

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

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

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.

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.

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.