu, ‘MPs want Basajja, Col. Mugenyi to Refund Shs156 bn’, *The Observer*, 29 Aug 2011.

<sup>6</sup> Interviews with the chairman, Kampala City Traders Association (Sept 2013). According to this source, one of the reasons why tenants in commercial buildings in Kampala are subject to abuse (for example, many pay rent in US dollars and are not even issued with receipts) is because the buildings are owned or co-owned by members of the ruling civilian and military elite. Complaints, including to President Museveni himself, have yielded nothing.

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The required fixer could be a local businessman, a politician or someone well connected, possibly a relative of the president or a friend of a relative.<sup>7</sup> In return for their services, fixers could get shares in the investments being promoted or they could be paid off handsomely. This may lead to the development of a durable mutual dependence; the investor gets their path smoothed whenever necessary while the fixer continues to draw benefits therefrom. For politicians, the benefits may include contributions to election campaign budgets. Additionally, the investor may return the favour by employing the fixer's children, spouse or relatives, or making them business partners.<sup>8</sup>

*For Western investors, the choice is resisting pressure to join the networks or playing the game as everyone plays it*

These webs of mutual interdependence mostly involve investors from Asia, especially China, India and Pakistan, but also extend to those from elsewhere, including Europe, where things of this nature are ordinarily not expected to happen. For Western investors, the choice is between resisting the pressure to join the networks and risk encountering persistent problems, or playing the game as everybody plays it and avoid getting stuck with problems they could otherwise sort out quickly. Many have learnt to accept the latter as a practical way to do business in Uganda. As a result, they avoid seeking help from their embassies, which might seek solutions through formal channels and only complicate rather than resolve matters.<sup>9</sup>

Among foreign investors, it is mostly multinational corporations, thanks to laws in their home countries prohibiting corruption, that resist getting sucked into these webs of collusion. Even they, however, take the precaution of including Ugandan notables on their boards of directors. This includes supporters or friends of the regime in the business community, of whom there are a good number, and people with no political party affiliation. Large multinationals in Uganda include East African Breweries, South African Breweries (SAB-Miller), MTN, Airtel, Uganda Telecom, Eskom, Unilever, Total, Barclays and Standard Chartered. Medium-sized, regionally based firms include Nakumatt and Game, Orange and the Nation Media and Serena Groups. Common names figuring on the boards of such companies include John Nagenda (Senior Presidential Advisor on Media), William Kalema (no known political affiliation, but his family has historical links to the NRM), Dr Martin Alier (dentist and long-time Museveni advisor), Patrick Bitature (businessman rumoured to be close to the government and the Museveni family), Charles Mbire (businessman believed to be a Museveni supporter), Dr Margaret Kigozi (businesswoman, formerly executive director the Uganda Investment Authority; her family also has some historical links with NRM) and Andrew Kasirye (a prominent lawyer who has acted as legal counsel for Museveni).

#### **4.2.2 The character of rent-seeking**

Rent-seeking is widespread and stretches from the central government to local authorities, permeating the public service, business and politics. Besides the outright diversion of public resources for private purposes by politicians and public servants, the biggest sources of rents are government contracts for the supply of goods and services. Companies or businesses seeking to supply anything to the government, whether at the centre or the local level, must part with large sums to boost their chances of securing contracts, and more once contracts are won. This explains the numerous badly executed contracts, where goods or services supplied usually are not of the quality specified in the contracts. Contracts to build or repair roads (Booth and Golooba-Mutebi, 2009) and other public infrastructures

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<sup>7</sup> The president's younger brother, General Salim Saleh, his sons-in-law, a string of politicians, businessmen and ruling party stalwarts were cited by respondents as key fixers.

<sup>8</sup> Interviews with members of the local business community and a former presidential assistant for special projects (Sept 2013).

<sup>9</sup> Interview with senior local and Western employees of Western embassies (Sept 2013).

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are among the most lucrative for officials directly involved in the tendering and contract-awarding processes, and also most bedevilled by questions of quality of execution.<sup>10</sup>

Rent-seeking is neither centralised nor coordinated within the leadership and ruling party. It comes very close to a free-for-all, with literally anyone who has access to public funds looking for ways of diverting them to personal ends. The political settlement, according to Andrew Mwenda, adds up to something akin to, don't challenge the president, but feel free to do anything else at all.<sup>11</sup> This includes even the military, where commanders siphon off supplies, including weapons and ammunition for sale, sometimes to potential armed adversaries.<sup>12</sup>

### 4.3 Presidential authority and development leadership

President Museveni is a crusader for business, especially foreign direct investment, and goes out of his way to court it assiduously on his many foreign travels. A very early signal of his friendliness towards business was the decision the government made to allow the Asians expelled by former President Idi Amin in 1972 to return, and hand back their assets. The decision earned both him and the government the reputation of being pro-business and has contributed significantly to attracting investment into the country (Hickey and Golooba-Mutebi, 2012). Since then, the president has gone out of his way to offer investors and potential investors inducements to encourage them to bring their money to Uganda. Facilitation has included issuing directives to the Uganda Land Commission, in contravention of legal procedures governing land allocations by the government, to give land free of charge to investors seeking to build factories, hotels and hospitals.<sup>13</sup> Elsewhere, he has issued directives to the Central Bank to provide credit guarantees on behalf of some local investors or simply give them large amounts of money in grants or interest-free loans to inject into their businesses.<sup>14</sup>

Some of the president's gestures are seen as justifiable circumventions of bureaucratic hurdles that investors would otherwise have to jump in order to get things done. However, those investors who would benefit from this quick fix – the 'cutting through red tape' approach – are mainly those with the necessary connections, such as members of the ruling party who have direct access to the president, or those who can use fixers to arrange a meeting with him to appeal for help. Those without connections have to buy their own land and also negotiate for loans via commercial banks. Indeed, there are many members of the business community with no obvious connections to agents of the state or peddlers of influence who conduct their business quietly, sometimes occupying special niches in which they have built successful enterprises they founded before the NRM came to power.<sup>15</sup> Reports suggest that politicians tend to want to muscle their way into business lines that generate fast cash, such as real estate, retail trading and speculative acquisition of land or formerly state-owned assets. Their absence from manufacturing and farming, outside of cattle rearing, points to vast niche opportunities remaining in domains requiring years of trial and error and experimental learning before any real money can be made.

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<sup>10</sup> See, also, D. Mafabi, 'Year later, no report on collapsed building', *Daily Monitor*, 30 July 2013. Also, R. Wanambwa and N. Wesonga, 'Museveni angry at shs500b dam bribe', *Daily Monitor*, 14 Apr 2013.

<sup>11</sup> 'Uganda seems to be in an unstable equilibrium (but an equilibrium nonetheless) where the state and the citizen, the rich and the poor, those who support the government and those who oppose it have agreed to an unwritten yet grand bargain. Here, public officials are free to pillage the treasury and deliver little in public goods and services. In return the citizens are free to exercise their own impunity of not respecting the law. And President Yoweri Museveni stands atop this chaos, fanning it but also stabilising it... Museveni has been tolerant and accommodating of everything except one thing he treasures above all else – his job.' Andrew Mwenda, 'Uganda's culture of impunity', *The Independent*, 21 Jan 2013.

<sup>12</sup> R. Kasasira, '20 UPDF officers face court over food theft', *Daily Monitor*, 16 Sept 2013; R. Kasasira, '40 UPDF officers face trial over theft', *Daily Monitor*, 30 Oct 2013.

<sup>13</sup> See, for instance, T. Butagira, 'Museveni blamed for Nsambya land row', *Daily Monitor*, 19 May 2012.

<sup>14</sup> Y. Mugerwa, 'Government considers auctioning Basajjabala's assets over shs21 billion debt', *Daily Monitor*, 19 Oct 2012.

<sup>15</sup> The late James Mulwana of Nice House of Plastics and Uganda Batteries, Aga Ssekalaala of Ugachick (chicken breeders and processors, and fish farmers) and Gordon Wavamunno of Spear Motors (importers of Mercedes Benz vehicles) are good examples.

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In general terms, Museveni's pro-business orientation is also manifest in his decision in 2006 to establish a Presidential Investment Roundtable (PIRT). Apparently by then, despite doing everything the donor community had advised the government to do to attract investment, it was only growing at modest rates. He established the PIRT to enable the government to source the best advice directly from members of the business community and international experts, including some from the World Bank and the IMF. The PIRT was a small and intimate group whose members were motivated to provide the government with the best advice based on their experiences. Its first gathering, according to respondents who attended it and others thereafter, was very business-like and produced many solid recommendations on a wide range of issues. President Museveni, who was in attendance, apparently paid keen attention to the discussions and asked all the right questions.

However, its potential influence, which became immediately apparent to members of the ruling elite, harboured the seeds of the PIRT's future weakness. Subsequent meetings became unwieldy because many people, cabinet ministers included, muscled their way in to defend themselves and their ministries against criticisms other members were expressing to the president, and about which he was putting them to task. Once it grew in size, its proceedings were literally reduced to grandstanding. In the process it stopped making focused, actionable recommendations. Another source of weakness has been the non-implementation of its decisions by public servants who are more process- than results-oriented. This has in turn sapped the enthusiasm of participants, some of whom stopped attending.

*One of the outcomes of one-man decision-making is that there is a fire-fighting quality to the way the government is run*

Yet another source of weakness is the business community's lack of cohesion and the consequent pursuit by individuals of narrow interests rather than collective ones. Those bent on securing personal advantage reduced PIRT meetings to occasions for lobbying the president for personal favours. Eventually even the president, who in the beginning had done more listening than talking, began to dominate it with long speeches and lectures to ministers and members. Of late, efforts have been made to reorganise it and make it function as it was originally intended. A government proposal to appoint Baroness Linda Chalker as chairperson has apparently been met with lukewarm reception, especially from senior public servants whose ministerial operations may come under more scrutiny than they would like to attract.

A key question is, what impact will the centralisation of decision-making on issues affecting business have on the functioning of government? Also, is this set to continue? At the height of the war with the Lord's Resistance Army, President Museveni frequently used the excuse of his preoccupation with defeating the insurgency to explain why the government had not done certain things. That preoccupation often involved his spending time camping in the theatre of war, presumably doing what field commanders were supposed to be doing and possibly distracting them in the process. It is a classic example of how he manages government business and why managing state matters in that way can produce stasis in areas he may not be paying attention to at any one moment. One of the outcomes of centralised or one-man decision-making is that there is a fire-fighting quality to the way the government is run, with things receiving limited attention before the president is off tending to something else. It explains why one of the biggest failures in Uganda is policy implementation across the board. This is set to continue until the leadership changes.

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It will continue because it reflects the president's own limited managerial skills as well as a natural tendency to want to control all that is around him. As revealed by a senior presidential advisor and former ministers, this also reflects a tendency by President Museveni to appoint to senior positions to people with no prior, solid experience of managing anything, and then not incentivising them – via sanctions and rewards – to perform their functions. Further, it is said that few ministers and officials dare to stand up to him, even when they feel he is making the wrong decision; only the very strong willed do so, and those are few and far between. However, there are indications that President Museveni respects strong-willed officials who manage to convince him – through performance – that they know what they are doing. Central Bank Governor Emmanuel Tumusiime-Mutebile, Secretary to the Treasury Keith Muhakanizi, former Minister of Local Government Jaberu Bidandi-Ssali and Kampala Capital City Authority boss Jennifer Musisi are a few examples.

*There are indications that  
opposition parliamentarians are  
far from rising above corruption  
and rent-seeking*

## 4.4 Political challenges and institutional restraints

### 4.4.1 Parliament: a force for change?

One of the reasons opposition political parties cite most frequently for wanting to dislodge President Museveni from power is corruption and rent-seeking, which they claim, and rightly so, are widespread.<sup>16</sup> Indeed, opposition MPs have been instrumental in highlighting corruption and rent-seeking practices in the public service and among politicians. One example is through their activities as members of the parliamentary Public Accounts Committee (PAC). Public servants and, sometimes, senior politicians are hauled before the PAC and grilled publicly about financial impropriety within the government organs they head, which serves to further highlight the vice to members of the public.<sup>17</sup>

However, there are indications that opposition parliamentarians are far from rising above corruption and rent-seeking. Some who sit on the PAC have been accused of soliciting bribes from officials implicated in corruption scandals with promises of ensuring that their cases never reach the office of the director of public prosecutions (DPP).<sup>18</sup> The same opposition MPs accept irregular cash pay-outs from the government without asking where the money is coming from, even when there have been indications that it was taken out of public coffers without being budgeted for, let alone properly accounted for. Attempts by their party leaderships to force them to refund the money have been resisted.<sup>19</sup>

The imperative to pay the electorate for votes during parliamentary election campaigns often leaves many MPs in debt, with some owing very large sums to moneylenders. Consequently, large numbers of MPs spend much of the money they earn on servicing those debts. Heavy loan servicing obligations leave them with hardly enough to survive. As a result, they become vulnerable to corrupting influences and open to unprincipled compromises. For example, cash-strapped MPs have, from time to time, run to President Museveni for help with servicing their debts.<sup>20</sup> This raises questions about their capacity to play their legislative and oversight roles effectively. The prevailing situation

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<sup>16</sup> For example, S.I. Nganda, 'Museveni must not be allowed to fleece Ugandans', *The Observer*, 9 Apr 2013.

<sup>17</sup> Y. Mugerwa, 'Museveni directed me to pay Basajjabalaba, Bumba says', *Daily Monitor*, 11 Nov 2011.

<sup>18</sup> Interview with an investigative journalist and a parliamentary correspondent (Sept 2013).

<sup>19</sup> This usually happens in the run-up to elections when the NRM is looking for money to finance its candidates. The problem is often sorted out by giving money to all MPs, something that is not envisaged under the law. See, for example, S. Kakaire, 'FDC MPs ordered to return 'bribe'', *The Observer*, 10 Feb 2011.

<sup>20</sup> D.T. Lumu, 'Broke MPs plead with Museveni', *The Observer*, 13 Mar 2013.

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therefore renders parliamentary politics ineffective as a force for change, as those who would hold the government to account and catalyse change are embedded in the same political economy as the very government whose excesses they are meant to check.

How do electoral cycles, campaign funding and the structure of political competition affect these issues? Uganda has a short, 5-year electoral cycle. Elections are highly competitive and are organised and conducted on a first-past-the-post basis. In what has been dubbed the commercialisation of politics, candidates at all levels (presidential, parliamentary and local) spend large amounts of money in order to get elected, as the electorate, to a large extent, expect to exchange their votes for cash or material things. Political parties are neither funded by the state nor by their supporters. Apparently, many supporters will not even buy membership cards because of poverty,<sup>21</sup> the very factor credited for forcing voters to sell their votes to the highest bidder. However, through diverse fundraising mechanisms, parties allocate modest sums to their presidential and parliamentary candidates for campaign purposes. Nonetheless, because the financing is inadequate, candidates generally have to depend on their own resources. Large numbers borrow money or even mortgage properties to finance their campaigns.

Those who win parliamentary seats find themselves having to cater for a variety of their constituents' needs, including funeral expenses and the construction and repair of local infrastructure, such as schools, health facilities, water sources and roads. The imperative to fulfil voter expectations explains why so many MPs are heavily indebted.<sup>22</sup> Heavy financial commitments render them easy targets for corrupting influences and blackmail. If Ugandan MPs are notorious for dodging parliamentary sessions to attend to personal matters, and if they are easily bought off or compromised by the executive whenever it seeks to push controversial matters through parliament, it is because of the nature of the structure of political competition and the manner in which the entire political system malfunctions.

#### **4.4.2 Nature and limits of the opposition**

What are the deeper realities behind the facade of intensified conflict between Museveni and the opposition in recent years? Two aspects of the opposition have to be taken into account when analysing this issue. One is that the key opposition party (certainly the one with the largest number of parliamentary seats among opposition parties) the Forum for Democratic Change (FDC), or at least its leadership, consists of ex-NRM cadres, civilians and military. They left the ruling party because of irreconcilable differences, specifically what they saw as its betrayal of the principles that had guided the armed struggle that brought it to power, and for which they had sacrificed a great deal. The fact that they chose to leave the NRM and establish a separate party, rather than stay and seek to pressurise for change from within, testifies to their conviction that pressure could only be mounted effectively from the outside (Kobusingye, 2010). Consequently, from the very beginning of their defection, they were driven by a determination to press for change, vigorously.

The other is that opposition parties are headed mainly by a generation of leaders that are younger than those Museveni and the NRM found at the helm when they captured power in 1986, and with whom they struck deals to join the broad-based no-party system they installed and kept in place for two decades. The new leaders are pushing a change agenda, the centre of which is the removal of President Museveni from power. The focus on change of leadership is well encapsulated in a common feature of opposition politics: all parties focus their messages on the imperative for Museveni 'to go' (*agende*). Museveni who has little regard for opposition leaders and who has shown no intention of leaving power has responded to the *agende* agenda by conducting a very personal war, not only with the parties but their leaders as well. In this war, he deploys everything in his arsenal, including the army, the police and the security agencies. This accounts for the violence and obstruction that have accompanied election campaigns when opposition parties have seemed to galvanise public support, as seen from the large crowds attending their rallies.

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<sup>21</sup> Interviews with senior members and leaders of FDC, NRM, DP, JEEMA, and CP (Oct 2013).

<sup>22</sup> See, for example, Monitor Reporters, '40 MPs get zero salary over debts', *Daily Monitor*, 13 Feb 2012.

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The use of violence, intimidation and obstruction has been an important factor in the refusal by opposition parties to accept and recognise President Museveni's victories, particularly the FDC whose candidate has come second in three consecutive elections. Indeed in 2001 and 2006 when the FDC petitioned the courts to annul the results, these three factors featured prominently among their reasons for demanding a re-run. On both occasions, however, the courts dismissed their petitions in what opposition parties and members of the wider public saw as politically motivated rulings and also as evidence of the judiciary's lack of independence. This undermined whatever confidence the political parties and members of the public might have had in the judiciary's capacity to arbitrate impartially in electoral disputes involving presidential elections. Its consequences became clear when, after the 2011 presidential elections, Kiiza Besigye, the runner-up candidate and president of the Forum for Democratic Change, rejected the results once again and refused to recognise Museveni as the duly elected president. However, unlike the previous two occasions when he had petitioned the courts, this time he decided to take his grievances to 'the court of public opinion'. He called people out to 'walk to work', the intention being to render the country ungovernable and force President Museveni and the government to the negotiating table.<sup>23</sup>

The walk-to-work protests presented Museveni with his biggest electoral crisis since coming to power. Coming on the heels of the Arab Spring protests in the Maghreb, which had already toppled governments there, the Museveni government viewed them with fitting alarm and moved to quell them with brute force, leading to widespread condemnation at home and outside the country. With the unrest threatening to get out of hand, efforts began to arrange talks between the government and the FDC-led opposition, but eventually collapsed after several weeks of back-and-forth talks about talks, amidst acrimony and mutual accusations of bad faith.<sup>24</sup> By the time the talks about talks collapsed, however, the security forces had managed to end the protests and President Museveni was no longer under pressure.

*There are no deeper realities behind  
the intensified conflict than the  
opposition seeking to remove Museveni  
and Museveni refusing to leave*

Clearly there are no deeper realities behind the intensified conflict than a struggle for power, with the opposition seeking to remove Museveni, and Museveni refusing to leave, partly because, as he has stated several times over the years, he deems them unsuitable to lead the country. Beyond the struggle for power, there is very little else, as opposition parties have individually failed to put across a compelling case for what they will do differently if they took over the government. They have manifestos in which they lay out their policy ideas, but these are remarkably similar to the NRM's own manifesto, meaning that they present no real alternative.

It is also true that the majority of Ugandans do not choose which party or candidate to support or vote for on the basis of their policy positions, especially in presidential elections. Museveni enjoys the support of many simply because of his success at taming the military and ensuring continued relative peace and stability. Failure by opposition parties to display unity of purpose and their tendency to bicker in public almost as much as they oppose the NRM only succeeds at portraying them as not ready for power and as a threat to political stability, a threat few would want to risk.

What can be realistically expected of opposition political forces? This section focuses its lens on unarmed opposition political forces, and also on those political parties that, by virtue of their ability to

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<sup>23</sup> Interview with a source close to the Dr Besigye, who wishes to remain anonymous (21 Oct 2013).

<sup>24</sup> Interviews with some of the people who initiated the idea of talks by contacting both Dr Besigye and President Museveni and conducted back-stage manoeuvres to get the two sides to talk (18, 21 and 22 Oct 2013). The respondents wish to remain anonymous.

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win the support of a significant portion of the population,<sup>25</sup> stand a chance, however remote, of posing a threat to the ruling NRM. Five opposition political parties are represented in Parliament: Democratic Party (DP), Uganda People's Congress (UPC), Forum for Democratic Change (FDC), JEEMA, Conservative Party (CP). There are reasons why one should not read too much into their representation in Parliament. First, they are vastly outnumbered by MPs representing the ruling party (205 to 56) and others allied to it, including many of those who style themselves as 'independent' (37) and those who represent the military (10). The numerical superiority of the government's supporters in Parliament has enabled it to push through whatever legislation or measures it has wanted to push through. Opposition parties and occasionally a few independent MPs may object, but they always end up losing the argument.

Also, with the exception of JEEMA, which has been exceptionally cohesive, all opposition parties are highly factionalised and unable to cohere around ideas that go beyond a collective desire to remove Museveni and the National Resistance Movement from power (i.e., what they would do if they won the elections). Fractionalisation in opposition parties revolves around how resources from external benefactors are used and managed, and around questions of internal democracy whereby the results of internal elections are almost always contested, with parties splitting into opposing camps following the election of new leaders.

*It is prudent not to expect a great deal from opposition forces at this particular moment*

Currently the UPC, DP and FDC are divided each into two factions, one supporting the current leadership, the other opposed to it and seeking to remove it. In all three parties, factions opposed to their party leaders are led or supported by Members of Parliament representing their parties. Consequently, there are significant degrees of disconnect between party headquarters and parliamentary parties. This has compounded the weakness of opposition parties and their inability to hold the government to account or to counter the numerical superiority of the ruling party in Parliament.

Since the return to multiparty politics in 2005, a number of external actors, among them American and European political foundations and even parties such as the Conservatives in the UK and the Christian Democrats in Germany, have injected resources into opposition parties. And so have donors, through the Deepening Democracy Programme which wound up in 2012 (Wild and Golooba-Mutebi, 2010). In some cases, however, the way these resources are used as well as who among the party leaders and members gets to benefit directly from their management has ended up creating debilitating conflicts.<sup>26</sup> These conflicts, like the ones surrounding disputed internal elections, make it extremely difficult for political parties to relate to the government or the ruling party in a coherent, organised way, or to influence the manner in which it uses its power. Lastly, for all their collective opposition to President Museveni and the ruling party, opposition political parties have consistently failed to forge a united alliance, thanks to longstanding rivalry, mutual mistrust and, consequently, the inability to inspire confidence in the general population that they represent a credible alternative to the current government.<sup>27</sup>

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<sup>25</sup> We determine this rather crudely, on the basis of representation in Parliament.

<sup>26</sup> 'Record of the work of the policy analyst of the Conservative Party, 2010-2011', memo from Fred Guweddeko, former policy analyst, Conservative Party (Oct 2013). Also personal communication, Deepening Democracy component manager, Democratic Governance Facility, 18 Oct 2013.

<sup>27</sup> See, for example, F. Golooba-Mutebi, 'Sejusa wants to unite Ugandan opposition? Good luck, I say', *The East African*, 28 Sept 2013.

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Thus, what commentators call ‘opposition’ in Uganda is not a coherent group at all. It is a collection of highly fractious, cash-strapped and, in many ways, weak and disoriented groups that are so suspicious of each other that they are unable to coalesce (sustainably) around whatever interests they may have in common. If there are any links between ‘the opposition’ and dissident NRM MPs, they are opportunistic and issue based (ephemeral), not on-going. A good example is the question of how to manage future revenue from oil. The weakness of the so-called links can be discerned from the fact that not a single MP has defected from the NRM to any opposition party in recent times. For all these reasons, it is prudent not to expect a great deal from opposition forces at this particular moment in Uganda’s political evolution.

In contrast, while the ruling party is far from being cohesive, and is indeed the site of significant degrees of dissent, the leadership has remained firmly in control. It is able to subdue dissenters through numerous forms of intimidation, including threats of expulsion and removal from parliament. Ruling party MPs who distinguish themselves by opposing party positions in parliament are usually denied party support at the next polls, with the ruling party choosing and sponsoring rival candidates. This prospect usually scares would-be dissenters into toeing the official line.

The strategy does not always succeed, as MPs targeted in this way sometimes contest as independent candidates and defeat the party’s candidates. Nevertheless, most of those who win as independents promptly declare their continuing allegiance to the party as soon as they are sworn in. A few remain independent, but never join opposition parties or side with them consistently. Something similar applies to the most well-known NRM dissidents – the four young men who had been most vocally opposed to Museveni remaining in power and who had also made a habit of commenting adversely on the NRM’s conduct and that of the president and those around him. The Supreme Court upheld their expulsion from the party in late 2013. Only one of them has said he is no longer interested in being a member of the NRM. The others want, or wanted, to stay.

Lastly, Museveni’s recent endorsement by over 200 NRM MPs as the sole NRM presidential candidate in 2016 says a great deal about so-called divisions in the party. Even those alleged to have been scheming to oppose him signed the endorsement, as did their supporters and mobilisers. This is not to say that the endorsement was a sign of party unity. It was not. Subsequent bickering especially with the NRM’s youth wing points to divisions. However, it represents the triumph of Museveni’s supporters (the vast majority) over those who may want him removed from the NRM’s leadership. The Museveni camp will get their man the nomination through the party’s official organs. There is already a momentum building up, which potential opponents cannot stop.<sup>28</sup>

#### **4.4.3 Institutions to hold vested interests in check**

Uganda has probably the most complete set of accountability organs in the region, if not in the world (Andrews, 2013: Ch 6). However, their record of ineffectiveness is well documented (Tangri and Mwenda, 2006; Andrews and Bategeka, 2013; Tangri and Mwenda, 2013). Besides the courts of law, other regulatory bodies include the office of the Auditor-General, the Inspectorate-General of Government and the PAC in Parliament. There is also a Ministry of Ethics and Integrity. Every year, the Office of the Auditor-General produces copious reports of misdirected, misappropriated and unaccounted-for money. Reaction by the government usually comes from the PAC. It summons officials named in these reports, quizzes them and, from time to time, threatens them with prosecution. Actual prosecutions are, however, rare.<sup>29</sup>

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<sup>28</sup> Another recent event, the (illegal) dismissal of the Lord Mayor of Kampala in 2013, needs to be interpreted in the same spirit. This signals the NRM’s unity behind a desire to get rid of a political foe with a large following. The mayor, who won his seat as an independent candidate, was originally a member of the Democratic Party. It took the government, the president and the NRM a great deal of effort and manoeuvring to get him removed. The four young men who have been expelled from the NRM opposed the actions of the government, of course, but no one else in the NRM came out strongly on their side.

<sup>29</sup> See, for example, Y. Mugerwa, ‘Donors: Fulfill 7 conditions or forget shs700bn’, *Daily Monitor*, 14 May 2013.

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This stems partly from members of the PAC not always being upright and often soliciting bribes from officials implicated in corruption in order to water down reports and ensure they do not reach the office of the Director of Public Prosecutions.<sup>30</sup> The Inspectorate-General of Government usually conducts its own investigations into the financial affairs of public officials, sometimes at the prompting of individual whistleblowers or at the request of the government. Whereas individuals found to have misappropriated public funds or engaged in one or another form of misconduct might be prosecuted, such occurrences tend to be selective, or, at least, that is the impression given to the public when influential personalities escape punishment while others accused of relatively minor offences end up in jail.<sup>31</sup> There are strong indications that, besides being politically motivated and influenced,<sup>32</sup> outcomes of court cases that seem to favour the powerful and victimise the powerless are the product of corruption in the judiciary.<sup>33</sup>

As for Parliament, while in a normally functioning democracy it would be expected to hold the executive in check, Uganda's seems to exist mainly for the simple purpose of promoting or protecting the interests of the executive. Through the large majority of ruling party MPs who, because of the powerful NRM caucus are often compelled to toe party positions, President Museveni and the government are able to bend Parliament to their will on most matters. It is very rare, for example, for positions pushed either by the government or by President Museveni to be defeated on the floor of Parliament. Where such a risk arises, different forms of intimidation are used to push rebellious ruling party MPs back into line.<sup>34</sup> The capacity by President Museveni and the government to browbeat MPs into doing their bidding means that Parliament is not always able to influence their conduct.

However, in what has amounted to a rare display of independence of mind, some MPs belonging to the ruling party have often been more vocal than their opposition counterparts in condemning corruption within government departments and ministries as well as in opposing President Museveni's attempts at disregarding Parliament and undermining other public institutions. Instances where ruling party MPs have rebelled include matters having to do with proposed legislation to regulate the oil sector. Nonetheless, their 'rebellions' are usually rendered ineffective by the president's investment of considerable time and resources in ensuring his control over parliamentary processes.

*Overall, the capacity of institutions to hold vested interests in check should not be taken for granted*

Most NRM MPs are beholden to him for reasons such as the personal endorsement they receive from him during electoral campaigns. The sense of gratitude they develop limits their willingness to be seen opposing him. Those who become troublesome in parliament are intimidated or removed via focused logistical and financial support for rivals seeking to unseat them.<sup>35</sup> Others are silenced by appointment to ministerial or other positions. In addition to these visible attempts at 'taking out' problematic MPs, he has taken to moulding younger MPs that will act in line with the interests of the executive branch of government.

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<sup>30</sup> Several interviews and conversations with investigative journalists and parliamentary correspondents of various media houses (over several years).

<sup>31</sup> See, for example, B. Tabaire, 'Small fish get fried as big fish swim to pounce another day', *Sunday Monitor*, 27 Oct 2013.

<sup>32</sup> Monitor Team, 'The cases that rocked the dock', *Daily Monitor*, 28 Dec 2012.

<sup>33</sup> See, for example, the article by retired Supreme Court Judge, George Kanyeihamba: 'In Uganda the Judiciary administers injustice instead', *Sunday Monitor*, 1 Sept 2013.

<sup>34</sup> Monitor Reporters, 'Museveni tells MPs: Army can take over', *Daily Monitor*, 18 Jan 2013.

<sup>35</sup> I.S. Nganda, 'President's new needs demand total loyalty', *Daily Monitor*, 14 Aug 2007.

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Therefore, overall, the capacity of institutions to influence the political elite or hold vested interests in check ought not to be taken for granted. Their effectiveness varies widely depending on who is involved in what, and how much influence and power they hold and wield. Measures such as prosecution for wrongs done can influence behaviour, but only among individuals who dread their nuisance value and consequent loss of face rather than the punishment itself, for punishment for wrongdoing is never guaranteed.

Of late, there is much talk about a struggle between Speaker Rebecca Kadaga and President Museveni for control over Parliament, with some suggesting that it reflects a struggle for control of the NRM itself. Ms Kadaga, a senior leader within the ruling party, has been keen to be seen presiding over Parliament in ways that do not suggest she is doing so in a partisan manner, accusations that dogged her predecessor and now vice-president, Vincent Ssekandi. Sometimes, her assertiveness has invited a harsh response from President Museveni who occasionally seeks to influence the manner in which Parliament handles specific matters. The media have been quick to paint this as evidence of a power struggle, and that Ms Kadaga may indeed vie for the presidency in 2016. But, this amounts to puffing up someone with no known constituency outside of her home area in Kamuli, which she represents in Parliament, and no influence within the key organs of the state (e.g. security agencies) that constitute the pillars on which the Museveni regime rests. Kadaga is in no position to match Museveni's investment in ensuring that the NRM and its parliamentarians do his bidding, especially when key strategic and personal interests are at stake, such as the determination to carve out a key role for the presidency in the management of the oil sector.

#### **4.4.4 Efforts to improve governance**

Over the last 27 years, several efforts have been made by different individuals and groups to improve governance without much success or with only modest achievements. Between the early 1990s and the mid-2000s, under the leadership of Emmanuel Tumusiime-Mutebile as permanent secretary in the Ministry of Finance, Planning and Economic Development, Uganda became a world leader in various technical fields, including macro-economic management, budget planning and policy monitoring (Kuteesa et al., 2010). However, even in their heyday, these reforms left the fundamental drivers of politics in Uganda untouched.

A dissident senior military officer, now in exile attributes his falling out with 'the system' to early attempts by him and another officer who has since died, to intercede with President Museveni to stop a land redistribution exercise in western Uganda in the late 1980s, which seemed to favour individuals from his own Bahima ethnic group and to disadvantage other groups which were competing with them for land. He attributes his subsequent persecution and eventual imprisonment on trumped-up charges before he escaped to Sweden, to this and his involvement in efforts to streamline the army's chain of command under a programme meant to professionalise the military during the 1990s.<sup>36</sup>

The former leader of the largest opposition party, the FDC, Dr Kiiza Besigye attributes his exit from 'the system' during the late 1980s and early 1990s, when he was the National Political Commissar, to his attempt to get President Museveni to rein in his relatives and other well-connected individuals whose conduct was undermining efforts to fight corruption. For his troubles, he earned himself a transfer to an upcountry military garrison as the local commander.<sup>37</sup> His last-ditch attempt to call attention to the NRM's departure from the ideals that had inspired him and others to go to war against the Obote government led to a decision to prosecute him and, in turn, to his decision to retire from the army and contest for the presidency in 2001.<sup>38</sup>

Efforts by outsiders have included pressure by the donor community on the NRM to lift restrictions on political party activity and return the country to multiparty politics, which, after several years of resistance by the government, led to the constitutional amendment to lift presidential terms limits and

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<sup>36</sup> Interviewed in Stockholm (2008).

<sup>37</sup> Several radio interviews since the late 1990s.

<sup>38</sup> For the document Colonel Besigye wrote to the NRM leadership calling for a re-examination of the NRM's evolution, see the book by his sister: Kobusingye (2010).

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bring no-party politics to an end in 2005. It was hoped that the NRM, whose political monopoly was seen as being at the root of the then growing authoritarianism as well as the lack of accountability and impunity, would modify its behaviour once confronted with strong contestation for power by its political rivals in the broad opposition. Experience since then suggests those hopes were overly optimistic (Rubongoya, 2007; Tripp, 2010; Barkan, 2011).

Other efforts have included pressure on the government to tackle corruption. Some donors have demanded that investments stolen from projects and programmes be refunded, which the government has done. However, similar demands for officials to be prosecuted, who were also implicated in the misappropriation, have been resisted.<sup>39</sup> Although donors have occasionally suspended aid in reaction to a growing lack of financial accountability conflicting agendas and interests usually lead to some donors breaking ranks and reinstating that aid and eventually forcing others to follow suit, even if they may decide to disburse it differently, as in the case of the switch from general budget support back to project and sector support in 2012.<sup>40</sup>

#### 4.4.5 The media and civil society

Against this background, it is tempting to turn one's gaze to the media. Since President Museveni came to power 27 years ago, media in Uganda have operated in a relatively free environment where they have been able to keep the public informed of what goes on within the government. They have been at the forefront of exposing instances of maladministration, mismanagement of public resources and various forms of abuse of office. From time to time, exposure of misconduct by public officials has led to forced resignations, dismissals and prosecutions. This, however, has been largely inconsistent, often resulting in decisions that have seemed to be selective, such as whether to prosecute or not prosecute individuals or even to imprison or not imprison them.<sup>41</sup>

And for their pains, the media, although generally allowed space to broadcast and write what they like, come under occasional pressure to cease portraying the government and its officials in a bad light. The pressure has, at times, entailed laying siege to and shutting down media houses or taking unwinnable, but highly inconveniencing and distractive, legal action against individual journalists or even detaining them for limited periods before they are freed without charge.<sup>42</sup> Over time, this and the threat of revoking their licenses has resulted in a measure of self-censorship among media houses, the extent to which some stories are considered to be off-limits or will be reported in watered-down form. Therefore, the capacity of the media to act as watchdogs is rather limited.<sup>43</sup>

Another source of alternative and potentially influential voices is civil society. Uganda has a vibrant civil society sector, of which there are thousands of NGOs working in different domains. Those whose activities focus on the social sectors, whether in terms of implementation of projects or programmes or advocacy, and those whose agendas have a sharp political edge, such as human rights groups and trade unions or professional associations, are generally vocal in advocating for their various causes. In many cases, however, the government simply ignores them or rejects

*The capacity of the media to act  
as watchdogs is rather limited*

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<sup>39</sup> Y. Mugerwa, 'Leaked OPM report pins government officials', *Daily Monitor*, 11 June 2013.

<sup>40</sup> Interviews with officials of donor agencies and Western embassies (Sept 2013).

<sup>41</sup> See, for example, Nogara (2009).

<sup>42</sup> C.M. Mpagi, 'Three Monitor sieges in 13 years', *Saturday Monitor*, 1 June 2013; also C. Onyango-Obbo, 'Monitor lives to see 20: We fought the good fight, lost many battles, won the big wars', *Sunday Monitor*, 31 Aug 2012.

<sup>43</sup> The suggestion that the media regime has deteriorated a great deal recently does not seem justified, however. We are not aware of a recent clampdown on press freedom that would be different from a series of actions in the past, when the offices of newspapers and radio stations were closed for days or weeks, or when journalists were locked up temporarily or dragged to court in long drawn-out suits, which ended up being dismissed, as 'punishment' for behaviour deemed to have exceeded acceptable limits.

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their demands outright and continues with whatever course of action it may have chosen to follow on any issue.

Where advocacy spills onto the streets in the form of demonstrations, the police step in and break them up, and often arrests the ‘ring leaders’ only to release them without charge. But, arrests and being ignored are the least of their problems. A more potent weapon in the hands of the government is legislation that provides for troublesome civil society groups to be de-registered. Such laws have effectively demobilised civil society when it comes to issues the government considers to be off-limits. Overall, however, as with parliament, civil society can play an important role by bringing matters to the attention of the public in the expectation that the desire to avoid negative publicity may spur the government into modifying its behaviour. And so, as with parliament, expectations of what advantage or mileage may come out of working with civil society should bear the wider context in mind.

#### 4.5 Issues in the governance of growth

Uganda’s economy is fully liberalised, with the government projecting its role as that of creating a conducive environment for business. Appropriate legislation pertaining to the enforcement of contracts and respect for property rights, among other things, have been put in place, as has a commercial court and other mechanisms for the arbitration of commercial disputes. There is an investment authority to handle all matters pertaining to investment, including facilitation with acquisition of licenses and land. Potential investors are assured of tax incentives and freedom to repatriate capital and profits without hindrance. Nonetheless, there are aspects of the business environment that complicate, or could potentially complicate, matters for members of the business community. For example, while all the formal steps taken to create a conducive environment for business point to its embrace of competition, every so often high-level interference in tendering or contracting processes ensures that specific enterprises are favoured against others. As far as awarding contracts is concerned, the power sector and the emerging oil industry have become special zones of preferential treatment, especially for infrastructure projects. Companies with special connections to influential and well-connected figures take the lion’s share.<sup>44</sup> They are usually the companies that would have hired fixers to lobby on their behalf in return for cash payments or share options.

In some cases, diplomatic missions intervene to try to secure contracts for enterprises that come from countries they represent. On this score, the American, British, French, Italian and Chinese missions are mentioned as having been involved in jostling to push the interests of oil companies from their own countries in Uganda’s emerging oil sector.<sup>45</sup> The German Embassy is said to have helped secure the contract to supply national identity cards for a German company, without any competitive bidding. According to media reports, the ambassador went to see President Museveni accompanied by the company’s executives. Also, the Chinese embassy is said to be notorious for these kinds of interventions.

Elsewhere, but typically in high-earning industries, companies may find themselves being edged out by competitors that are owned by powerful individuals or by those with connections in high places. The importation of the cheap and fast-selling Tiger Head brand of radio batteries is one example among many. At one point, several enterprises were importing them, each bringing in

*Whether state institutions will be given the space to perform their roles in relation to the nascent oil industry is not guaranteed*

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<sup>44</sup> Interviews with corporate lawyers, investment bankers and members of the business community (Sept-Oct 2013).

<sup>45</sup> Conversations (in 2011) with people who wish to remain anonymous. One respondent allowed the interviewer to view confidential documents backing up the story.

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different quantities depending on their financial capacity. Then, one day, a well-connected individual in partnership with a highly placed, powerful personality manoeuvred to secure ‘sole-agent’ status from the Chinese manufacturer. Assisted by the Uganda Revenue Authority,<sup>46</sup> they started blocking the importation of the same goods by all the other competing enterprises. However, a ruling party supporter, who had also previously imported those batteries but was stopped alongside the others, took up the matter with President Museveni. While he regained his right to import the batteries, all the other enterprises have been stopped.<sup>47</sup>

#### **4.5.1 Oil discoveries and the management of oil-related matters**

Key questions about Uganda’s nascent oil industry include whether new state institutions will be given the space to perform their roles, and whether political interference will not subvert commercial and operational decisions. Among the proposed new institutions are a petroleum directorate within the Ministry of Energy, a Petroleum Authority and a National Oil Company. There are indications that neither operational space nor freedom from political interference is guaranteed. It is also not clear that there will be sufficient technical capacity staff the new entities adequately. The current situation, with regard to availability of expertise, suggests they will be competing over a very small number of suitably qualified technocrats. However, on all these counts it is still too early to reach a definitive conclusion.

Of particular concern is clause nine of the ‘Upstream Bill’ that Parliament passed in December 2012. This gives excessive discretionary powers to the minister of energy to grant and revoke licenses, set regulations and negotiate agreements. Provisions for parliamentary oversight seem to be weak (Shepherd, 2012: 19). While the Public Finance Bill also provides for ministerial discretion, the role of Parliament, for example in overseeing the petroleum fund, remains unclear (ibid: 13). Also, questions about transparency loom large, pertaining particularly to the disclosure of information. The secrecy in which deals for oil exploration and exploitation have been struck has already led to legal tussling, complete with bribery allegations, between the government and the British-Irish oil company Tullow Oil.<sup>48</sup>

## **4.6 Prospects and risks**

### **4.6.1 The presidential succession**

The following questions are some of the most discussed in the country: when and how President Museveni will leave power, and, therefore, how will he be replaced? There is much speculation about what is likely to happen. Regarding his exit, the broad consensus is that he is the only one who knows when he will leave, as he is not known to have revealed his intentions or plans to anyone. People who are known to be close to Museveni, work closely with him or even talk to him on a regular basis do not know either, or they are not telling.<sup>49</sup> There is also a consensus about his intentions as far as the next presidential campaigns are concerned. Informed observers and people who work around him agree that he will stand for election again. The scale of factionalism within individual opposition parties, and their failure to forge a united front to support a joint presidential candidate, leave no doubt about the likely outcome of the 2016 presidential elections if Museveni does contest. This means he may not retire before 2021.

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<sup>46</sup> It has been suggested that the Uganda Revenue Authority started levying different tax rates on different importers, with the preferred importer paying the lowest (interview with Kampala City Traders Association [KACITA], Sept 2013).

<sup>47</sup> Interviews with KACITA, Sept 2013.

<sup>48</sup> C. Obore, ‘Inside story of oil deals, graft allegations’, *Sunday Monitor*, 14 Apr 2013.

<sup>49</sup> The writer has interviewed several over last nearly 10 years (see for example Hickey and Golooba-Mutebi, 2012).

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The question of President Museveni's succession remains salient regardless of when or how he may intend to leave power. In recent years, driven by media speculation, a consensus has emerged that his son Brigadier Muhoozi Kainerugaba is being groomed as his successor. The speculation is based partly on the president's promotion of his son's career in the military and partly on the views of other key political and military figures.<sup>50</sup> There is also much talk about the possibility that President Museveni might hand over to his wife, Janet, or to his younger brother, General Salim Saleh.<sup>51</sup> The overarching idea here is that he will want his successor to be one of his relatives, apparently as the only guarantee that he will not be held to account for whatever mistakes he might have made while in office. In a way, this also feeds the idea that the only people he trusts are members of his family.<sup>52</sup>

## *Museveni may not retire before 2021*

These claims can be heard from individuals connected to, or working in, the government, including military officers. The latest claims came from renegade Major-General David Sejusa, who, until he departed for self-imposed exile in the UK in 2013, had the formal title of Coordinator of Intelligence Services, but in reality, according to press reports, did very little coordinating, as the agencies continued to report directly to President Museveni. The speculations have some plausibility, not least because of President Museveni's history of parachuting his son into important roles while denying that he is doing it.<sup>53</sup> However, people who are familiar with the workings of the Museveni household and his relationship with both his wife and son dismiss outright the idea that he would want to hand over to either of them.<sup>54</sup> Wherever the truth lies, the debate seems destined to go on and to intensify with the passage of time. Meanwhile the prevailing uncertainty has extended the speculation to current Speaker of Parliament Rebecca Kadaga, Prime Minister Amama Mbabazi and Vice-President Vincent Sekandi.

Beyond being the product of a lack of certainty as to what will or what could happen (partly because there is no clear roadmap to the change of leadership or mechanism and process through which it could happen), the speculation is also the outcome of President Museveni's refusal to comment on his long-term intentions or plans, and who among the people around him feature in them. It renders it difficult to talk about how different outcomes would influence or impact on the investment climate. That said, observers float three scenarios: one entails his choosing or designating his successor and getting the NRM to accept the individual, or successfully managing the process through which the choice is made; another entails his dying in office and the choice of his successor having to be made by the NRM; the third entails his being deposed in a coup d'état.

The first scenario would lead to a trouble-free change of leadership; the second and the third would lead to a messy, possibly violent, outcome. It is difficult to predict with precision what any one of the three scenarios would imply for the investment environment. However, given that there has never been disagreement within the government or the ruling party regarding the government's general policy orientation favouring foreign direct investment, there are no known grounds for expecting this to change. The only exception would be if a violent or chaotic change of government were to bring a

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<sup>50</sup> F. Golooba-Mutebi, 'Muhoozi: Ugandans will decide; Ugandans: yeah, right', *The East African*, 29 June 2013.

<sup>51</sup> J. Barigaba, 'Museveni backs First Lady for the presidency', *The East African*, 26 May 2013.

<sup>52</sup> Hickey and Golooba-Mutebi (2012); Tripp (2010).

<sup>53</sup> In his autobiography (2012), retired Colonel John Kazoora refers to an incident when an MP put Museveni to task over reports that his son Muhoozi was recruiting his friends into the army, even before he was formally known to be a soldier. The president claimed that he had only asked Muhoozi to identify people of good character to join the army. Many of those 'people of good character' now serve under Muhoozi in the Special Forces.

<sup>54</sup> Numerous conversations with Andrew Mwenda and other individuals and public figures, including longstanding friends and acquaintances of the Museveni family who wish to remain anonymous (since 2004).

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completely new set of people to power from outside the current ruling coalition. In that case we could witness a reversal in the generally pro-foreign-investment, pro-free-market policy consensus.

How both President Museveni and the National Resistance Movement eventually handle the succession will determine whether the leadership transition, and events thereafter, will engender peace rather than violence and instability.

There is every chance that if he handles it well and identifies a successor agreeable to the majority of the party members, the changeover will be peaceful, albeit, perhaps, not without contestation from within and outside the NRM. If he mishandles it, tries to impose a successor or tries to block the candidacies of people he may be personally opposed to, but may be seen as suitable candidates, the potential for some chaos before things settle down again is high.

*People familiar with the workings of the Museveni household dismiss the idea that he would hand over to either his wife or his son*

#### **4.6.2 On-going armed threats**

There is a great deal of talk by individuals and groups opposed to the government and the ruling party that the country is on the verge of an explosion.<sup>55</sup> The recent defector, General David Sejusa, has also been threatening violence from the UK, where he is currently exiled, and was indeed mobilising for rebellion before he left, according to intelligence sources. Members of the ruling party dismiss claims by opposition politicians of impending instability as mere bluster. However, Sejusa's defection triggered a series of reactions from the government. First, it carried out a number of arrests of alleged collaborators who are currently on trial and in detention on treason charges. Second, it appointed a committee headed by General Salim Saleh, President Museveni's brother, to look into the vexed question of whether or not to retire army officers who have long wanted to retire but whose applications for retirement have been withheld without explanation. A popular view, which was confirmed by General Sejusa, is that military officers who are suspected of not being supporters of President Museveni, or the NRM, and are thought to have opposition sympathies are 'detained' in the army where they are subject to the military code of conduct that prohibits political partisanship.<sup>56</sup>

The third reaction was a tour of parts of the country by President Museveni, which included the Luweero Triangle where his rebel movement, the National Resistance Army, was based during the civil war. Rumours (and possibly intelligence reports) suggested Sejusa had concentrated his allegedly subversive efforts in this region.<sup>57</sup> The Luweero Triangle has large numbers of veterans of the civil war who, reports suggest, live in abject poverty and are therefore likely candidates for recruitment into armed rebellion. President Museveni's tour of the Luweero Triangle, during which he held meetings with the veterans, was intended therefore to re-assure them that the government has not abandoned them and to ensure they do not get lured into subversive activities. The fourth reaction was a reshuffle in the military leadership, which saw the army commander at the time, General Aronda Nyakairima, replaced and appointed Minister of Internal Affairs. Other senior command positions

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<sup>55</sup> Interviews with members and leaders of opposition parties (UPC, FDC, DP, CP, JEEMA), Nov 2013.

<sup>56</sup> Interviews (in 2007/8) with army officers, who had applied to retire but had been denied permission to do so, confirm this. However, those who wished to retire and join active politics on the ruling party ticket, such as the former District Chairman of Gulu, Colonel Walter Ochora (also interviewed), had no trouble having their applications processed.

<sup>57</sup> See, F. Golooba-Mutebi, 'Ready, aim, plant! Why military farming is doomed to defeat', *The East African*, 27 July 2013.

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also went to trusted officers whose careers include a stint in the elite Special Forces Command,<sup>58</sup> now led by President Museveni's son Muhoozi.<sup>59</sup>

These developments and occasional stories about divisions in the army<sup>60</sup> and the rise of new rebel groups contribute to a general feeling among sections of the public that the country is on the verge of descent into chaos. There are certainly grounds for such fears, given the country's history of military coups and insurgencies. However, there is much exaggeration in many of the warnings of impending doom for two basic reasons.

First, President Museveni maintains fairly firm control over the military. His warning, in January 2013, about a possible military coup was made in jest. It happened at a meeting of the NRM parliamentary caucus and was an immediate response to being heckled by the four young dissidents mentioned earlier. The media in Uganda sensationalised it, but it was never a serious statement. Second, he is still reasonably popular, if the results of the 2011 general elections are anything to go by, notwithstanding claims of rigging, and Ugandans generally dislike the idea of a return to the chaos of the past.<sup>61</sup>

In regard to insurgencies, it is true that all the wars the UPDF has engaged in have exposed its weaknesses. However, it has been successful in recent years at dislodging insurgents from the country, which currently has no resident rebel groups. Moreover, Museveni's skilled manipulation and co-optation of political opponents remain potent weapons against armed opponents and unarmed opposition.<sup>62</sup>

#### 4.6.3 Army veterans

Since President Museveni came to power 27 years ago, the military has shed large numbers of officers and rank-and-file soldiers. Large numbers left without the gratuity to which they were entitled. Many years later, they are still waiting and keep oscillating between hope and despair that they will ever get paid. Reasons for non-payment of their packages rotate around corruption in both the military's finance department<sup>63</sup> as well as the Ministry of Public Service.<sup>64</sup> Their hopes derive from occasional reassurances they get from President Museveni that they have not been forgotten, and the cash handouts he gives different groups of veterans whenever the occasion presents itself. Despair derives from being made to trek back and forth between their homes and the army headquarters for years with no resolution in sight. The sheer number of the veterans and the misery in which many live makes large numbers of them potential recruits into subversion and fomenters of insecurity. Indeed, there are occasions when, claiming that they were looking for money to feed their families, they have invaded vacant land in Kampala and elsewhere, taken it over by force, demarcated it into plots and built kiosks on them, or sold them for large amounts of money. Should the country descend into chaos for any reason, the tens of thousands of militarily trained, unemployed and poverty stricken would come in handy for whoever might want to use them.

*There is much exaggeration in many of the warnings of impending doom*

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<sup>58</sup> Formerly Presidential Guard Brigade (PGB).

<sup>59</sup> 'Why Museveni fired Aronda', *The Observer*, 16 June 2013.

<sup>60</sup> F. Golooba-Mutebi, 'Who's afraid of General David Sejusa? Everyone, it seems' *The East African*, 18 May 2013.

<sup>61</sup> F. Golooba-Mutebi, 'Mount a successful insurgency against Museveni? Dream on', *The East African*, 3 Aug 2013.

<sup>62</sup> F. Golooba-Mutebi, 'Why can't Kabila learn life lessons from Uganda, Rwanda?' *The East African*, 12 Oct 2013.

<sup>63</sup> Interviews with army veterans in the districts of Kiruhura, Mukono, Soroti and Gulu (2007).

<sup>64</sup> Y. Mugerwa, 'More shs165 billion spent on ghost pensioners', *Daily Monitor*, 10 Jan 2013; also, A. Bagala, 'Pension mafia grab extra shs100 billion', *Daily Monitor*, 22 Feb 2013.

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#### 4.6.4 The Buganda kingdom

The kingdom of Buganda – the centrally located, wealthiest and most influential region in the country; homeland of the Baganda – is a potential force for good, just as it is a potential source of destabilisation. The potential for destabilisation stems from Buganda's perennially troubled relationship with the central government, mainly over the question of whether Uganda should be a federal state or a unitary one. This question has historically divided the country, with the Baganda advocating for a federal system of government and the rest of the country resisting the idea because of fear of domination by the highly organised and largely cohesive Baganda. There is also the question of whether or not the central government is prepared to hand properties back to the kingdom that were seized from it by the Obote government after it abolished monarchies in 1967. On both questions, the Museveni government has played a clever game of giving undertakings and making promises while doing nothing, a tactic perhaps designed to drag out the process in the expectation that the demands will eventually go away.

The result has been a series of confrontations since 1986, which culminated in 2009 in Uganda's most deadly urban riots since independence. The clashes have led to an accumulation of grievances against the central government that have often seen relations between the two sides break down. Although Museveni has always been able to win elections in Buganda, despite the stand-off with the country's most popular monarchy, the risks

#### *Buganda as a potential factor in destabilising the government remains significant*

entailed in perpetuating rather than resolving the conflict are evident in the roles Buganda and Baganda played in deposing Milton Obote in 1971 and again in 1986. In recent times, President Museveni has embarked on processes that may signal a decision to finally resolve his differences with the Buganda monarchy. In addition to finally offering to hand over confiscated properties,<sup>65</sup> he has signalled his intention to continue to engage with Buganda on issues to do with the agitation for federalism. However in this, as in other things, Museveni has yet to convince Ugandans that he is a man of his word.<sup>66</sup> In summary, Buganda as a potential factor in destabilising the government remains significant.

#### 4.6.5 The donors

There is, no doubt, a risk that increasing natural-resource revenues will combine with general political trends in Uganda to produce a substantial reduction in donor influence in the country. In fact, this risk has already materialised. We do not believe that donor influence was ever as great as many supposed, at least outside of various technical fields. But, the leverage that the donor community can exercise is now definitely less than it was. The quantities of Uganda's oil in the ground appear large. The government is therefore set to make ample amounts of money out of it, revenue-sharing agreements permitting. This will make Museveni more difficult for donors and other international actors to 'manage' and influence.

Already he is showing less deference to donors than previously. Reportedly, when donors stopped general budget support in reaction to the huge corruption scandal at the Office of the Prime Minister, Museveni said it might not be such a bad thing, as Uganda ought to start thinking of living within its means.<sup>67</sup> It is clear that he is increasingly unwilling to listen to donors or bow to their pressure. To the extent that donor influence was a moderating factor on some of the regime's excesses, this could be considered an unfortunate development.

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<sup>65</sup> See, for instance, 'Buganda-Government deal is real', *Sunday Monitor*, 25 Aug 2013.

<sup>66</sup> S. Arinaitwe, 'Mengo's deal good but may not be enough for Buganda vote', *Daily Monitor*, 16 Sept 2013.

<sup>67</sup> Conversation with an official from a European embassy, Nov 2013.

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## 4.7 Conclusions

The limited access order that prevails in Uganda today has two features that set it apart in the East African region. One is a capitalist sector that is small but growing and somewhat mixed in terms of the ethnic background of the largest players, thanks to the particular form that the intermingling of political power has taken. The other is the political dominance of a single political figure, Yoweri Museveni, ever since his military seizure of power in 1986. We have argued that neither feature is about to disappear any time soon.

Conditions are favourable for continued economic growth. Museveni's rule is broadly pro-business, but policy-making for development is erratic and over-dependent on personal interventions by the president. Both the president and his style of policy delivery are going to be in place for some years yet. One consequence is that national economic growth is unlikely to regain the inclusive, robustly poverty-reducing character it had in the 1990s, thanks largely to the one-off gains from market liberalisation, especially in coffee.

We have considered and rejected claims that either parliament or opposition parties are likely to dent Museveni's dominance, given the president's proven ability to divide or co-opt groups that challenge him coupled with the opposition's inability to pose a programmatic alternative. The donor-supported formal apparatus of transparency and accountability is comprehensive, but for the most part ineffective in reshaping the way the political system works. The media and civil society advocacy can, at best, moderate some of its effects.

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# 5 Rwanda

## 5.1 Background

In many obvious and important ways, Rwanda is the outlier in our set of focus countries. The sharpness of the politico-ethnic divide between the Hutu and Tutsi segments that preceded 1994 and the scale of the killings during the genocide provides a very particular backcloth to more recent political and economic developments. Less obviously, Rwanda is distinguished within our set by being governed by a coalition of forces that share a distinct vision in which socio-economic development and constructing a new form of nationhood are given very high priority in practice as well as in formal declarations.

Part of the background to this is the fact that the largest partner in the coalition, the Rwandan Patriotic Front (RPF), is an organisation built in struggle which has retained much of its original discipline. Another part of the explanation is that the RPF and the smaller parties with which it governs have, since before 1994, shared a core commitment to non-ethnic politics and political power sharing. Since 2003, these principles have been enshrined in a constitution which permits a kind of multiparty politics that is not based on clientelism.

*Policy-making has a sense of direction and an ability to recognise and correct mistakes that is not typical in the region*

In many fundamental ways, Rwanda's political economy remains that of a limited access order. However, the worst effects – from the point of view of development – of the forms of LAO that prevail in the other EAC countries have been blunted. As a consequence, policy-making has a sense of direction and an ability to notice and correct mistakes that is not typical in the region. Defending these arrangements against those within the ruling coalition and those outside it who would prefer to do things differently is tough. This gives the regime a disciplinarian flavour that is not to everyone's taste and may involve inefficiencies as well as hostile media coverage. Nonetheless, the starting point of the analysis in this section has to be that Rwanda is commendably free from the typical obstacles to development-oriented reform that we have been emphasising up to this point. This is, moreover, the result of an institutionalised system of rule, not simply the personal capabilities of current president Paul Kagame, contrary to some recent accounts (e.g., Crisfulli and Redmond, 2013).

## 5.2 Political and economic power linkages

A clear difference between Rwanda and its closest regional ally Uganda, and also other neighbours, is that occupying political office does not open the way to the acquisition and accumulation of wealth. There are politicians who are wealthy. However, they are few and far in between, and none of them is known publicly to have acquired their wealth by way of taking advantage of the office they occupy or have occupied. For members of the business community who join politics, and again there are very few, it is a requirement under the law to give up active participation in managing any business once becoming a member of parliament or a cabinet minister. This law applies to others occupying public

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office. Enterprises belonging to people barred from doing business are managed through trusts or by spouses or children.<sup>1</sup> The same applies to civil servants.

Influence peddling, and any attempt to use public office for personal gain, is a strictly prohibited, prosecutable offence and has landed public figures in jail.<sup>2</sup> Others have been removed from office for failure to declare their assets or for failure to explain the source of wealth that could not be justified on the basis of their known legitimate incomes.<sup>3</sup> Also, businesses owned by public officials are eligible to offer services to the government, but only following very strict observance of rules pertaining to conflict of interest and disclosure. In practice, so strict are the rules that it is safer to ensure that a company with which a particular officer is associated does not supply goods or services to the government entity in which they work. While government entities can rent properties owned by government officials, again strict rules apply. However, no employee of the Rwanda Housing Authority should offer his or her property to the government for rent. Vehicles of government officials can also only be hired out to the government indirectly via car-hire companies specialising in that line of business. These rules are strictly enforced.<sup>4</sup>

Nonetheless, politicians and public officials, as well as mid-level and senior civil servants and senior members of the armed forces, enjoy a higher standard of living than the average Rwandan. This stems from their relatively higher emoluments and accompanying allowances and fringe benefits, which include subsidised motor vehicle and housing loans. In many ways it is from making these benefits available that the government derives the justification for cracking down on malfeasance.

### 5.2.1 Business

Supporters and cadres of the Rwanda Patriotic Front are among some of Rwanda's most successful businessmen and women. Some of them also support the party in its business endeavours as co-investors. Among them, the majority consists of returnees who made their money before they returned to Rwanda, after the war and genocide ended. Others have accumulated their wealth in Rwanda since returning. However, also among the country's wealthiest members of the business community are members of the Hutu elite who were wealthy before the genocide and accumulated their wealth during the Habyarimana period. They are in banking, insurance, real estate development, the hospitality industry, oil trading, minerals trading, manufacturing, and in the retail and wholesale trade. Some of the latter are now supporters of President Kagame and the RPF. Others are members or supporters of other political parties. Others are apolitical in the sense that they feel allegiance to no particular party, but are supporters of President Kagame and the government and their agenda for the country generally. All these categories of actors in the business world are represented among investors in the Rwanda Investment Group (RIG). There are no active politicians, serving members of the armed forces, or public servants among them.

It is also important to note that although many members of the business community are well-connected, influential RPF cadres and even contribute money towards enabling the party to finance its political activities, their influence and connections do not entitle them to immunity from prosecution in the event that they get involved in wrong doing. Nor does their influence buy them preferential treatment in the award of government tenders.<sup>5</sup>

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<sup>1</sup> There are significant numbers of public servants, including members of the armed forces, who own family-run livestock farms and small businesses, such as bars, restaurants and small hotels. However, because of regulations concerning public duty, they are barred from participating directly in the running and management of such establishments.

<sup>2</sup> Permanent secretaries, members of the armed forces, ministers and heads of statutory bodies and judicial officers have been prosecuted and jailed or, where evidence to lead to successful prosecution is lacking, removed from office administratively on account of strong circumstantial evidence.

<sup>3</sup> G. Ssuuna, 'CID given 60 days to complete probe', *The New Times*, 27 Feb 2009.

<sup>4</sup> Interview with a government procurement officer, 2 Dec 2013.

<sup>5</sup> According to one source, a prominent businessman (interview, 8 Nov 2013), there may be instances when exceptions are made. For example, a local business which the government may want to promote for strategic reasons may be awarded a tender or accorded a business opportunity ahead of others, especially if it is

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The holders of political power and those who hold economic power are therefore, strictly speaking, not the same people, and whatever intermingling there is between the two groups is based on and guided by two factors: On the one hand are the historical links between some members of the business community and the holders of political power, stemming from their collective membership in the RPF from its days as a liberation movement. On the other hand are the bonds that have been created between the ruling elite and the business community through initiatives such as the

*The holders of political power  
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establishment of the Private Sector Federation (PSF) and RIG. The PSF has received substantial support from the Office of the President and the same Office catalysed the creation of RIG as a means of harnessing the business community to the reconstruction of the country.<sup>6</sup> These processes have not been mediated by fixers or middlemen, or initiated by politicians on the basis of a reciprocity in which members of one group facilitate those of another in return for shares in companies or personal benefits of some kind. Indeed, there is evidence that individuals who have attempted to become fixers of the variety so ubiquitous in Uganda have been sanctioned.<sup>7</sup>

### 5.2.2 Business networks

There are several networks in the business community. Very broadly, they are aligned alongside the 'returnee' and 'non-returnee' axes, these referring to those who were born or grew up in exile, and those who never left the country or left during the war and returned afterwards. Contrary to what one might expect given the tendency to analyse Rwanda through ethnic lenses, these broad 'divisions' are not coterminous with ethnicity. Despite the general exclusion of the Tutsi from public life, or perhaps even because of it, they were a significant part of the business elite during the Habyarimana period and are said to have been partners of, or fronts for, the then members of the political and security establishments. Indeed, it is said that some Tutsi businessmen who survived the genocide were helped to leave the country or to hide by their Hutu allies within the government and the armed forces.<sup>8</sup> Also, again contrary to popular belief that returnees are Tutsi, there are several members of the business community who are Hutu or of mixed parentage and also are members of the returnee network.

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competing with a foreign entity. This, the source added, may be a factor in the awarding of a number of tea estates to a company owned by one Egide Gatera. This is the businessman rumoured to be a business partner of Mrs Kagame (interview with a corporate lawyer, 8 Nov 2013), which the source, who happens to know the Kagame family well, dismissed as unfounded. He pointed out, however, that even where a company may be the subject of such preferential treatment, its paperwork must be in order and all processes must be adhered to. A second source, another well-connected businessman, also dismissed the Mrs Kagame story, adding that 'Kagame would not allow it, and his wife cannot do it without his knowledge' (interview, 9 Nov 2013).

<sup>6</sup> It is indeed this encouragement of Rwandan members of the business community to participate actively in building the country that underlies the occasional preferential treatment of local businesses competing with foreign firms. Additionally, the government is behind the blossoming of investment clubs and cooperatives across the country, whose objective is to encourage Rwandans to pool money and invest where there are opportunities for which no single individual has the capacity (interview with a local business man who, while lauding the spirit and motivation these developments, is sceptical of their long-term prospects, 8 Nov 2013).

<sup>7</sup> At least one former cabinet minister was forced to resign for soliciting kickbacks from potential investors, while reports suggest that a former senior official of the PSF with extensive connections was removed after reports that he had tried to facilitate an investor in a former parastatal enterprise in return for a large sum of money in 'consultancy fees' (interview, 8 Nov 2013).

<sup>8</sup> Interviews (including with members of the intelligence community) since 2006.

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There are also two other broad networks, distinguished by the European language they speak, French or English. The ex-Diaspora francophone network brings together those that were born, grew up or were exiled in French-speaking central and West Africa, and farther afield in France and Belgium. This one is separate from the Francophone network of those who never went to exile except during the war, including Tutsi genocide survivors. Meanwhile the Anglophone network brings together mainly the ex-Ugandans and those who lived in Kenya and Tanzania, and others from farther afield.

There are also mini-networks organised<sup>9</sup> along the lines of ‘country of origin’, by which is meant the different countries where they were exiled or where they were born and grew up. Those with the largest networks are Uganda, Burundi, the DRC and Kenya, with the ‘Burundians’ and the ‘Congolese’ tending to form one network, not least because there was a great deal of interaction between the two Diasporas, stemming partly from the fact that many refugee children from Burundi went to school in the then Zaire because of the heavy discrimination they suffered back in Burundi. Again, these are not networks built on collusion and influence peddling. Rather, they are sources of multi-faceted, mutual support. This can be deduced, for example, from a statement by a ‘Ugandan’ businessman: ‘nine out of ten people who come to me for advice about matters to do with business are people who like me grew up in Uganda’ (interview, 8 Nov 2013).

### **5.2.3 The positives and the negatives**

A key positive of these networks is that through them the government is able to mobilise members of the business community for causes such as the formation of business clubs and cooperatives, through which they are encouraged to invest in sectors seen as strategic or with high potential to impact positively on local economies. A key negative is that because the government uses these networks to reach out to the business community, the leading personalities through whom the mobilisation is effected are not keen to see them dissolve in the interest of strengthening a single business-focused interest group, such as the PSF aspires to be. In other words, the leading personalities are keen to preserve them as channels through which they earn recognition from the president. Consequently, their perpetuation acts as a brake on the evolution of the PSF as a pan-Rwanda interest group for the business community.

### **5.2.4 Crystal Ventures**

One of the distinguishing features of business-politics relations in Rwanda is the fact that a significant part of the still very small formal sector of the economy is controlled by a holding company that is fully owned by the largest political party, the RPF. As we have written at length elsewhere (Booth and Golooba-Mutebi, 2012a), the role of this company, now trading as Crystal Ventures Ltd., captures much of what is distinctive about the political economy of Rwanda. The importance of CVL does mean that politics and business have a very close mutual involvement, and this is one sense in which Rwanda remains a limited access order and possibly even ‘neo-patrimonial’. However, the relationship is quite formalised and not at all a matter of deals among individuals. This has allowed the firm to play a crucial role in several sectors where the needs of economic and social reconstruction were unlikely to be met by the private sector proper. In the case of the initial rollout of mobile telephony in Rwanda, CVL is credited with facilitating an investment by MTN that would not have happened for many years.

Critics of CVL argue that because of its relationship with the RPF, and therefore with the government, its subsidiaries occupy a privileged position, one that inhibits independent private-sector operations. The management is sensitive to these accusations. Efforts have been under way for some years to sell off some of the companies and to find co-investors in others. According to a well-placed source, ‘One mistake was to own so many companies 100 percent. This is going to change. We want to free up capital to invest elsewhere. We hope it will also help reduce the negative publicity’.<sup>10</sup> However, as it stands the suggestion that the presence of CVL firms is bad for the private sector proper seems an exaggeration. In the case of mobile telephony at least, the medium term effect of the initial CVL venture has been to crowd in, not crowd out, private investment. In several other respects, CVL firms

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<sup>9</sup> In a very loose sense of the term ‘organised’.

<sup>10</sup> Interview, 9 Nov 2013.

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do things that no purely private firm would want to do. There are social or political externalities that they take into account.

For example, NPD-COTRACO, which is in road construction and road repair, has not generally secured internationally tendered contracts. The one local tender they got to work on roads in Kigali City was apparently given to them because no other company responded to the advertisement due to the conditions attached to it. Those included repairing potholes when and wherever they developed: ‘we have people who go around everyday hunting for potholes and ensuring that they are repaired as they develop. That is very costly. It is why no other company wanted to take on that contract’.<sup>11</sup> This willingness to do things that other businesses do not want to because they are not sure they will make money out of them is what distinguishes CVL from companies whose prime objective is profit maximisation.

*There are reports that CVL’s relationship with the RPF is something of a handicap to CVL*

There are also reports suggesting that CVL’s relationship with the RPF is something of a handicap to NPD-COTRACO. The subsidiary gets leaned on to carry out emergency works at short notice, without tendering because the urgency of the situation rules that out. Having to find the resources to carry out the works, the company is often forced to borrow from banks. Its status as a party company, sometimes also means that it is not paid for its services with the same urgency as applies to other contractors. This affects its cash flow and leads to large payments to banks in interest on the loans they take. For this reason, some insiders now see it as necessary for the company to be treated like any other private sector company. This, apparently, is a low-intensity internal debate that has been going on for some time.<sup>12</sup>

Political and social externalities matter for CVL firms. For example, Bourbon Coffee

*‘is not simply a coffee shop or restaurant; it is a story. We want to move away from the bad stories associated with our country. We want to move away from the genocide story and the Congo story. The money we make from Bourbon Coffee does not justify what we sunk into it. It is not just about making money. So no one can claim that they cannot open a coffee shop because of Bourbon Coffee. If there was no Inyange Enterprises, where would farmers sell their milk? It is the only milk processing facility in the country. Before Inyange there was nothing. After Inyange, there is nothing else’.<sup>13</sup>*

No doubt, these points do not entirely dispel the possibility that the advantages CVL subsidiaries have as members of a politically connected conglomerate (the conglomerate advantage being probably more of an advantage than the political connection) sometimes discouraged a potential or actual private investor, with implications for economic growth. However, it seems important to assess the net effects on economic growth on a case-by-case basis. There should be no assumption *a priori* that inadequate growth is tied up with insufficient competition.

### 5.3 Presidential authority and development leadership

Strangely in view of Rwanda’s reputation, among critics and apologists alike, for being a one-man show, the dependence of policy on President Kagame’s personal initiative does not appear particularly striking in the EAC context. The cabinet appears to function reasonably well as an instrument of collective leadership and responsibility, with the president exercising a powerful demand for performance from individual ministers and their permanent secretaries. This contrasts with the

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<sup>11</sup> Interview, 9 Nov 2013.

<sup>12</sup> Personal communication (anonymous), 16 Aug 2013.

<sup>13</sup> Interview, 9 Nov 2013.

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perverse combination of lack of interest and micro-management that tends to characterise President Museveni's approach to his cabinet. The underlying difference is that Ugandan cabinet members are there to provide balanced access to power and resources for the regional power-blocs that Museveni needs to placate. Rwandan cabinets have to reflect the power-sharing principle in the constitution (no more than 50 percent of ministers from the RPF), but they are otherwise merit-based and typically include a significant number of independents, among them several younger women.

*Agriculture is politicised in a very different way*

An important benefit of these arrangements is that coherent policy is no longer impossible. In the Africa Power and Politics Programme's comparative study of maternal health delivery systems across four countries, Rwanda emerged as a clear best performer in terms of the internal consistency of the policy framework as well as the effectiveness of performance disciplines (Booth and Cammack, 2013). We believe that much the same applies to agriculture. Rwanda's current agricultural policies may be imperfect and not yet delivered to a high enough standard. However, the factors that have weakened President Kikwete's initiatives in Tanzania – the perceived need to please multiple constituencies and the political impossibility of delivering all of the necessary ingredients to make a sectoral reform succeed – are simply absent in Rwanda. Agriculture is politicised in a very different way (Booth and Golooba-Mutebi, 2012b; Poulton, 2012).

## 5.4 Political challenges and institutional restraints

### 5.4.1 Party competition and debate

The conventional view on Rwanda, heavily shaped by the close attention given to the country by Human Rights Watch and other advocacy groups, is that this is a country where there is limited 'political space'. That is, there is little room for parties or pressure groups to develop that have a view different from that of the government and the RPF. This is a complex matter that calls for extended treatment. However, we may summarise here what we have argued at greater length elsewhere (Golooba-Mutebi and Booth, 2013).

The 'limited space' theme is in part a rather disingenuous response to the simple fact that the constitution does not permit the formation of parties with an ethnically sectarian agenda, and the law penalises what in other countries would be called hate speech. There is nothing particularly remarkable in an African or European context about these restrictions (Johnson, 2013).

On the other hand, it certainly is the case that open advocacy of different policy positions by the ten or so legally registered parties is not a notable feature of the public scene in Rwanda. This, however, is partly because, as of early 2013, no less than eight of those parties had positions in government, several at cabinet level. There, the convention has been that issues are debated behind closed doors and decisions are reached, if they can be reached, by consensus. If consensus is not possible decisions are deferred, as they were for some years concerning the villagisation (*imidugudu*) programme, for example.

*The 'limited space' theme is in part a disingenuous response to the fact that the constitution does not permit parties with an ethnically sectarian agenda*

Rwandan political parties do not compete for power on a sophisticated programmatic basis. Like parties elsewhere in the region, they are largely vehicles by which their leaders and members access

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power. Nonetheless, it seems to us that the quality of genuine policy debate permitted by Rwanda's unusual power-sharing arrangements is remarkable.

This may seem implausible in view of the frequency of the claims about the suppression of debate. However, two things need to be borne in mind. First, the scholars and journalists who make these claims are not as careful as they should be to evaluate the Rwandan situation by comparison with what happens in other very poor sub-Saharan African countries. Standards are sometimes imported wholesale from the observer's home country in Europe or North America. Second, the Government of Rwanda and the RPF do a rather poor job on international public relations generally. On this issue, they find it hard to accept that criticisms of their political arrangements are not ill-intentioned and would probably reject the suggestion that they are obliged to explain the constitution to sceptical outsiders.

#### **5.4.2 Institutional restraints**

In the rather unusual context of Rwanda, quite effective restraints on abuses by politicians and public servants come from the government itself. This is undergirded by the power-sharing element in the constitution and, to a lesser extent, by the constitutionally mandated wider inclusivity that brings small parties that are outside both Parliament and the government into discussions about what is important for the country and what is not. Cross-party agreement on standards of behaviour that are expected of holders of public office guarantees across-the-board support for their enforcement and narrows whatever room there might be for selective punishment or for anyone who may violate the standards of whatever political party they belong to, to claim that they are being victimised.

At another level, the RPF's strict enforcement of its own internal codes of conduct<sup>14</sup> provides it with the moral authority to lead on this front. Its status as the leading party in government imposes on it the obligation to do so. Again, this may seem implausible so long as international norms centred on formally democratic arrangements are the main point of reference. It becomes more credible when it is appreciated that the way formal rules operate is highly dependent upon the underlying political settlement and the informal underpinnings it generates.

### **5.5 Issues in the governance of growth**

Rwanda, like many poor, developing countries, suffers from a serious lack of skilled people, not least because of the war and genocide, which decimated its human resources through death and flight into exile. There are significant technical capacity gaps everywhere, which acts as a brake on Rwanda's economic, social and political evolution. That said, the country has a good crop of talented young people spread out in government departments, including the Office of the President. Indeed, it is partly because of the creativity and flexibility of its young technocracy that Rwanda has made such fast-paced progress for which it has become known. Nonetheless, lack of experience and, consequently, 'learning-on-the-job' do slow things down and constitute a risk for a country that, courtesy of its leadership's proclivity for seeking to get things done fast, has earned it the moniker '[a] country in a hurry'. This combination of strengths and weaknesses positions the country to make good use of external assistance when it is offered in the right spirit.

This is perhaps the context in which to discuss some issues raised in comments on drafts of this study. A number of examples are cited where local firms have been granted privatisations or rights to run specific businesses (e.g. banks or tea factories) without the skills, expertise or financial ability to do so. As a result, it is suggested such businesses may be less productive and may pay less tax than they could, with a detrimental impact on the economy. In the tea industry, it has been suggested, some firms established in this way have maintained pressures to keep farmer prices as low as possible and have offered no support to growers to raise productivity.

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<sup>14</sup> Interviews with several high-ranking party officials and members of its disciplinary committee, and knowledge of specific events connected to enforcement of internal party discipline.

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It is certainly not possible to deny that there have been bad privatisation and licensing decisions in Rwanda. In several sectors, privatisation decisions have had to be reversed. However, this does not seem inconsistent with our general argument that in Rwanda there seems some genuine basis for treating such decisions as mistakes – the result of inadequate technical capacity or sheer incompetence. It appears unreasonable to infer from these examples that decisions of this type are patronage-led, and that rewarding key supporters with privatised assets is more important to the political leadership than growth. The evidence of the overriding political interest in raising rural productivity and growing the economy is too strong. The conclusion to be drawn, in our view, is that this is a field in which external actors should be working *with* government to improve its decision-making.

## 5.6 Prospects and risks

### 5.6.1 The M23 and FDLR issues

When fighting broke out between the Congolese rebel group M23 and the DRC government in the second half of 2012, Rwanda was accused of inspiring the rebellion and triggering the war. It was claimed that the Government of Rwanda was providing material and logistical support to M23, including facilitation of the recruitment of Kinyarwanda-speaking Congolese in Rwandan refugee camps and even Rwandan nationals, some of them forcibly and some of them children. The accusations, strenuously denied by Rwanda, led to several Western donors suspending aid to the country for several months in 2012 and, in the process, threatening to derail the gains Rwanda has made in domains such as health and education.

With Rwanda remaining under close scrutiny as accusations continued to be levelled, albeit in less strident terms, M23 went on to fight many pitched battles against DRC government forces, which were supported by the United Nations Stabilisation Force (MONUSCO).<sup>15</sup> Subsequently, under pressure from a combination of government and UN forces, and after a surprisingly brief exchange of fire, M23 abandoned the territories it occupied. The bulk of its troops headed for Uganda, with the injured reported to have been evacuated to Rwanda. For now, the threat M23 posed to peace and stability in the DRC has dissipated. However, whether or not the flight of M23 marks the permanent return of peace to the DRC will depend on their final fate,<sup>16</sup> as it depends on the fate of other Congo-based armed groups that threaten the security of the DRC's neighbours, Rwanda (FDLR – Democratic Forces for the Liberation of Rwanda) and Uganda (ADF – Allied Democratic Forces).

The international community has promised to disarm and demobilise these forces. These promises have elicited sceptical responses from the governments of Uganda and Rwanda, both of which have long called for action. If anything threatens to destabilise the DRC and the region post-M23, it is the failure of the international community to deal decisively with the FDLR and ADF in the same way it has tackled M23. Well-placed official and unofficial sources in the three countries are emphatic about the potential for war, or wars, to break out again if the UN and the big powers continue to dither over what to do about the non-M23 'negative forces'.

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<sup>15</sup> J. Rwagatare, 'US gets it wrong on Rwanda', *The New Times*, 18 Oct 2013.

<sup>16</sup> Despite recent reports from MONUSCO that M23 was still recruiting in Rwanda and that it may be regrouping, conversations in December 2013 with people who were formerly leading the group suggest it has effectively fallen apart. Some say they have been to Rwanda since the group collapsed. But, they have been there to visit their families in the refugee camps, not to recruit, and certainly not officially. None of them expected to go and live in Rwanda, partly because for them Rwanda is not their country, and also because they believe that it will cause controversy and serve only to perpetuate claims that GoR was behind the formation, funding and arming of M23.

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The collapse of M23 and its vacating of the areas they controlled potentially created space for the FDLR to roam freely and, therefore, to organise attacks on Rwanda. That MONUSCO has so far failed to attack or disarm them and the fact that (according to intelligence reports we have seen) some of their units are embedded in the FARDC,<sup>17</sup> makes that possibility real. According to our sources, some of the big powers have been putting MONUSCO under pressure to act against FDLR to avoid seeming to renege on their undertaking to tackle all negative forces.<sup>18</sup> However, Martin Kobler, the head of MONUSCO, has reportedly pleaded inability to tackle FDLR in the same decisive way as M23, not least because FDLR elements are embedded in communities where women and children would be at risk.

*Whether or not the flight of M23 marks the return of peace to DRC depends on the fate of other Congo-based armed groups that threaten Rwanda and Uganda*

On the other hand, the Rwandans have kept and continue to keep a watchful eye on the group and are well informed about their plans, deployments, etc. In addition, GoR has made it clear to the international community that attacks on its territory will elicit a military response. Sources in Rwanda have intimated that MONUSCO is aware that in the event that FDLR attacked Rwanda, the response would be of such a magnitude as to ensure no attacks happen in future. Neither the UN nor the big powers have any doubt about what that means. The implication is that FDLR is unlikely to be allowed to actively threaten Rwanda.

If this unlikely scenario were to materialise, however, and Rwanda sent troops into the DRC in hot pursuit, the same accusations about the country pursuing an expansionist agenda and looking to loot DRC wealth would resurface. The continuity of donor support to general and even sector budget programmes in the country would be among the casualties.

### **5.6.2 The road to 2017**

One of the running preoccupations about Rwanda as the year 2017 approaches is whether or not President Kagame will step down when his current and final mandate expires. A supplementary question concerns whether Rwanda will remain stable and on the same course he has helped set for it. There is no certainty about the answers, which suggests some degree of risk. However, we are not persuaded that the risk is great.

President Kagame has been emphatic about his desire, if not determination to leave office rather than cause a constitutional amendment and stay. Large numbers of Rwandans believe he will do as he says he will do. At the same time, large numbers fear to face the future without him and, consequently, would support a constitutional amendment to allow him to carry on beyond 2017. Among those who are fearful about the future are many who believe that several Western countries are bent on

*In our view nothing suggests strongly that Rwanda's short- to medium-term is under threat from internally generated factors*

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<sup>17</sup> Interviews with Rwandan, Congolese and Uganda officials and observers (since Aug 2012).

<sup>18</sup> The same sources suggest that some Western powers with individual agendas in the region are entertaining the idea of regime change agenda in Rwanda, and believe that the FDLR and other Rwandan dissidents supported by some of Rwanda's neighbours present them with a ready tool (interviews, Oct-Nov 2013).

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destabilising the country, not least because of the unconventional and generally independent-minded and non-submissive style of President Kagame's leadership. Pushed as to whether there is likely to be continuity if he goes or stays, senior RPF officials are emphatic about the party's capacity to steer the country in the same direction under a different leader. They emphasise that the RPF has changed leaders peacefully on two previous occasions and that, if they have to change again, they will follow the same time-tested procedures.<sup>19</sup> Comments such as: 'Rwanda is sitting on a powder keg' are commonplace among some observers. However, in our view nothing suggests strongly that Rwanda's short- to medium-term is under threat from internally generated factors.

## 5.7 Conclusions

The arguments offered in this section reinforce the perspective offered in the Overview section. Thanks in part to its terrible past, Rwanda does offer a different sort of environment for developmental reform efforts than its neighbours in the EAC. Its advantages are grounded in a different type of political settlement. In turn, the origins and sustainability of the political settlement owe a great deal to the fact that the dominant political party, the RPF, is a highly institutionalised – rule-governed – organisation, quite different in this respect from its equivalents in Uganda and Tanzania. The settlement seems likely to be a permanent feature, at least as long as it is not successfully subverted by unsympathetic global powers. It does not seem likely to be derailed by the issue of the presidential succession.

None of this means that policies affecting economic and social development are always wise, or that mistakes are not made. It does mean that the scope for correcting errors and improving capabilities with good technical advice is larger than in the neighbouring countries. External actors have a role to play in this, so long as they are prepared to act with the necessary modesty and care.

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<sup>19</sup> This is suggested by opinions expressed in print and via electronic media, and in-depth interviews and informal discussions with ordinary Rwandans, journalists, and officials and cadres of the Rwanda Patriotic Front, and also of other political parties.

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# 6 Implications and ways forward

In Section 1, we offered four broad propositions applicable to the EAC countries as a group. We argued that these would help to frame the subsequent discussion. Beginning with a strong dose of realism about expected patterns of political and economic behaviour within what North et al. (2009; 2013) call ‘limited access orders’, we used other recent research to draw attention to three areas of possible variation within this broad picture. The first was the presence or absence of successful pockets of ‘crony capitalism’ in particular sectors or sub-sectors where economic, political and bureaucratic interests happen to coincide. The second variable concerned the extent of politically supported capabilities to coordinate market and institutional reforms needed to extend the benefits of growth to large numbers of poor people. The third was the underlying political settlement and its ability to create conditions under which elites are prepared to act in the public interest and with a view to the long term.

We now return to those propositions and consider to what extent this framing has been confirmed or qualified by the more detailed or more recent analysis in the country sections. In the process, we capture the most significant findings across the four countries on the more specific questions set out in the Introduction. We spell out the major implications for prospects in East Africa. Having done that, we consider some possible implications for practical organisations committed to supporting development in the region, referencing current debates about how, and how not, to make programming more attentive to political economy.

## 6.1 How much crony capitalism?

We have not uncovered any reasons for doubting our opening propositions about the need to treat the four countries realistically as having ‘limited access orders’ that create difficulties for the emergence of competitive and inclusive markets and liberal-democratic governance. In brief, the limited scale of the formal or capitalist sector of the economy restricts the ability to finance politics and government from revenue. Therefore, the generation and deployment of rents necessarily plays a central role in maintaining the political settlement. Other things being equal, this skews politics towards accumulating patronage resources and business towards political cronyism.

This is the general pattern. At the same time, we have found plenty of evidence of variation within the pattern, starting with the issue of pockets of crony capitalist success.

The EPP studies cited in support of this idea were the result of a time-consuming process of identifying and studying the details of a representative set of cases. We have certainly not been able to match that; this is a suitable topic for much more extended research. We have commented on a few sectors of production or services on which we have done previous work and were able to get updated information relatively easily. These include the turnaround in Kenya’s dairy sector under Kibaki’s first presidency and the hesitant expansion of mining and export horticulture in Tanzania. However, the most interesting insights have to do with differences and changes in the *type* of cronyism shaping some of the main sub-sectors across countries.

Thus, in Kenya the form of intermingling of political and economic power has been changing, and it differs across political tendencies as well as across economic sectors. Summarising boldly, the

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dominant form of crony capitalism under Moi was economically restrictive. Under Kibaki I, and to a lesser extent under the subsequent Coalition, it was more expansive, producing a significant acceleration of growth. There seem to be grounds for expecting a resumption of the rates of growth being achieved up to 2007. Some of this will be driven by a broadening and deepening of Kikuyu-led business sectors, including an expansion of Kenyatta's own family businesses,<sup>1</sup> in response to a confidence-inducing political climate. Meanwhile, Kenyan direct investment will continue to be a significant growth factor in other countries of the region.<sup>2</sup> Some of the Kenyan growth may be investment that takes place 'under the radar' of the politicians, responding simply to the more permissive business climate in the country. However, mobile telephony does not seem to be an example of this; there crony capitalism is alive and well.

No similar evolution in the form of political-economic alliances seems to be happening in Tanzania. There, the dominant pattern remains the allocation of tax or customs duty concessions by mainly black-African politicians to mainly Asian or Arab-led firms, in exchange for which the businesses finance the politicians' campaigns. Leaders of CCM factions seem to be becoming more reliant on this type of device and not less. Their residual ideological ambivalence about getting directly engaged in capitalist enterprise continues to be reinforced by the sentiment among voters, which are influenced by the fact that rich business people are seldom real 'natives'. For the firms, including the main domestic players in agricultural trading, making a killing on trade deals remains a more exciting business prospect than investing in production. International players that have the technical capabilities to move from trade into the coordination of related production appear uninterested in the scale of such business they could do in Tanzania.

In Uganda, there is less anti-capitalist prejudice and nativist rhetoric, and probably a greater tendency for top politicians to co-invest with citizens of Asian background, even if the networks cannot be reliably described in any detail. However, apart from some honourable exceptions,<sup>3</sup> the hotbeds of crony capitalism are not on the sectors of activity that provide employment to large masses of people. They are not likely to repeat the poverty-reduction gains achieved by liberalising the coffee sector in the 1990s. President Museveni is pro-business, but his way of showing this is too *ad hoc* and personalised, as is the business community's attitude to the government.

Finally, in Rwanda linkages between politics and private enterprise are close in several ways, not only because of the place occupied by the RPF holding company. However, while this may have a cronyist appearance in some cases, we have suggested that would be a mistake to treat it as simply replicating the regional pattern. Rents, of course, play a central part in holding together the elite bargain in Rwanda, but they do this more by financing the development ambitions that are the basis of the settlement than by buying the favours of political barons or the leaders of ethno-regional blocs. This is able to happen because the RPF has an agreement with all of the other legal parties not to compete or campaign electorally on the basis of clientelism.

## 6.2 How much reform coordination capability?

Crony capitalism is worth having and certainly preferable to the large-scale scams that have been a feature of past periods, especially in Kenya and Tanzania. Its major limitation, as we just noted in regard to Uganda, is that it does not easily extend to production-and-trade sectors in which there are multiple stakeholders and major issues of market

*Crony capitalism is worth having  
and certainly preferable to large-  
scale scams*

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<sup>1</sup> V. Juma, 'Kenyatta business empire goes into expansion drive', *Business Daily*, 12 Nov 2013.

<sup>2</sup> G. Irungu, 'KCB ranked top investor in Africa over the past five years', *Business Daily*, 12 Nov 2013.

<sup>3</sup> E.g., along with the dairy and fish sectors considered by EPP, individual enterprises such as Andrew Rugasira's coffee firm (Rugasira, 2013).

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and policy coordination. These are precisely the sectors where the benefits of reform would extend to large numbers of very poor people.

On this issue, the country sections have provided further evidence that it is often going to be a mistake to expect ambitious reform coordination to come from government. The experience with both rice and cotton in Tanzania confirms that a presidential commitment to a reform is insufficient because, other things being equal, presidents do not have the political capacity to override anti-reform interests or compel implementation. This is a systemic issue that has been crucial in Kenya and Uganda, too.

As discussed below, Kenya's political settlement remains in several respects highly problematic, but prospects for broadly based economic growth look better than they have for some time. A government leadership that, to a large extent, funded its own electoral campaign and has broad-based business interests shows some promise of becoming more of a facilitator, and less an inhibitor, of private investment than many of Kenya's past regimes. The Kenyatta-Ruto alliance has also been given a measure of solidity and common purpose as a result of their common position vis-à-vis the ICC and its international supporters. It is not yet clear to what extent this unity of purpose will extend to a willingness to confront vested interests arising from past presidencies, for example in the forestry sector. We have seen that Kenyatta's willingness to tackle the long overdue reform of crop boards and agricultural parastatals is currently being severely tested.

In Tanzania, not only has coordinated sub-sector reform failed under Kikwete, but the whole policy field for agriculture also remains a sea of contradictions and uncertainties. The flagship initiatives *Kilimo Kwanza* and Big Results Now have not managed to clear away the fog. Donors have played their part in this. It seems rather unlikely that a future president will be in a position to sort this out, whether CCM goes down the road of selecting the cleverest political operator or chooses the well-trodden path of electing a relatively unknown leader – as Mwinyi and Mkapa once were – on the belief that he or she will be a safe pair of hands. The structural problem will remain. Favours will still need to be distributed to those with vested interests in current arrangements and implementation of initiatives will still be mishandled by increasingly autonomous local administrations.

In Uganda, Museveni's willingness to take sound technical advice on sector reforms is not what it used to be in the era when Emmanuel Tumusiime-Mutebile was a key friend and ally. But, as Andrew Mwenda usefully reminds us from time to time, this is not a mere personal failing. It reflects a changed incentive structure since Uganda began to embark on competitive politics around 1996. According to Mwenda: 'If earlier on Museveni had power which he used to promote a national agenda, now different mobilised demand-groups have the power to make him serve their interests'. Furthermore, 'the vast patronage system he has created will outlive its architect because it is now deeply entrenched in our society'.<sup>4</sup>

This is the constraint that is notable by its absence in Rwanda. Coordination challenges, of course, remain; completing the ambitious plans that have been adopted for transforming smallholder agriculture throw down very many big ones. But, there seems a genuine basis for considering these technical and capacity issues, not political problems masquerading as technical ones.

When all is said and done, though, reform coordination is a job for the executive branch of government. As discussed below, the problem lies in the way the political settlement and the electoral system constrains what presidents can get away with. Our discussion of political challenges has not suggested that parliaments and opposition groups, as presently constituted, have much of a role in inducing better development leadership in the executive. The most notable effect of the holding of elections is to increase the costs of political competition, intensifying the pressure on politicians at all levels to raise campaign funds and/or pay back those who have contributed funds in the past. Parliamentary oppositions are generally weak and pliable, and parties and the factions of dominant parties like CCM are primarily vehicles for individual power-seekers, not sources of alternative programmes and policies.

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<sup>4</sup> 'Why Museveni's system will endure', *The Independent*, 7-13 Feb 2014.

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Similarly, formal checks and balances, including donor-funded governance improvement and anti-corruption measures, are not effective beyond a certain point. When the chips are down, the informal power realities prevail. Whatever has been achieved by a dedicated Auditor General or ombudsman is soon forgotten. The courts are a place where high-level corruption allegations get buried. Uganda is perhaps the leading example. In contrast, in Rwanda, with the best corruption perception record in the region, the driver of anti-corruption efforts is the top political leadership not the formal controls, although these also exist.

High hopes continue to be attached to constitutional change, especially in Kenya, where weakening the ‘imperial’ presidency by creating countervailing power centres has been a widely shared goal. But, as argued in Section 2, it is unclear that there are sufficient champions for implementation of the constitution for this to be completed. Also, as argued in Section 1, there remain big doubts about whether checks and balances and devolution of powers to county governments are addressing the main issue, the main issue being the harm done by ‘winner takes all’ in a country with Kenya’s ethno-political make-up.

In Tanzania, too, weakening the power of the executive may seem like a good idea in the context of the opposition’s inroads into CCM’s political following. But, were it to come to power, the opposition would not benefit from a hamstringing of executive power. The problem in Tanzania is not that the executive is too powerful. It is, rather, that it is politically constrained.

### 6.3 What sort of political settlements?

Analysis of the outlook in Kenya, Tanzania and Uganda has confirmed that leadership, in the sense of the ability of the elite to act in a coordinated way, is a crucial missing ingredient in these countries from a development perspective. Political settlements and party structures seem to be the key to this coordination. Rwanda seems to be characterised by a political settlement – articulated in the 2003 constitution of the country – that is capable both of accommodating highly conflictual group relations and of enabling coherent policy-making. Part of the story of the Rwandan settlement is about the merits of a disciplined party organisation with roots in struggle.

Despite having a much more differentiated and advanced economy, Kenya seems to occupy the opposite extreme from this point of view, with a highly dysfunctional political settlement at best and a non-existent party system. This state of affairs appears highly dangerous in view of the various internal and ‘neighbourhood’ risks that Kenya faces. Although the 2013 election was peaceful, the underlying causes of the 2008 post-election violence have not been addressed at all, and are not being addressed by the ICC process. They have to do with land. Both Kenya and Rwanda face the risk that conflicts on their borders will spill over into domestic politics, as symbolised respectively by the Nairobi mall massacre of 2013 and the on-going M23/FDLR issues. But, Rwanda seems the better placed of the two to manage these effects. This needs to be set against our earlier argument about improving economic growth prospects.

Among the relatively enduring dominant parties in the region, neither CCM nor Museveni’s National Resistance Movement show signs of capitalising on their dominant position by turning themselves into disciplined vehicles of collective leadership.<sup>5</sup> Under CCM’s guidance, Tanzanian politics promises to become more turbulent and patronage-driven, not less. The state of NRM is not an immediate destabilising factor, the Uganda section argued, but it will eventually become one as the Museveni succession becomes a pressing issue. These profound political weaknesses in Tanzania and Uganda will make it harder for those countries to handle some of the sources of risk affecting the whole region. One such risk is about over-estimated and over-anticipated natural resource revenues, together with the availability of Chinese and other loans at commercial rates, leading to a new cycle of indebtedness, setting the clock back to pre-HIPC times. Another concerns the ability of the East

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<sup>5</sup> On NRM, see F. Golooba-Mutebi, ‘Why NRM has failed to grow up despite 28 years in power’, *The East African*, 1-7 Feb 2014.

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African integration process to withstand Tanzanian foot-dragging and its tendency to align with SADC and South Africa, not EAC member states, on regional problems such as those around DRC.<sup>6</sup>

## 6.4 How to achieve reforms against the odds

In a broad sense, the findings of this study are reassuring regarding Rwanda and encouraging about Kenya, at least in regard to economic prospects and business. They are discouraging about the prospects for significant change for the better in Tanzania and Uganda. This is not entirely surprising. Studies in political economy typically play the role of dampening enthusiasms and moderating hopes for progressive change. However, this ought not to be the only conclusion that is drawn from this political economy study of the EAC countries. The cold realism we have offered needs to be put together with some fresh thoughts about alternative ways of working with conclusions of this sort. We shall be helped with some reference to wider discussions about forms of development action and related research.

*Economic and social reforms  
are sometimes successful  
'against the odds'*

### 6.4.1 Political economy analysis and development action

Political economy analysis has often been seen as, from an action point of view, a largely negative activity, a 'dismal science of constraint' (Brian Levy). However, there is a growing discussion around several development agencies about how to use it instead as a guide to more promising ways of working. One starting point is that in some parts of the developing world, economic or social reforms are sometimes successful, so to speak, 'against the odds' (Grindle, 2002). That is, they happen in spite of firm predictions based on the best analysis of the stakeholders and interests in play. This scope for unexpected change seems to arise from the relatively high level of uncertainty which characterised complex change processes. Given uncertainty, successful reforms are typically ones where specific problems have been addressed in a highly adaptive, learning-oriented way (Andrews et al., 2012; Andrews, 2013).

According to some of this experience, the key is to empower local reformers to act less as instruments of ambitious donor-supported plans and more as self-directed 'development entrepreneurs'. Under the right conditions, teams of reform entrepreneurs can facilitate unlikely alliances and exploit uncertainties, time horizons and mixed motives to achieve reforms that have proven completely intractable by other means. Their activities take place, to some extent, under the radar of formal politics and policy-making and involve building alliances of support for specific changes in non-obvious, non-ideological and second-best ways. The actors that are motivated to engage in such informal reform efforts may benefit indirectly from external funding, but only if it can be delivered at arm's length, yet sympathetically, by a suitable intermediary organisation. The best current examples appear to be from the Philippines (Faustino and Fabella, 2011; Booth, 2014).

So far, most of the documented experience on this topic comes from middle-income countries in Latin America or Asia. However, the reform blockages addressed are not fundamentally dissimilar to those described in this study. The setbacks encountered in pursuing a 'frontal' approach to sectoral economic reforms as practised by the World Bank and donors in Philippines are strongly reminiscent of stalled reforms we have witnessed in Africa. The main features of the alternative approach appear replicable.

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<sup>6</sup> D.K. Kalinaki, 'Members pull apart: Is this the beginning of the end of EAC?' *The East African*, 2-8 Nov 2013; F. Golooba-Mutebi, 'With the Kigali defence pact, the CoW now has sharp horns', *The East African*, 9-15 Nov 2013.

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#### 6.4.2 African applications

In fact, it may be that if ‘development entrepreneurship’ has been less apparent or less successful in Africa it is not that the potential is not there, but that the reform agenda has tended to be dominated by the mainstream thinking of donors and concessional lenders. Where reforms are linked to donor-government agreements, large financial disbursements and associated conditionalities or joint monitoring, there may be little room for the sort of flexible reform facilitation that has proven its worth elsewhere. Indigenous networkers operating behind the scenes to achieve second-best but worthwhile reform outcomes do not fit easily in the business cases of official aid agencies.

There are, anyway, at least partial exceptions to the hegemony of direct donor engagement on the African scene, as discussed by Booth (2013) – examples include TradeMark East Africa, the Tony Blair African Governance Initiative and the ODI-based Budget Strengthening Initiative. Even within the field of donor projects, there is some room for implementing organisations to take upon themselves the qualities of intermediaries between donors and informal reform entrepreneurs. Booth and Golooba-Mutebi (2009) proposed setting up the CrossRoads project support to the Uganda national roads reform on a basis that would permit flexible facilitation of realignments among public and private sector stakeholders. The results remain to be assessed. The agricultural input supply reforms in Nigeria seem to have been facilitated by a DFID project that worked in this kind of way (DFID, 2011). The SAVI project management team, also supported by DFID-Nigeria, appears to be an emerging example of this kind of practice among civil-society organisations at a State level (Derbyshire and Mwamba, 2013). Several other examples of ‘politically smart, locally led development’ have recently begun to be documented (Unsworth, 2014).

These ideas seem to merit further consideration in the context of change possibilities in East Africa. They provide less than a model that can be emulated, but more than an irrelevant conjecture. The suggestion would be that some of the political economy constraints identified in this section might be less intractable than they appear to be if the right way of working for reform could be found. That would be an approach that is less restricted by formal agreements and predefined relations with government, and more capable of building alliances flexibly, including within government. Fuller, more regular and more informal interaction with key stakeholders by the right kind of self-motivated, pro-reform actors would be the key.

To take the example of the stakeholder interests that have effectively blocked promising reforms in crop sectors in Tanzania, our argument says that it is highly unlikely that these problems will be avoided if the approach of the external agency relies heavily on a formal partnership with government. Some degree of partnership with government is essential, of course. However, successful reforms in Latin America, the Philippines and Nigeria have not relied on a single-stranded relationship or on formal agreements. The reform entrepreneurs have taken the liberty of establishing relationships behind the scenes with all of the stakeholders possessing the ability to block the desired changes. Deals have been done and some unlikely alliances struck to build up the forces favouring change, but with large, and in some cases massive, benefits in exchange for small compromises.

*Fuller, more regular and more informal interaction with key stakeholders would be the key*

#### 6.4.3 Next steps

It would be inadvisable to get further into detail about how the ‘indigenous reformer’ model might be applied by practical development organisations in East Africa. However, two things seem clear enough. First, political economy obstacles to reform in East Africa, with the exception of Rwanda, are too substantial to give way to an approach that is limited to supporting government to do the right thing. Second, even obstacles that appear massive can be overcome if the right kind of local actors are supported to get their hands and feet dirty, so to speak, and move around the sector seeing what changes can be brokered.

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To be sure, sector stakeholders may have interests that are inimical to inclusive forms of development. But, as advocates of the approach known as Making Markets Work for the Poor have known for a long time, it can be possible for them to pursue those interests in other ways than they presently do. For example, the margins that can be made on a monopolistic concession to distribute a particular agricultural input may appear highly attractive until the option becomes practically available to distribute the same goods on a much larger scale in a competitive market. Stakeholders can and do redefine their interests, or find new ways of pursuing the same interests. They can be helped to do so.

Exploring the scope for interventions of this sort may well involve carrying out more detailed political economy investigations than we have undertaken, going down to sectoral and sub-sectoral levels. However, it is important that any such enquiries ask the right questions. The questions should include not just what range of stakeholders would need to be brought around in order for desirable changes to occur, but what mode of operation – by whom and with what support – might have a chance of brokering the right agreements and building a sufficient level of trust. Some of the questions about how to achieve reform ‘against the odds’ will not be answerable on the basis of a study, however detailed. Answers will need to be discovered by reformist activists trying out different lines of approach on the job.

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**Overseas Development Institute**  
203 Blackfriars Road  
London SE1 8NJ

Tel +44 (0)20 7922 0300  
Fax +44 (0)20 7922 0399

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