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IMPACT OF GOVERNMENT REGIME CHANGE ON FOREIGN AID INFLOWS TO KENYA OVER THE PERIOD 1980-2014

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Abstract

Purpose: The purpose of this study was to determine whether a change in government regime over the period 1980 to 2014 had any impact on foreign aid inflows to Kenya. **Methodology:** The study was qualitative in nature and used a research design that is descriptive in nature. The research reviewed recent literature on the determinants of foreign aid allocation to Kenya both bilateral and multilateral aid. Secondary data was collected from World Bank development indicators, surveys conducted by the Kenya government, strategic plans, financial and narrative reports, publications, policy documents and other relevant documents. The target population of the study included the ministry of foreign affairs with the aim of understanding the foreign policy of the various government regimes as well as the ministry of finance. International non-governmental organizations also formed part of the target group to enable us understand the criteria used for their disbursement of foreign aid to Kenya.

Results: Based on the findings the study concluded that change in government regimes influenced the foreign aid inflows to Kenya.

Unique contribution to theory, practice and policy: Based on the findings the study recommended that governments must be willing to exit from power once their term is over.

Keywords: *Government Regime, Change, Foreign Aid Inflows to Kenya*

1.0 INTRODUCTION

1.1 Background of the Study

Foreign aid is a post-World War II phenomenon that came about when western states had the notion that poor countries were in a low-income equilibrium trap and needed to supplement their low-income savings with foreign savings in the form of official development assistance (ODA) and foreign direct investments (FDI). All this was done to promote capital formation and increase economic growth. Aid also had other objectives which included poverty alleviation, bridging the gender gap and promoting good governance.

In 1970, developed countries agreed to contribute 0.7 percent of their gross national income (GNI) as official development aid annually. Billions have been given each year, but the targets promised are yet to be reached[1]. Foreign aid as mentioned in the United Nations Resolution was to be untied and any financial and technical assistance given was to be directed mainly for economic and social progress of the developing countries and not to be used by the donor nations as a way to undermine the national sovereignty of the receiving nations.

Foreign aid for years has been criticized. This is due to the failure of aid to meet the expectations of driving economic growth and alleviating poverty. There are perceptions that have to be considered with regards to foreign aid. According to Burnside and Dollar aid can only lead to increased economic growth in a good policy environment.[2] Lancaster argues that where the political and economic environment are right, aid supports both economic and social progress, but where it is not, it will have a negative effect and will be wasted at best. At worst it will regress development. In this case then foreign aid is like a double edged sword[3].

There was also the perception that aid given on conditionality terms would lead to faster economic growth. This was done through the International Monetary Fund and World Bank Structural Adjustment Programmes. This also failed as governments failed to meet their end of the deal, Governments promised reforms, but failed to implement these reforms.[4] Gunning believes that foreign aid should be given ex ante conditionality. His view is that conditionality works against ownership reforms, discourages policy making capabilities and makes governments unaccountable. Through selectivity donors are able to enhance and meet development goals rather than achieve political objectives.[5]

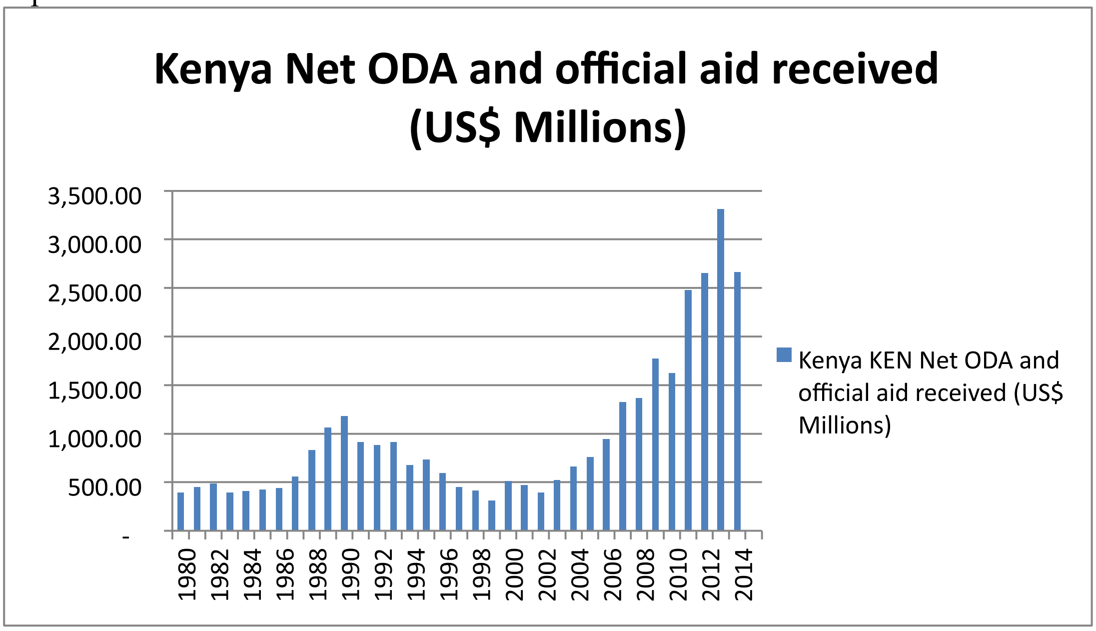
Hirvonen criticized foreign aid as being designed to serve the economic interests of donor countries or to benefit powerful domestic groups. In his view aid is based on donor interests instead of the interests and needs of the recipient countries. That aid is not disbursed to the countries that desperately need it and that aid is often wasted on overpriced goods and services from donor countries.[6] In 2008, the Accra Action Agenda was set forth and it proposed for developing countries to take ownership of their development strategies by designing their development policies and taking leadership in coordinating aid received. An all-inclusive partnership was also proposed where not only development assistance committee countries were considered, but new donors and foundations and civil societies that will participate fully in impacting development[7].

Foreign aid to Kenya has either been bilateral in nature which is assistance directly from one country to another or multilateral where resources are pooled together from many

donors. Bilateral aid to Kenya has been at 78 percent and multilateral aid increased in the 1980s and
90s due to World Bank and International Monetary Fund structural adjustment programmes.[8] The below figure A1 shows the amount of official development assistance and official foreign aid that Kenya received in the period 1980 to 2014.

The period 1980-1989 saw a steady increase in foreign aid allocation to Kenya due to the need to cushion the economy from the effects of the structural adjustment programmes and the need to ensure the continuity of the reforms that the government was undertaking. From the year 1990 there was a dip in foreign aid disbursements due to the governments strained relationship with development partners after aid was received but not used for the purposes it was allocated for. An increase is noted from 2001 and this is mostly due to the change in regime from President Daniel Arap Moi to Mwai Kibaki.

Kenya has also experienced major standoffs with international financial institutions especially the World Bank and the International monetary fund during the period of structural adjustment programs and enhanced structural adjustment facility that led to aid freezes. In July 1982, the World Bank withheld disbursement of the second tranche of 50 million US dollars on the basis of laxity on policy reforms and funding only resumed in 1984 after new agreements were drawn up. The fiscal year 1989/90 saw aid inflows exceed the total of all other foreign exchange receipts and Kenya at the time was ranked the eighth largest aid recipient in the world with aid amounting to over 11.5 percent of the gross domestic product[9]



Source: Based on World Bank Development Indicators July 2016

Figure 1: Net ODA and official aid received in Kenya. (1980-2014)

1.2 Problem Statement

Foreign aid has played a major in the economic growth and development of developing countries making it an issue of intense debate. Developing countries have been the biggest recipients of foreign aid since its role is to alleviate poverty. Numerous studies have been conducted on the role of foreign aid on economic development with a focus on its impact on government expenditure, domestic savings and domestic resource mobilization most importantly taxation. These studies have had mixed results on what role foreign aid plays. Studies have also been conducted on the effectiveness of foreign aid to economic development and foreign aid has been shown to be successful in some areas and lacking in others especially in African countries. There has also been a lot of focus on aid dependency and the heavy debt burden that African countries have due to soft loans given to them either from bilateral or multilateral agreements. Sub Saharan countries have high levels of indebtedness, unemployment, poverty and poor economic performance yet they are the largest recipients of foreign aid inflows. [9]

Research on foreign aid in relation to Kenya has revolved largely on its impact on economic growth and development. Studies have also touched on issues of aid unpredictability and the impact that foreign aid has no investments as well as the macroeconomic effects of foreign aid. All these studies have failed to take into account the factors that determine foreign aid inflows into Kenya. This study therefore aims to fill this gap by conducting research that will determine the factors both internal and external that influenced foreign aid inflows into Kenya during the period 1980-2015.

1.3 Research Objective

To determine whether a change in government regime over the period 1980 to 2014 had any impact on foreign aid inflows to Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

Foreign aid inflows can be explained as being affected by two issues the recipient country needs and donor interests. A recipient needs model is derived from assumptions of the moral obligation to help those in need. Arguments are that recipient countries determine the amount of aid inflows they receive over time. On the other hand, the donor interest model is based on the assumption that foreign aid inflows are given depending on the strategic and economic interests of the donor countries.

A recipient needs model therefore fits in the idealist theory of international relations where the basis of giving foreign aid is solely from the motivation of the state actors and individuals. Idealists believe that states are interdependent and they need to cooperate on the international arena. They believe that states have a right to practice political independence, but have a mutual obligation to one another and states must fulfill these obligations. Idealists are not content with the world as is and are constantly trying to change it to what the world should be.

In using this theory there is the assumption that foreign assistance is given on the basis of economic, social and political needs of the receiving country. It assumes that foreign aid inflows are on the basis of humanitarian concern for the recipient country. Recipient needs could entail poverty levels, mortality rate and population, human and political development among others. By focusing on giving aid on the basis of the needs of the receiving country it therefore means that countries lacking in areas supported by foreign assistance would receive more aid than countries that are better off in those areas. Idealists therefore believe that foreign aid inflows are based on the willingness of the donor country to play its role in the international arena by supporting a country even though it has a bad political system and the donor will use conditional aid to bring reforms or will give aid where the recipient has shown to be making strides at being democratic and is upholding human rights.

The realist theory of international relations can be used to explain the donor interests on determining foreign aid inflows to developing countries. The classical realist view is that foreign aid is given by developing nations in order to advance their own political and military positions. In this theory the main actors in international relations are the state who are concerned with their own security and always act in pursuing their own national interest and struggle for power.

The realist theory views human beings as being inherently egotistical and self-centered to the extent that their self-interest overrides their moral principles. Realists view the international arena as a self-help system where a state is responsible for its own survival and is free to decide how to become more powerful and define its interests. With regard to foreign aid therefore, the donor takes into consideration the economic environment and potential of the recipient‟s country as well as the disparity in the economy of the donor and recipient to show who is more powerful. For instance, donors tend to give more aid to countries that vote with them at the United Nations sessions.[10][11]Realists also believe that morality does not exist in international politics and if morality exists then it is to justify state action.

Realists with regards to foreign aid will give foreign aid to states that are able to enable them actively pursue their national interests and ensure that there is security in the international community. This study by using both the idealist and realist theories of international relations will aim at displaying how these theories are interlinked to the foreign aid inflows to Kenya based on the principles of the two theories with dealings in the international platform.

2.2 Empirical Review

Foreign aid oriented to poorer and typically more autocratic countries, has increased considerably during the last decades and is expected to further increase in the future[10]. At the same time, numerous reports, case studies and anecdotal evidence have pinpointed that incumbent regime in aid-recipient countries have misused aid flows to remain in power ("status quo" effect). For instance, in Uganda high levels of foreign aid have provided the government with public resources to sustain the patronage basis of the regime and consolidate its political and popular legitimacy since independence[11]. President Moi in Kenya attempted systematically to use aid-provided resources as patronage to members of his regime‟s ruling coalition[12].

Public choice has long demonstrated how governments have fewer incentives to maximize profits and more incentives to allocate resources politically through patronage[12]. Patronage networks interpreted as buying political support are built when state elites, interest groups, families, ethnicities or races dispense government-control economic resources, such as jobs, credit, licenses, contract, and social services to select groups and persons whose support they wish to secure. Thus, while governments may care about investing aid into broader economic programs, they are most likely to be concerned with the use of funds to ensure the survival of their own regime[13].

Kleptocratic rulers can remain in power while systematically stealing large portions of the national economic product; foreign aid, as a form of unearned, non-taxable income, can be easily misused in a similar way. The greater the role of foreign aid in such an environment, the longer the incumbent regime is likely to survive. The undesirable results of aid misuse often include, apart from the sustainability of autocratic regimes, reduced accountability of the governing elite and underperformance in policy, since the elite is poorly motivated to improve the welfare of social groups besides itself [13].

A study conducted by McGillivray[14]demonstrates how aid to African countries not only increases growth but also reduces poverty. Furthermore, the author points out the important fact that continuously growing poverty, mainly in sub-Saharan African countries, compromises the MDGs (Millennium Development Goals) main target of dropping the percentage of people living in extreme poverty to half the 1990 level by 2015. His research econometrically analyzes empirical, time series data for 1968-1999. The paper concludes that the policy regimes of each country, such as inflation and trade openness, influence the amounts of aid received.

Ouattara[15] analyzes the effects of aid flows on key fiscal aggregates in Senegal. This paper utilizes data over the period of 1970 – 2000 and primarily focuses on the interaction between aid and debt. The author determined three main outcomes of his study. First, that a large portion of aid flows, approximately 41%, are used to finance Senegal‟s debt and 20% of the government‟s resources are devoted to debt servicing. Second, that the impact of aid flows on domestic expenditures is statistically insignificant, and third that debt servicing has a significant negative effect on domestic expenditure. As a result, his paper suggests that debt reduction could become a more successful policy tool than obtaining additional loans.

In current prices, aid to Kenya has increased steadily since the 1960s, with bilateral donors being the key sources of funding (mainly project aid and technical assistance) in the 1960s and 1970s. The UK was the major source of foreign aid to Kenya until the 1980s, when Germany, the Netherlands, Sweden, Denmark, Japan and China significantly increased their contribution[16].

Multilateral sources have increased in importance with a shift of emphasis from project aid to programme aid. The major donors now include the World Bank, the International Monetary Fund (IMF), European Economic Community (EEC), Organisation of Economic Cooperation and Development (OECD), Development Assistance Committee (DAC), among other multilateral sources. The government's attempts to finance fiscal deficit relies heavily on the budgetary support programme and other loan facilities offered by multilateral agencies[16]

Foreign aid was fundamental during the post-independence period when the British government provided funds for land settlement schemes (to finance transfer of land from minority white farmers to majority indigenous blacks) and for major recovery from the preindependence recession. The first decade of independence experienced a remarkable economic growth rate, of about 6.5% annually, attributed to both high flows of foreign investment and technical assistance[17].

Ojiambo[18]study drew from the Samuelson model and used time series data for the period 1966-2010. The study found that foreign aid had a positive effect on Kenya's economic

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growth and public investment. The lagged effects of foreign debt positively affected economic growth and public investment after one year and negatively thereafter. The empirical findings show that private investment positively affected economic growth and public investment. It was found that there was a complementary relationship between private investment and public investment. Kenya's macroeconomic policy environment was found to be unstable over the study period thus negatively affected economic growth and public investment. This was despite the macroeconomic policy reforms that the Government of Kenya had undertaken and the push for such reforms by the development partners. Foreign aid flows to Kenya were found to be unpredictable and negatively affecting economic growth and public investment despite Kenya and her development partners having committed to work towards predictable foreign aid.

3.0 RESEARCH METHODOLOGY

The study is qualitative in nature and will use a research design that is descriptive in nature. The target population of the study will include the ministry of foreign affairs with the aim of understanding the foreign policy of the various government regimes as well as the ministry of finance. International non-governmental organizations will also form part of the target group to enable us understand the criteria used for their disbursement of foreign aid to Kenya. The state of population under study will be identified and random sampling will be used to represent the issue under study. Secondary data will be collected from World Bank development indicators, surveys conducted by the Kenya government, strategic plans, financial and narrative reports, publications, policy documents and other relevant documents will also be reviewed. The researcher will use analysis of variance (ANOVA) to provide in depth information on the study. Quick references to information will be made especially for non-experts.

4.0 RESULTS AND DISCUSSIONS

4.1 Hypothesis Test

Statistical Test for Hypothesis one: H_1=Regimes did not influence the Foreign Aid Inflows to Kenya.

To test this hypothesis, an Analysis of Variance was conducted. The output for the Analysis of Variance included means, standard deviation, minimum and maximum values of ODA for each regime. The mean flow of foreign aid in the Moi regime was 604,367,826 US$, 1,411,636,000 and 2, 988,370,000 for Kibaki and Uhuru respectively. The Kibaki regime had the highest variation in foreign aid flow as shown by a standard deviation of 735, 407,666, followed by the Uhuru regime with a standard deviation of 457,144,534. The Moi regime had the least deviation of foreign aid inflows with a standard deviation of 245,540,453.

Table 1: Analysis of Variance

Regime	Number of Years	Mean	Std. Deviation	Minimum	Maximum
Moi Regime	23	604,367,826	245,540,453	310,470,000	1,181,290,000
Kibaki Regime	10	1,411,636,000	735,407,666	523,000,000	2,653,030,000

Uhuru Regime	2	2,988,370,000	457,144,534	2,665,120,000	3,311,620,000
Total	35	971,244,571	758,783,589	310,470,000	3,311,620,000

The Analysis of Variance indicates that the hypothesis **"**Regimes did not influence the Foreign Aid Inflows to Kenya." should be rejected since the reported probability value (0.000) was less than the critical p-value of 0.05. The rejection of the Null hypothesis implies that regimes have a significant influence on foreign aid inflows in Kenya. Regimes, therefore, influenced the amount of foreign aid that Kenya received. The results were also supported by an F-statistic of 32.918.

Table 2: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.31728E+19	2	6.5864E+18	32.918	0.000
Within Groups	6.40278E+18	32	2.00087E+17		
Total	1.95756E+19	34			

Post Hoc Analysis was conducted to bring clarity of intra-regime differences in relating to foreign aid. Results indicate that foreign aid inflows in Moi regime were 807,268,173.913 lower than inflows in Kibaki regime. The difference in foreign aid inflows in the two regimes was significant as shown by a P-value of 0.000. Results also indicate that foreign aid inflows in Moi regime were 2,384,002,173.913 lower than inflows in Uhuru Regime. The difference in foreign aid inflows in the two regimes was significant as shown by a P-value of 0.000.

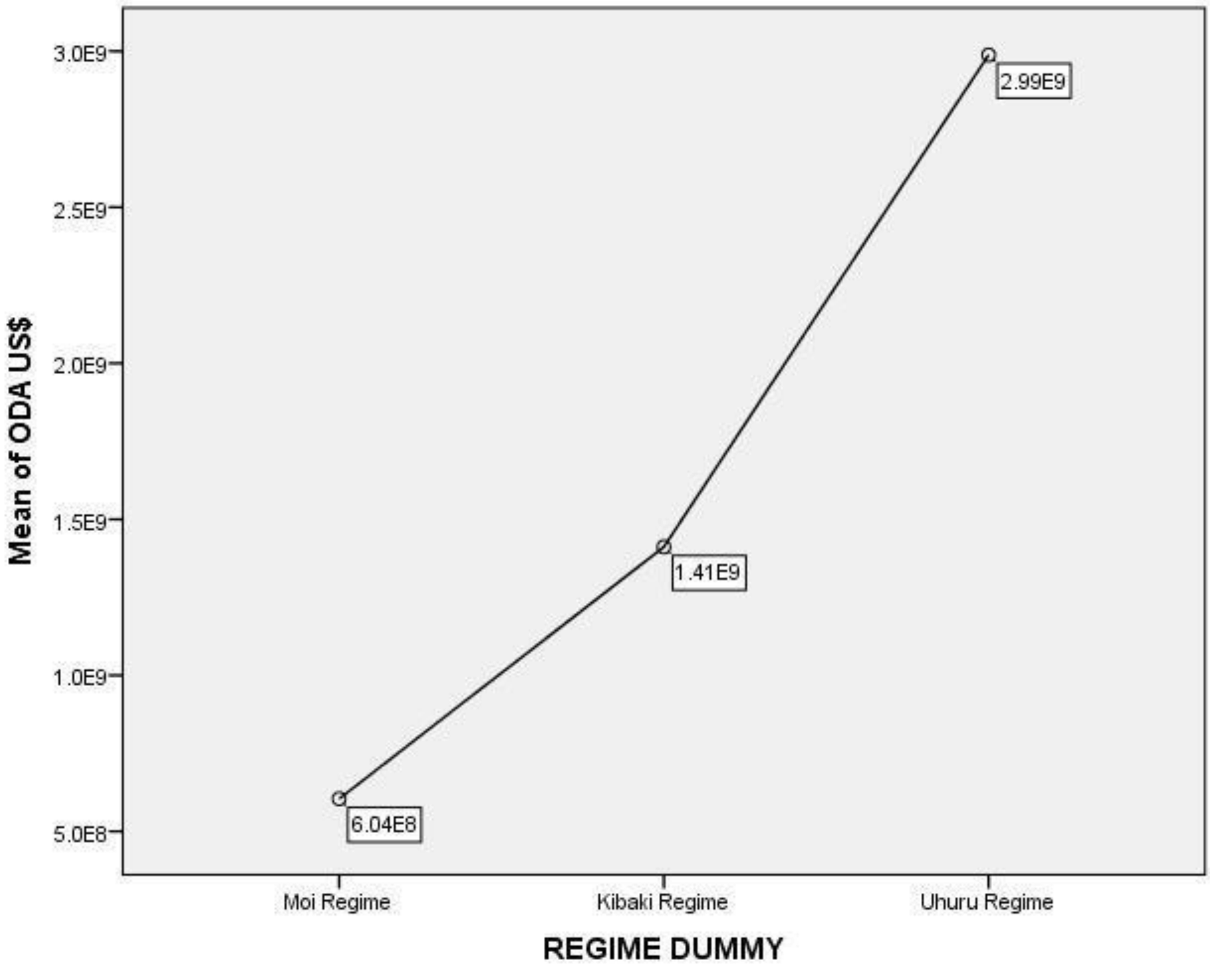
Results further indicate that foreign aid inflows in Kibaki regime were 1,576,734,000.000 lower than inflows in Uhuru regime. The difference in foreign aid inflows in the two regimes was significant as shown by a P-value of 0.000.

Table 3: Post Hoc Test Analysis

(I) REGIME DUMMY	(J) REGIME DUMMY	Mean Difference (I-J)	Std. Error	Sig.
Moi Regime	Kibaki Regime	-807268173.913*	169434744.8	0.00 0
	Uhuru Regime	-2384002173.913*	329761924.9	0.00 0
Kibaki Regime	Moi Regime	807268173.913*	169434744.8	0.00 0
	Uhuru Regime	-1576734000.000*	346485485.3	0.00 0
Uhuru Regime	Moi Regime	2384002173.913*	329761924.9	0.00 0
	Kibaki Regime	1576734000.000*	346485485.3	0.00 0

* The mean difference is significant at the 0.05 level.

The figure below shows the foreign aid inflows trend between the three regimes in Kenya.



Source: Author (2016)

Figure 2: Foreign Aid Inflows Trend between the three Regimes

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

The objective was to determine whether a change in government regime over the period 1980 to 2014 had any impact on foreign aid inflows to Kenya. The analysis of variance results showed that there was a statistically significant relationship between regimes and foreign aid inflows to Kenya as supported by a p value of 0.000 and an F-statistic of 32.918. This implies that change in government regimes influence the amount of foreign aid inflows to Kenya.

A post hoc tests analysis results also revealed a significant difference in foreign aid inflows to Kenya between the global financial crisis periods as supported by a p value of 0.000. This implies that different regimes influence the inflows of foreign aid differently.

5.2 Conclusions

Based on the findings the study concluded that change in government regimes influenced the foreign aid inflows to Kenya. This can be explained by the analysis of variance results which showed a significant relationship between government regimes and foreign aid inflows. The findings further indicated that the foreign aid inflows were highest during the Uhuru regime followed by the Kibaki regime. However, the results revealed that foreign aid inflows during the Moi regime were less as compared to other regimes. Further, the study concluded that the various presidents‟ policies had an impact on foreign aid inflows to Kenya. For example, during the Moi regime Poor fiscal policies limited effective government investment, and public distrust of the executive hindered private investment. The Moi regime also failed in the fight against corruption which discouraged potential donors. The election of President Mwai Kibaki in 2002 revived hopes of political transformation. This boosted the donors‟ confidence and thus led to increase in the foreign aid inflows to Kenya during the Kibaki regime. President Uhuru has experienced an uneasy relationship with the west. The signing of the Security Laws Amendment Bill (2014) by President Uhuru was highly criticized by the western countries including the United States, the United Kingdom, Germany, and France which are major source of foreign aid to Kenya.

5.3 Recommendations

Governments must be willing to exit from power once their term is over. Political aid is particularly designed to favor democratic transitions and to discourage the longevity of autocratic regimes with its main channels being the development of competitive electoral systems, elections monitoring, advice provision on electoral regulation and support to the development of political parties.

5.4 Areas for Further Studies

The study sought to understand the determinants of foreign aid inflows to Kenya. In particular, the study focused on government regimes as the independent variable only, thus area for further studies could consider other variables that affect foreign aid inflows.

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