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A Post-Aid
EU-Kenya Partnership?

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›› The importance of foreign aid relative to Kenya's domestic resource mobilisation is diminishing. While this trend weakens EU influence on reform, it advances the possibility of moving EU-Kenya cooperation from aid towards a more strategic partnership. Talk of 'post-aid' relationships is fashionable. Kenya is not there yet, though recent European debates on 'differentiating' categories of aid recipients should have paid more attention to Kenya's internal transformations.

Following the 2008 post-election violence, the EU and other donors increased development assistance to Kenya. However, rapid economic growth and investment by non-traditional donors is now reducing the share and leverage of EU aid. In addition to this growing economic power Kenya's importance on the global stage is also increasing as a military ally of the United States. It is likely that in the future Kenya's relationship with Europe will increasingly mirror those of the more dynamic Middle Income Countries (MICs). Given this context, the EU needs to overhaul its policies towards Kenya in order to influence future reform. This should include targeting aid to areas in which the EU holds a comparative advantage, such as better support to Civil Society Organisations (CSOs).

HIGHLIGHTS

- Kenya's upward economic trend diminishes the EU's influence on reform.
- The EU needs to overhaul its policies to influence future reform.
- The EU's comparative advantage in civil society support can promote the transition to 'post-aid'.

KENYA'S INCIPIENT SHIFT

Western-supported reforms continue to produce mixed results. Implementation of Kenya's reformist constitution – promulgated in August 2010 – has been protracted. Meanwhile, the EU-backed International Criminal Court (ICC) indictment of senior Kenyan

›››››› figures for allegedly orchestrating post-election violence in 2008 continues to complicate political reconciliation. Donors sponsor political conferences and hire consultants to advise on parliamentary bills, in an effort to retain influence in the lead up to Kenya's defining election in 2012. At best they are purchasing only superficial influence over the deep changes now taking place.

Questions are being raised as to whether EU aid to Kenya is becoming surplus to requirement. Its political rationale is increasingly out of date and it no longer provides much incentive for reform. This is primarily because the country's economic transformation is reducing its reliance on international aid. In Nigeria, South Africa and other MICs, EU development policy is evolving towards a 'differentiation' of strategic objectives away from core poverty reduction goals. As Kenya develops characteristics of a pivotal regional economy, rather than an aid-dependent country, a 'differentiation' approach from the EU would be more appropriate.

One measure of donors' declining influence is the shrinking share of aid relative to Kenya's national output. From its dizzying climb from 11.5 per cent in 1990 to 20 per cent in 1993, foreign aid shrunk to a 3-4 per cent average in the 2000's. The Nairobi-based Institute of Economic Affairs notes that for 2012 external grants are expected to comprise only 4 per cent of the budget. It also observes that external loans are estimated to be 13 per cent of revenue; this shows an increase in the loan component of overall external aid, especially from non-Western sources.

Kenya faces the long-term challenge of diversifying its economy. In mid-2011, the worst drought to hit East Africa in 70 years exposed vulnerabilities in its rain-fed agriculture. This caused a food crisis, which was exacerbated by distribution failure in parts of the country. Yet, a recent economic upswing is being fuelled by an emerging telecommunications boom, an expanding construction industry and tourism, as well as a broad recovery in agricultural earnings. Bullish investor sentiment is reinforced by sanguine international assessments. The latest World Bank *Global Economic Report* projects growth of around 5.3-6 per cent for 2011. Kenya's so-called 'triple technology transformation' (mobile phones, mobile money and internet access) has seen the Information and Communications Technology sector expand by 23 per cent annually in the last decade. The country's pioneering role in innovative internet and mobile telephone applications across finance, crowd-sourcing and e-governance is widely acknowledged. Kenyan Airways alone has seen air routes expand to 42 non-domestic African destinations from just 16 in 2000.

The Kenyan government's ability to mobilise increasing amounts of domestic resources is accelerating aid's declining influence. It is also highlighting the changing role of development assistance and international donors. Infighting within the current coalition government has limited its ability to pursue anti-reform agendas. This gives European donors a limited window of opportunity from which to try and put in place more constructive policies before their influence declines more radically.

KICKED OUT OF THE BOARDROOM

Kenya's rulers seem increasingly aware of their room for manoeuvre against reforms that threaten their established privileges. In addition to Kenya's burgeoning economic strength, two additional factors explain the EU's marginalisation in Kenya; firstly, the ineffectiveness of EU policy, and, secondly, Washington's military interest. Even without the economic trends outlined above, these factors alone would compound the decline in European influence.

The EU has suffered from a 'diminishing impact' in the last decade. Criticisms include a shift by EU officials to 'ineffective bell and whistle protests' because of their inability to temper elite excesses. Critics point to the EU's sterile rhetoric after six prominent Kenyans were indicted by the ICC in December 2010. The indicted figures, including Kenya's finance minister and the deputy prime minister (collectively known as the Ocampo Six) have been manoeuvring to thwart the ICC.

The EU's collective visibility has also diminished and is subject to the dynamism of individual diplomats and their ability to connect with people on the ground. The effective partnership in the 1990s between outspoken American and German ambassadors, Smith Hempstone and Bernd Mutzelburg, which boosted Western diplomatic presence, has not been replicated. Critics of the EU's underperformance express hope that the new European External Action Service (EAS) will improve institutional visibility and coordination. There is already some marked improvement from the rotating presidency system which saw France's 'hyper-active' presidency during the 2008 violence succeeded by a less experienced Czech one in early 2009. However, the slow pace of EAS consolidation remains a constraint.

Rapid economic growth and investment by non-traditional donors is reducing the share and leverage of EU aid

Kenya's military significance for the United States has cemented Nairobi's place as a Washington ally in the region. This signals the need for the EU to move towards a more strategically-oriented dialogue and partnership with East Africa's powerhouse before U.S. military engagement reduces Kenya's incentive to strengthen the partnership. Kenya's rising geopolitical importance also explains its growing assertiveness towards European partners. Closely linked, the country's financial independence is also bolstered by new, non-Western sources of development finance. A number of emerging economies – China, India and the United Arab Emirates – are helping diversify its financial, trade and development portfolios. This is loosening the political and economic leverage traditionally exerted by EU donors.

China's policy of decoupling development assistance from politics enables African governments to deflect or defer demands for domestic reforms. Chinese and Kenyan officials frequently announce major infrastructural grants and trade agreements during high-level visits. From 2005 to 2009, Chinese export to Kenya grew by 224 per cent. In early 2010, China pledged to help construct Kenya's second port, the most strategic infrastructure investment in years. Pledging to help boost intra-regional trade on a massive scale, China has similarly invested in railways, roads and other projects to consolidate Kenya's position as the regional hub. By 2005, China's share of total development assistance to Kenya reached 8.25 per cent. In addition, Kenyan export to the United Arab Emirates rose by 347 per cent between 2005 and 2009.

The cumulative effects of unclear development effectiveness, fading visibility and Kenya's growing strategic importance have highlighted gaps between the EU's rhetoric, influence and actual accomplishments.

REFORM BLOCKS

The rise of emerging donors, ongoing economic improvements, the food crisis and other changes within Kenya present European decision-makers with conflicting prospects for future assistance. There is uncertainty about aid's rationale. Should aid seek to be a precision tool focused on supporting reform, a way to generate global common goods or a means to promote European self-interests? Sweden's recent announcement of an increase in its 2011 aid highlights some of these tensions. The Swedish development minister unveiled a 7 per cent increase in assistance for human rights and democracy promotion but noted serious obstruction 'at a high political level among forces opposed to reforms'.

It seems likely that such tensions will grow, fuelled by the discord between changes in Kenya and new trends in European development financing. Current European practice aims to promote reform

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through increasing aid allocation, therefore reducing the growing imbalance between development funding and Kenyan GNP. In the changing international context, however, Kenya illustrates the tensions between the political and economic aspects of aid. There are undoubtedly limits to the conditionality and goals that traditional donors can tie to development assistance.

In Kenya, the record of aid in strengthening governance and reform is mixed. The Multiple Donors Basket Fund (MDBF) mechanism, to which several European donors contributed in support of the Governance, Justice, Law and Order Sector (GJLOS) reform, highlights some of these challenges. The €40 million GJLOS programme was well designed but revealed the limits of donor coordination and adaptation. Greater fiscal independence also allowed domestic actors to resist change. Western stakeholders were hampered by implementation constraints as various government agencies showed little commitment to meet reform targets.

Bureaucrats often equated reform to modernisation of a superficial type. No time was wasted in dispensing chunks of the initial €20 million disbursement on upgrades of furnishings and cars, financing workshops and trips abroad. In some respects reform priorities produced perverse effects, such as the MDBF propping up the conservative, anti-reform establishment at the heart of public administration. Some contributors including the UK and Canada became sceptical early on, withdrawing support in 2006. Other donors later followed *en masse*, demanding the return of unused funds in mid-2009. This highlighted a key weakness in the use of the MDBF to promote governance reforms especially given the lack of consensus among contributing donors on performance assessment criteria. Unilateral decisions on what constitutes a breach – as in the UK and Canada's case – limit the MDBF as a political pressure tool. Instances of national actors not owning or effectively implementing the GJLOS reform programme are very common in highly aid dependent countries. In Kenya it was made worse by the country's increasing financial independence, as economic growth combined with the lack of EU coordination and Kenyan elite corruption to hinder the programme.

As donors support the government to the detriment of CSOs, concerns about high-level official mismanagement of funds prevail. Incentives to stimulate reforms are delivering decreasing returns because of government diversion of funds from jointly identified priorities. The UK government suspended aid to Kenya's education sector in 2011 based on allegations of embezzlement of more than $47.6 million by officials between 2005 and 2009. The rhetoric is of government-driven reform, but local officials expected to take ownership of the process often proved less than enthusiastic. The management of the GJLOS programme – under overall coordination of the Kenyan Ministry of Justice, National Cohesion and Constitutional Affairs – is said to have channelled support towards the government.

WORKING WITH THE GRAIN

Kenya's context is changing fast but donors' forms of engagement have been slow to evolve. The question is not whether the EU should reduce aid, as both changes in the economic situation and the emergence of new development donors have already undercut EU leverage. Instead, the EU needs to re-examine how it can deliver aid in order to support reform. Poorly thought through imitations of China's commercially minded strategy in Africa will only perpetuate the unhealthy status quo. Proposals for the EU to revive large scale infrastructure funding hold little promise. Emerging donors possess distinct advantages in this area, including more readily available finances. Moreover, Kenya's growing economic strength casts doubt on the viability of using such support to improve political leverage.

Instead, support to CSOs remains one of the EU's comparative advantages. It could also contribute to the creation of the conditions necessary for a post-aid EU-Kenya partnership. Participants at a recent FRIDE roundtable in Nairobi argued that Kenyans regard EU support to governance reform and CSO activities as vital. One participant compared it to "medicine" that helps the country digest other foreign aid.

Yet the rise of Budget support in recent years as the main EU funding mechanism in Kenya dilutes the EU's comparative advantage in this area. Moreover, from 2012 additional administrative costs associated with devolved government in Kenya may provide justification for the EU to expand the use of this type of funding. This will heighten concerns that budget support is skewing the internal political balance towards government and preventing donor funds from supporting alternative voices. Critics also raise concerns that the Non-State Actors Facility – the mechanism by which the EU funds CSOs – is channelled through the Ministry of Justice. CSOs generally complain they are excluded from access to EU funds by the onerous funding conditions.

The immediate challenge is to lay the foundations for more strategic EU-Kenya engagement on shared interests beyond aid, including bolstering Kenya's role as a driving force in regional economic integration within the emerging East Africa Community. In practice this will mean more explicit linkages between reform, internal stability and its role as a regional hub. Increased support to CSOs should be accompanied by stronger backing for a wider array of local stakeholders. This includes independent commissions, ministries, parliamentary committees and individual decision-makers who require calibrated international support to win domestic policy debates.

Recent high-level policy discussions, such as on 'blending' greater amounts of European loans with grant aid, will secure marginal leverage in Kenya. More flexible forms of engagement in which EU actors sometimes take a back seat may offer greater promise. A recent illustration is Kenya's triangular cooperation with Japan. Kenya is playing the lead role in implementing a number of technology and research institutions intended to be regional centres of excellence. Such initiatives also have the potential to help in the realisation of ideas of 'ownership' and 'high impact' development that the EU Development Commissioner has been advocating in recent years.

CONCLUSION

The EU's priority must be to re-calibrate its aid policies in Kenya in order to support a healthier internal political balance whilst taking account of economic changes. In the long term the leverage generated by EU aid will become marginal and EU-Kenya relations must graduate to a more values-based dialogue. As Kenya consolidates economically, embedding political reform will require EU contributions beyond aid to the state. This should include civil society support. The EU could also tap into popular reform yearnings by developing partnerships with actors other than the state. This would allow European donors to be party to future institutional and political transformations. The EU's next steps in emerging countries like Kenya can contribute to the global development effectiveness agenda by, for example, promoting the participation of emerging economies in Southern-led triangular cooperation initiatives. The influence and effectiveness of future European policies in Kenya will be directly proportional to its success in moving away from 'aid as usual' to strategically-oriented goals and shared objectives.

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