THE ROLE OF THE GOVERNMENT IN RESOURCE ALLOCATION: KOREA VS KENYA

BY

Nelson Njue

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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Committee in charge:

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ABSTRACT

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To a greater extent, the rate of economic growth and the levels of income in a given economy is determined by how the state (public trustee), allocates the available resources. Some states exhibit characteristics of the predatory state (retards development) while others exhibit that of the developmental state (accelerates development). Using secondary data on Korea and Kenya, this paper analyzes how different government regimes from the two countries retarded or facilitated economic growth and development through either an efficient or inefficient resource allocation.

The paper analyzes the effects of social-cultural factors such as ethnic diversity, political patronage and rent-seeking behavior in the public resource allocation as key explanatory factors for the low levels of economic growth, disparities in income distribution and poverty in Kenya. On the other hand, Korean regimes established strong institutions necessary for economic growth together with a competent, honest and efficient bureaucracy to administer the economic policy interventions. Therefore, this study sought to explain that, clear-sighted political leadership that consistently placed high priority on economic performance was present in Korea as opposed to many developing countries including Kenya. While Korean policies encouraged income equality and universal economic growth and

development through common philosophy of universal growth from as early as take-off stage, Kenyan economic policies were more of predatory nature, were skewed towards regional economic growth and more often than not led to income disparities amongst different administrative regions and ethnic groups.

This paper presents a strong evidence that, - Kenyan economy was unable to sustain its 1960s rate of economic growth as opposed to Korean and many other East Asian Economies, mainly because its regimes and political elites preferred rent-seeking behavior in resource allocation while on the other hand, Korean government actively and efficiently allocated national resources within the perspective of equal opportunity and shared growth. Initial condition with respect to equitable income and wealth distribution was the single most important reason that Korea's successive governments' intervention could be carried out effectively, without giving rise to rampant rent-seeking. It is evident that, from Korean experience other developing states including Kenya can prevent negative effects of rent-seeking behavior through an effective policy intervention and coordination, - with a broad vision of equitable per-capita income and regional development.

DEDICATION

Dedicated to my wife and daughters for their moral and spiritual support, and the sacrifices they made while I was away for the one year Master of Public Policy Program in Korea.

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My gratitude goes to all those who contributed to the possibility of my completing this thesis. I specially and deeply feel indebted to my thesis supervisor professor Joon-Kyung Kim. His course; - Building Economic Institution in Korea inspired me to study more on Korea's rapid economic growth in comparisons to the Kenyan case. His advice and help in gathering the required data has made this thesis a reality. Further, I bountifully express my gratitude to Professor Seth Leighton (thesis workshop instructor) for his precious technical advice and editing services – he tirelessly made sure that, - this thesis is well organized and presentable to the readers. I am also obliged to thank you the Thesis Evaluation Committee Members including Professor Hun Joo Park and Jin Park for the part they played and their professional advice on thesis' value addition and also the KDI academic staff for their valuable academic advice and counseling in all matters of both academic and general welfare throughout the course period.

Lastly, I am delighted to convey my honest and immeasurable appreciation to the Korean government through the KOICA, its MPP Program directors and the entire KDI management team. Awarding me scholarship marked a milestone achievement in my academic record and career progress. On behalf of the Kenyan government – I sincerely say,

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CHAPTER I: THE INTRODUCTION

1.0 Introduction

Successful implementation of public policies on economic development depends on the efficient allocation of available resources to a great extent. Efficient and effective resource allocation is necessary for the desired economic growth and development of a nation. The extents to which resource allocation efficiently contribute to an economic performance is dictated by government's commitment to good governance and its ability to direct available scarce resources to the national economic growth priority areas.

Kenya's five-year economic development plans[1] lay much emphasis on the creation of wealth and poverty reduction**.** Unfortunately, at the end of the plan's implementation period**,** the status quo has over the years remained unchanged with income per capita failing to improve, the income disparity gap widening, and poverty levels rising to alarming heights. According to the Central Bank of Kenya, 2008 annual report, Real GDP growth rate dropped from 5.1% in the year 2004[2] to 1.7% in 2008[3]. Although other factors may have affected this melt down, main explanation lies on how resource allocation in Kenya is executed. Efficient and cost effective resource allocation requires objectivity and commitment to national interests, without which the utilization of national resources is subjectively decided by a few politically feasible elites keen to amass national wealth at the expense of general citizens and national economy.

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[1] for instance Economic Development Plans 2004-2008 and 2008-2012
[2] beginning of 2004-2008 five year development plan
[3] end of implementation plan

1.1 Statement of problem

Past studies indicate that, many African Economies had comparatively higher GDP than some of the Asian Economic Tigers such as Korea Republic and China in the 1960s. As observed from table 1 below, the average GDP for the period 1960-1970 for the following Asian states was: - Republic of Korea 8.5, Indonesia 3.5, Thailand 8.2, Malaysia 6.5, Taiwan 9.2, Hong Kong 10.0, Singapore 8.8, Japan 10.5, China 5.0 and Democratic Republic of Korea 7.8. During the same period African states performed comparatively well with ranging from 6.0 to above 20. For instance, Libya had 24.4, South Africa 6.4, Ivory Coast 8.0, New Guinea 6.5, Kenya 6.0, Togo 8.5, Uganda 5.9 and Tanzania 6.0 (World Bank report, 1980). However, 50 years down the line, African countries remain the poorest and least developed economies in the world.

Table 1: 1960-1970 Average GDP for selected countries - East Asian and Sub-Saharan Africa

East Asian		**Sub-Saharan Africa**	
Country	**Average GDP**	**Country**	**Average GDP**
Japan	10.5	Libya	24.4
Hong Kong	10.0	Togo	8.5
Taiwan	9.2	Ivory Coast	8.0
Singapore	8.8	New Guinea	6.5
Republic of Korea	8.5	S. Africa	6.4
Democratic Republic of Korea	7.8	Kenya	6.0
Malaysia	6.5	Tanzania	6.0
Philippines	5.1	Uganda	5.9
China	5.0	Liberia	5.1
Indonesia	3.5	Zambia	5.0

Source: World Bank Report, 1980

There is existence of massive natural resources ranging from minerals and wildlife to huge agriculturally potential land in countries such as the Democratic Republic of Congo, Zambia, Angola and Kenya, yet these countries are overwhelmed by poverty. To a greater extent these resources either remain potentially untapped for rapid economic growth and development or are poorly managed. Explanations for this scenario are mainly skewed towards management dysfunctions and political illnesses such as weak policies, weak bureaucracies, poor governance, poor infrastructures, weak legal institutional framework, corruption, and a general lack of accountability and transparency. Ethnic fractionalization and rent-seeking behavior among political elites in resource allocation has in most cases been ignored.

In July 2009, U.S President Obama while in Ghana spoke of Kenyan underdevelopment using the following phrase “Countries like Kenya which had a per capita income larger than South Korea’s have been far outpaced,” (Daily Nation Kenya, July 2009). Obama pointed out that corruption and tribalism were among the major forces shaping the life of Kenya as a country and Africa as a continent. “In my father’s life” Obama said, “it was partly tribalism and patronage that for a long stretch derailed his career, and we know that this kind of corruption is a daily fact of life for far too many.” This illustrates how corruption and ethnicity accounts for the underdevelopment of Kenyan economy and Africa at large. The magnitude of this problem is of great concern not only to the impoverished Kenyan citizens but also to the global world.

1.2 Purpose and objective of the study

This study attempts to explain how government resource allocation policies in Kenya are influenced by social and cultural factors such as cultural diversity, ethnic fractionalization, political patronage and rent-seeking behavior and how as a result, - such polices have retarded socio-economic growth and development. On the other hand, the study sought to explain how Korean government regimes established strong institutions necessary for economic growth together with a competent, honest and efficient bureaucracy to administer the economic policy interventions. The study explains that, clear-sighted political leadership that consistently placed high priority on economic performance was present in Korea as opposed to many developing countries including Kenya. Further, the study gives an insight of how Korean economic policies were effective and efficient in coordination of the state resources and how, - because of the governments' effective coordination of the public and the private sector, coalition of rulers, elites and interest groups and the emphasis on common philosophy of universal growth there was rapid economic growth and development in Korea from as early as take-off stage.

Consequently, through a comparative analysis between Kenya and Korea, this study gives readers an insight on the extent to which the aforementioned factors either retarded or accelerated the performance of the two economies respectively. While Kenyan economic policies were skewed towards income disparities, poverty and slow economic growth and development, Korean policies encouraged income equality as well as universal economic growth and development. Furthermore, the study seeks to analyze actors in resource allocation, how priority areas are determined, and the criteria used so that the reader can conceive the impact of inefficient resource allocation to the national economic growth and development.

1.3 Significance of the study

This study's findings will add value to the past research reports and will help policy makers to formulate more appropriate economic development policies necessary for African economic growth.

The findings and recommendation will provide good ground for cost effective resource allocation to the relevant authorities. To other researchers, this study will be useful for reference and for further studies and research enquiries on the topic.

The most significant aspect is that, if the responsible authorities accept the identified resource allocation weaknesses, there will be a shift from inefficient to efficient and cost effective resource allocation practices in Africa, which will definitely lead to improved economic performance and possibly rapid economic growth, thus higher income per capita and a reduction in poverty.

1.4 Study Hypothesis

This study is based on the assumption that,- political leadership in Kenya, as is the case with many other Sub-Saharan African Countries, exhibits predatory attributes in resource allocation as opposed to developmental attributes found in Korea. Consequently, the main concern and leading question to this study is: why was Kenya unable to sustain its 1960s rate of economic growth of more than six percent or why was it surpassed by East Asian Countries such as China whose rate had been far behind or Korea whose rate was comparable?. To adequately respond to this broad question, we raise and answer the following explanatory questions: Is Kenya a predatory or developmental state? How have cultural diversity and ethnic fractionalization affected the government role in resource allocation? Does Kenya government exhibit political patronage and rent-seeking behavior in resource allocation? Do we have effective socio-economic institutions in Kenya? Finally, we question the appropriateness of the Kenya government's economic policy intervention in shaping national economic growth. Answering this set of questions on the basis of the comparisons to Korean allows us to analyze policy implication and propose best alternatives for Kenya.

1.5 Scope and Limitations

The study was limited to the case studies mainly drawn from the two countries, - Korea and Kenya. Due to limited data and time, supporting examples from Kenya are drawn from the three government regimes and their home region (Kenya has had only three presidents since independence in 1963**, -** President Kenyatta, Moi and Kibaki)**.** Compared to Kenya, Korea has had more than three regimes since 1948 when it became a republic, - President Syngman Rhee, Chang Myon, Yun Bo-Seon, General Park Chung-Hee, Choi Kyu-hah, Roh Tae-Woo, General Chun Doo Hwan, Kim Young-Sam, Kim Dae-Jung, Roh Moo-Hyun, Roh Tae-Woo and Lee Myung - the current President. Of all these, General

Park is much credited for his 1960s economic policy intervention which mainly focused on growth and export promotion, (Aoki et al 1997). Park paved the way for Korea's economic miracle by strengthening bureaucracy and placing stringent limits on civil and political liberties, (Chowdhury and Islam, 1993). Therefore, most of the cited examples from Korea covers General Park regime. Analysis of the cited examples, together with the supporting evidence and the claims made in the literature review, is used to answer the study questions, make conclusions, and state policy implications.

There were no funds allocated to the study. In this case, considering the cost of accommodation, traveling expenses, stationery, photocopying, typesetting, editing and miscellaneous costs,- the study was limited to secondary data.

Despite the limitations encountered, this study is still strong,- supporting data and evidence are drawn from recognized and respected institutions such as the World Bank, United Nations and OECD; think tanks such as Kenya Institute of Public Policy and Research Analysis (KIPPRA), Central Bank of Kenya (CBK) and Bank of Korea (BOK). Secondly, literature review is drawn from prominent socio-economic writers and economic policy advisors to the World Bank and IMF such as Dani Rodrick, Miguel and Peter Evans among others.

CHAPTER II: ECONOMIC DEVELOPMENT CONCEPTS

2.0 Introduction

This chapter provides a short review of the literature that seeks to define the states in terms of the way political elites affect economic development. The main argument is that, some states retards economic development by preying national resources without much regard to the welfare of the nation. In this case, the government operators and political elite exhibit rent seeking behavior, political patronage and ethnicity in resource allocation. Other states accelerate economic development through efficient resource allocation and policy intervention that are of national interests. Therefore, this chapter attempts to explain the concepts of predatory state, developmental states and the institutional theory and their implications to national economic growth and citizen welfare.

2.1 Predatory States

Predatory states refer to states where incumbents use the state apparatus to extract and distribute unproductive rents. “The state bureaucrats strangle the golden goose of entrepreneurship and line their pockets with unproductive rents”, (Evans, 1989). In predatory states those who control the public resources appear to loot them without due regard for the national economic growth and citizen welfare. Zaire, - during the reign of president Mobutu has been cited as a good example of a predatory state. Rent seeking was predominant in Zaire during Mobutu’s regime, which lasted for thirty-one and half years with effect from 24th November 1965 to 16th May 1997. Financial and natural resources made Mobutu’s name synonymous with kleptocracy in Africa, (Evans, 1989 as cited by Wright, 1997). “Mobutu was amongst the most autocratic, repressive and corrupt dictators in the Third World commanding a kleptocracy that has siphoned billions of dollars from the national treasury”, (Z Magazine, June 1997). As argued by Evans, the Political class was preoccupied with rent seeking, thus turning the rest of society into prey. Rent seeking led to the decline of Zaire's gross national product per capita at an annual rate of 2.1% (World Bank, 1988). A small group of interconnected individuals controlled state resources, with President Mobutu's most trusted kinsmen, - occupying the most sensitive and lucrative positions. This is a clear account of how predatory states' resources are inefficiently managed with little regard to national economic growth.

In predatory states, social institutions, including law courts and administration offices, are corrupt and demand payment for public service. The leaders occasionally lament this behavior; Mobutu for instance characterized his system in much the same way, saying, "Everything is for sale, everything is bought in this country. And in this traffic, holding any slice of public power constitutes a veritable exchange instrument, convertible into illicit acquisition of money or other goods", (Evans, 1989 as cited in Lemarchand, 1979). Incumbents in public office, like all other social actors, are preoccupied with rational maximization of wealth accumulation. There is an exchange relation between incumbents and supporters with the incumbents distributing resources[4] directly to supporters. Returns in the rent-seeking economy are highly skewed toward those involved in the production, those who control resources, and by extension, the political class as opposed to the majority of poor and ordinary citizens, (Evans, 1989).

Land is a strategic patronage resource for politicians seeking to mobilize electoral constituencies in Kenya and most of the African states. Where intermediary institutions, especially political parties, are weak, politicians' populist option is to promise to use state power directly to implement redistributive policies that will be of direct benefit to mass constituencies of poor voters, once elected into the Legislative Assembly. In the case of Kenya, public trust land within local authorities is redistributed to the public through District

[4] Subsidies, cheap loans, jobs, contracts, upgrading of roads, water pipes.

Land Committees with membership drawn from local political incumbents such as councilors and local Member of Parliament. These political elites mostly allocate the available land to their supporters as kickbacks for electing them and to strategically secure their votes during future local authorities and parliamentary elections. This is a further illustration of how resources are inefficiently allocated in predatory states to the detriment of national economic growth.

2.1.1 Model implications

1. Predatory notion gives insight into the functioning of most states where rent seeking (corruption) has always been evidence of the operation of Third World states.
2. State intervention towards economic transformation in most cases end up having negative results. Because of predatory behavior, entrepreneurs' willingness to risk their available surplus by investing in productive activities and actual investments is limited.
3. There is lack of states responsiveness to private capital through provision of incentives to induce private capitalists to invest and at the same time alleviating bottlenecks that are creating disincentives to investment. For instance, predatory states such as Kenya are subject to security threats of politically and ethnically motivated tribal clashes that are associated with massive destruction and looting of business premises owned by private investors. Because of weak legal institution and political system, the affected investors in this case have no guarantee of recovering the losses. The state in playing its role of arbitration through its machineries, most often than not attempts to secure political mirage at the expense of private investment, an act that is disincentive to private investors.

2.2 Developmental State

The developmental state describes states that are able to foster long-term entrepreneurial perspectives among private capitalists by increasing incentives for them to engage in productive and transformative investments, and by lowering the risks involved in such investments. Examples are countries that began with below-average GDP per capita and experienced higher-than-average growth for a long period such as Japan, Taiwan, Korea and Singapore, (UNIDO Industrial Development Report 2005).

Core features of the developmental state are the credible and growth oriented policy intervention in economic growth (Evans, 1989). Both government policy intervention and public institutions in the developmental states were credibly effective in national economic growth and initiated strategies, industrial and entrepreneurial policies that led to the emergence of complex industrial growth such as the conglomerates of South Korea. Korean conglomerates (Chaebols) are the largest private businesses in Korea. According to US economist publication, the total sales of all their affiliate companies and the turnover of the top 30 chaebols came to 127 trillion won ($180 billion) in 1990, equivalent to 76% of the country's GNP, (The Economist (US)**,** June 8, 1991). This illustrates an ideal case for an efficient and effective role of government in resource allocation.

2.2.1 Model Implication

At the early stages of development, government intervention is required for the reallocation of resources and factors of production, which markets alone, cannot achieve, and if they can, only in a sub-optimal way. State intervention is necessary in creating the conditions for coordination between sectors and economic agents and facilitating learning processes. Advocates of developmental state theories such as Peter Evans and Dani Rodrik have therefore strongly argued that in developing countries market forces alone cannot induce economic growth. Although state policies may have been ‘getting relative prices wrong’, they were conditioned on developmental objectives. Rodrik 1994, in his paper, “getting interventions right”, illustrates this, - he explains that, Korea government had clear industrial priorities and did not hesitate to intervene (through subsidies, trade restrictions, administrative guidance, public enterprises or credit allocation) to ensure efficient resource allocation and to reshape comparative advantage in the desired direction.

Positive economic development outcomes require - a combination of economic, political and social factors in a given space and time. The combination of political and other institutions and the effectiveness of their functions are more important for growth than their formal existence. Institutions result from continuous processes and combinations, and a role of the state may be to create these when they are lacking and when economic agents are affected by coordination and information problems.

Interventionism in East Asia means the quality of the bureaucracy and its effectiveness in supporting the industrial sectors that meet export performance criteria. For instance, through policy intervention, Korea government decided to oversee the creation of a rayon-making plant as part of a plan to diversify the textile industry away from cotton fiber, brought together an American Synthetic fiber company with several local textiles from both public and private firms, and oversaw negotiations on the terms of the joint venture which resulted to largest “private” firm on the island (Rodrik, 1994). The major aspect is the nature of policy, content, and allocation of incentives to specific sectors that contribute to growth through participation and benefits of most citizens.

2.2.2. Developmental states: policies, credibility and legitimacy

Asian developmental states’ policies were oriented towards growth, and especially the model of growth that was oriented towards exports. Public policies played an effective role in coordinating the financing of the state development, especially at the take-off stage. These states had strong institutions necessary for economic growth and democracy. Credibility and legitimacy in the sense of the acceptance of a social contract between the rulers and the citizens was common to Asian developmental states. People supported their government policies whole-heartedly because of proven achievements.

Asian Tigers developed because of state's effective coordination between the public and the private sector, coalition of rulers, elites and interest groups and a common philosophy of universal growth held by all citizens. Developmental states do not have large governments. Levels of public and social expenditure in Korea were low - 1980-1997 was 20% of GDP compared to some 50% in OECD countries. (IMF, 2005).

2.2.3 The developmental states - formation and stability

Developmental states are less government, - more market and entrepreneurial. The state is the provider of security and cohesion while allowing markets a large flexibility, among other things, (Evans, 1989). This was the case with Korea's state regimes whose policies focused on both the promotion of good international relations with their security allies, - United States and Japan but at the same time provided conducive and harmonious industrial working environment through appropriate policy interventions, thus rapid national economic growth. This was not so with sub-Saharan African countries such as Zaire or Kenya where the regimes in power supported utilitarian policies geared towards enrichment of particular individuals and ethnic groups at the expense of the national growth.

2.3 East Asian vs. African models

Most political regimes in Africa are dictators with mindset on the 'divide and rule' principle in order to remain in office. They are self-seekers with incentives to build constituencies and support from specific social groups that support them. Survey on administrative and political aspects of corruption including bribery of public officials, kickbacks in public procurement, the embezzlement of public funds and the strength and effectiveness of anti-corruption efforts in the government system – (table 2) indicates that, Asian states performs relatively better than African states. From the table, Singapore (Asian) is at position 4 compared to Botswana (African) ranked at position 36. The report on the perceived levels of public sector corruption in 180 countries around the world indicates that, only one African country (Botswana) featured among the top 50 compared to East Asian 6 countries. Further, the report shows that Somalia, an African state took the bottom position and among 50 bottom ranked states, Africa had 27 states compared to Asian which had 3 states - Bangladesh, Philippines and Indonesia at position 147, 141 and 126 respectively (Transparency International, 2008).

Table 2: Corruption perceptions index (10 highly ranked – East Asian & African states)

East Asian states		**World Ranking** (picked from world ranking of 180 countries)	**Perception Index**
1	Singapore	4	9.2
2	Hong Kong (China)	12	8.1
3	Japan	18	7.3
4	Taiwan	39	5.7
5	Korea Republic	40	5.6
6	Malaysia	47	5.1
7	China	72	3.6
7	India	85	3.4
9	Indonesia	126	2.6
10	Philippines	141	2.3
African states			
1	Botswana	36	5.8
2	South Africa	54	4.9
3	Namibia	61	4.5
4	Tunisia	62	4.4
5	Ghana	67	3.9
6	Morocco	80	3.5
7	Senegal	85	3.4
8	Algeria	92	3.2
9	Benin	96	3.1
10	Gabon	96	3.1
	Ethiopia	126	2.6
	Uganda	126	2.6
	Cameroon	141	2.3
	Kenya	147	2.1
	Somalia	180	1.0 – last in the ranking

Source: Transparency International Annual Report, 2008 (Note: Zero (0) denotes highly corrupt; ten (10) denotes very clean)

African regimes perceives growth especially institutional development as a threat, as it may create uncontrolled resources and hence challengers. In contrast, developmental states' regimes values effective coordination of public economic policies and key economic actors with the belief that long-term growth is of the interest of all.

Asian developmental states do not have large governments. As observed from table 3, most of Asian states had an average government spending of approximately 10% of GDP compared to African predatory states whose average government spending is well above 25% of GDP.

Table 3: Government spending – Asian vs. African states, 1997, 1998 & 1999

	Country	**Government consumption (expenditure as % of GDP)**			
East Asian states (9 countries' Aver. Spending = 10.3)		**1997**	**1998**	**1999**	**3 year Average**
1	Indonesia	6.8	5.4	Not available	6.1
2	Hong Kong (China)	8.6	9.3	9.9	9.3
3	Singapore	9.4	10.0	9.7	9.7
4	Japan	9.7	10.2	10.3	10.1
5	Korea Republic	10.1	11.0	10.1	10.4
6	Thailand	10.0	10.8	Not available	10.4
7	India	Not available	11.3	12.3	11.8
7	China	11.6	11.9	12.5	12.0
9	Philippines	13.2	13.2	12.9	13.1
African states (9 countries' Aver. Spending = 25.9)					
1	Uganda	9.6	9.2	9.2	9.3
2	Ethiopia	10.9	14.2	16.0	13.7
3	Tunisia	15.8	15.7	15.6	15.7
4	Kenya	16.2	16.4	17.0	16.5
5	Morocco	17.8	18.1	19.3	18.4
6	South Africa	19.8	20.0	19.4	19.7
7	Botswana	26.6	27.0	30.6	28.1
8	Namibia	Not available	29.3	28.8	29.1
9	Cameroon	82.0	82.9	Not available	82.5

Source: United Nations Statistical Yearbook, 46th issue (2002)

Compared to Asian developmental states, a public sector in African predatory states is relatively weak with high ratio of recurrent to development expenditure. In Kenya for instance, recurrent expenditure takes more than 70% of the National Budget. In Kenya

2009/2010 annual budget of Kenya shillings 865 billion, (71%) or Kenya shillings 606.7 billion was allocated to recurrent expenditures while development items got only (29%) or Kenya shillings 258.9 billion (Budget speech, 11 June 2009).

However, many factors in which African states manifestly differ from those in Asia must be taken into account, such as - political economy, history, path dependence, and state formation. Asian developmental states were characterized by a certain degree of homogeneity under strong leadership, often through the military. In contrast, many African societies are characterized by socio-political factors, which are a hindrance to rapid growth.

African models demonstrates weak institutions, divisive policies, segmented markets and are less focused on enhancing coordination, cohesion, and rebuilding states. On the other hand, Asian developmental states were built along ‘less state and more market’, and so the state acted as the provider of security and cohesion while allowing markets a large flexibility, among other positives.

African countries are characterized by aid dependence as opposed to Asian developmental states, which tried to avoid a prolonged use of foreign aid and technical assistance. In many African countries, the’ - central government expenditures depend on aid for more than 50%, and some countries are almost entirely dependent on aid for gross capital formation, (World Development Indicators, 2005). This demonstrates how African states are susceptible to the adoption of external foreign policies regardless of whether they serve national economic interests or not.

2.4 Institutional Economic Analysis

In the study of African Agricultural policy, politicians promote policies that satisfy their political aspirations to be re-elected but are far less successful in promoting general agricultural development,- (Ensminger, 1992). More effective methods of increasing agricultural production exist, but because they provide no personal gains to the politicians, they are not implemented. Individual interest or values dominate societal values. Therefore, political actors promote institutions that rarely represent the most efficient outcome for society as a whole.

Economic institutions are a set of humanly devised behavioral rules that govern and shape the interactions of human beings, in part by helping them to form expectations of what other people will do (Rodrik, 1989). Institutional economists have suggested the following as institutions that allow economies to perform adequately:

(a) Property rights: An entrepreneur would not have the incentive to accumulate and innovate unless he has adequate control over the return to the assets. Formal property rights should confer control rights. Control rights are upheld by a combination of legislation, private enforcement, custom and tradition. Each society decides for itself the scope of allowable property rights and the acceptable restrictions.

(b) Regulatory institutions: Regulations are necessitated by market failures. In South Korea and Thailand, as in so many other developing countries, financial liberalization and capital-account opening led to financial crisis precisely because of inadequate prudential regulation and supervision. Due to coordination failure and capital market imperfections strategic government interventions may often be required to get out of low-level traps. The extensive subsidization and government-led coordination of private investment in South Korea and Taiwan played a crucial role in setting the stage for self-sustaining growth, (Rodrik, 1995).

(c) Institutions for macroeconomic stabilization: Capitalist economies are not necessarily self-stabilizing. Views of macroeconomic instability stress the inherent instability of financial markets and its transmission to the real economy. The most important among these institutions is the central bank.

(d) Institutions for social insurance: the liberating dynamic market economy frees individuals from their traditional traps; yet it also uproots them from traditional support systems and risk-sharing institutions, gift exchanges, the fiesta, and kinship ties. Social insurance legitimizes a market economy because it renders it compatible with social stability and social cohesion. Developing Nations have to develop their own vision and their own institutional innovations to bridge the tension between market forces and economic security.

(e) Institutions of conflict management: Ethnic divisions hamper social cooperation and prevent the undertaking of mutually beneficial projects. Social conflict is harmful because it diverts resources from economically productive activities through the uncertainty it generates. The rule of law, a high-quality judiciary, representative political institutions, free elections, independent trade unions, social partnerships, institutionalized representation of minority groups, and social insurance are examples of institutions that make coordination failures less likely. They tend to increase the incentives for social groups to cooperate by reducing the payoff to socially uncooperative strategies.

2.5 Summary

The concept of the developmental state stems from studies of the fast-growing East Asian economies in the late 1980. The lesson from Asian developmental states is that, the capacity for a state to credibly commit and intervene is a crucial feature in economic development.

Intervention of the state in the economy via credible policies oriented towards growth, capacity to address coordination failures and to reallocate factors of production, flexibility, coalitions between the state, private firms and the civil society are necessary ingredients for economic development. Policy need to be effective, and an institution needs to be credible and perceived as a commitment. These conditions for developmental states and institutions are currently missing in most Sub-Saharan African countries.

Developmental states may practice some sort of rent seeking as is the case with predatory states but on balance, consequences of their actions promote rather than impede economic development.

2.6 Policy implication

A bureaucracy without an organized network of external ties cannot effectively promote industrial transformation. Policy should be two cleft, aimed at increasing the selectivity of tasks undertaken by the state apparatus but devoting equal attention to reforms that will help reconstruct state apparatuses themselves.

What is required in African states is honest, efficient and accountable politics and state's commitment to a national development plan which aims to rehabilitate and reconstruct the social and economic infrastructure of the country.

African states should foster an inclusive and populist democracy where women's groups, human rights community, grassroots organizations and the rest of civil society all have a say in the distribution of resources.

CHAPTER III: KOREA ECONOMIC DEVELOPMENT: Government Role

3.0 Introduction

Korea is credited for having been able to prevent negative effects of rent-seeking behavior and to formulate and implement policies that are broadly in line with societal interests. The Korean government, with a vision of shared growth, carried out necessary policy reforms, which created and maintained an environment conducive to rapid economic growth through investments in essential infrastructure. This chapter gives a brief overview of how the Korean government actively and efficiently allocated national resources within the perspective of equal opportunity to all and shared growth; its commitment to policy coordination, land and education reforms and use of stick-and –carrot approach in export financing.

From the beginning, the government of President Park Chung-Hee (1961-1979) ensured that, policymaking was carried out by an elite bureaucracy staffed by the best managerial talents, (Choi and Chung, 1993). Within one generation, the country was able to become a self-sufficient economy, free from poverty and independent of foreign aid. Through rapid transformation from Light Manufacturing to Heavy Chemical Industries (HCIs), and by joining the OECD in 1996, the country confirmed its economic advancement. Table 4 gives an overview of Korea’s socio and economic development since early 1960s.

Table 4: Bird's-Eye View of Korean Economy since early 1960s

	1962	1992	1997	2007
Economic Development				
Per Capita GDP	**$87 (101st)**	**$7,527**	**$11,176**	**$20,014 (24th)**
Investment (% of GDP)	**13.8**	**37.3**	**36.0**	**29.0**
Exports (% of GDP)	**5.1**	**26.6**	**32.4**	**45.6**
Imports (% of GDP)	**16.8**	**27.7**	**33.0**	**44.8**
Social Development				
Life expectancy at birth	**55**	**72**	**74**	**79**
Infant mortality rate(per 1000 births)	**90**	**8**	**5.8**	**-**
	1970	**1980**	**1990**	**2000**
Years School	**5.7**	**7.6**	**9.5**	**10.6**
Middle school enrollment ratio (%)	**51.2**	**95.1**	**98.2**	**99.1**
High school enrollment ratio (%)	**28.1**	**63.5**	**88.0**	**96.4**
Tertiary school enrollment ratio (%)	**8.4**	**15.9**	**37.7**	**80.5**

Source: Joon-Kyung Kim, Building the Institutional Basis and Economic Development in Korea, June 2009

Economic policy in Korea, especially during the Park regime focused on rapid and equitable growth. Thus, government policies provided access to investment credits and government support to all sectors and individual economic actors who proved to be successful regardless of whom they were in the societal and political arenas. Through this policy, Korea was able to achieve equitable regional and per capita income distribution.

3.1 Initial conditions for economic take-off in Korea

The initial conditions had endowed the Korean government with extra-ordinary degree of insulation from pressure groups, and with leadership capability over them. Among these initial conditions, a relatively equal distribution of income and wealth was critical. Together with the human capital endowment, - Korea was ready for economic take-off soon after it got its independence from Japanese, (Rodrik 1994). These conditions contributed greatly to the Korea's rapid economic growth in that, - the government could effectively intervene to remove some policy-induced distortions, coordinate and subsidize private investment through credit subsidies, tax incentives, administrative guidance and public investment with total support from the people. In addition, a competent honest and efficient bureaucracy to administer the interventions and a clear-sighted political leadership that consistently placed high priority on economic performance was present in Korea as opposed to many developing countries including Kenya.

According to Rodrik (1994), high degree of equality in income and wealth distribution was important condition for Korea's economic take-off in that; -

i. Policy-making and implementation could be insulated from pressure groups and politics. For instance, required institutional reforms such as the centralization of functions and creation of new bureaucracies could be undertaken smoothly with little pressure from the push and pull of daily politics; economic laws and regulations could be written by technocratic elites, with little concern for their effect on organized pressure groups.

ii. Equitable income distribution meant that, the government was not under pressure to undertake redistributive policies[5].

iii. Top political leadership was free to focus on economic goals, - could supervise the bureaucracy closely to make sure that the bureaucrats assisted rather than hindered private entrepreneurship daily involvement of president park in the implementation of his economic policies and his willingness to override the bureaucracy at a moment's notice when businessmen had legitimate complaints, thus, - ensuring that there was no rent-seeking behavior.

[5] Growth retarding policies (populist fiscal and micro-economic policies which engender high inflation, stop-go cycles, and low growth).

3.2 Korea's income distribution

Further to its initial equitable income and wealth distribution at independence, Korea was able to sustain rapid economic development through the vision of shared and equitable growth since the early 1960s. According to the KDI's "Long-term economic development report" (1981), Korea's GINI[6] coefficient was 0.34, 0.33 and 0.39 during the years 1965, 1970 and 1980 respectively. Compared to most other Asian and developing countries in general, Korea's GINI coefficient, as observed in Table 5, was relatively low.

Table 5: Post War Asia: Nationwide GINI Coefficients

Japan		**Republic of Korea**		**Hong Kong**		**Thailand**		**Singapore**		**China**	
1962	0.37	1965-67	0.34	1957	0.48	1962	0.41	1966	0.50	1960s	0.20
1967	0.35	1968-70	0.34	1963/64	0.50	1968/69	0.42	1972	0.44	1970s	0.25
1971	0.38	1971-73	0.33	1966	0.49	1975/76	0.42	1974	0.43	1980s	0.28
1974	0.36	1974-76	0.38	1971	0.43	1980/81	0.44	1979	0.42	1990s	0.45
1978	0.35	1977-79	0.38	1973/74	0.42	1985/86	0.47	1984	0.47	Average	**0.33**
1981	0.35	1980-82	0.36	1976	0.43	1988	0.47	1990	0.43		
1984	0.35	1983-85	0.38	1979/80	0.40	1990	0.49	Average	**0.45**		
1986	0.36	1986-88	0.38	1981	0.45	1992	0.52				
1988	0.37	1989-91	0.40	1986	0.45	Average	**0.46**				
1989	0.37	1992-94	0.39	1991	0.48						
Average	**0.33**	Average	**0.37**	Average	**0.45**						

Source: Harry T. Oshima, The Developing Economies, XXXVI-4, 1998

According to Jwa and Yoon, (2004), income distribution through equalization policy can lead to economic regression. In view of the principles of economic development, public

[6] Gini coefficient is a measure of income inequality based on the Lorenz curve, ranging from zero (perfect equality) to 1 (perfect inequality).

policy should help create and sustain a competitive environment by reinforcing the discrimination mechanism in the economy, (Jwa and Yoon, 2004). Consequently, the Korean government during the Park regime adopted a system that emphasized on “helping those that help themselves”, - commonly known as “carrot-and-stick policy”, - a more fair and economic oriented mechanism of income distribution. For instance, in the process of promoting *Saemaul* Village (New Village) Movement, President’s Park regime, provided material support only to the self-help villages that met government standards. This way, all sectors of the economy and all people were motivated to excel in their economic undertakings or otherwise lose government economic incentives and support.

3.3 Poverty levels in Korea

Korea’s equalization policies were successful in achieving both relatively low income inequality and rapid growth. As observed from Table 6 below, Korea’s absolute poverty declined steeply from 48% in 1961 to less than 10% entering the 1980s.

Table 6: Share of Poverty Population[7]: 1965-93

	1965	**1970**	**1980**	**1988**	**1993**
National	40.9	23.4	9.8	9.5	7.6
Urban	54.9	16.2	10.4	9.3	7.5
Rural	35.8	27.9	9.0	9.8	8.0

Source: Adelman, (1997)

3.4 Korean people

Koreans are homogeneous (except for about 20,000 ethnic Chinese) ethnic group with common language, culture and customs. They are characterized by their generosity, warmth

[7] Share of households whose income is below poverty line (121 thousand wons in 1981 prices per household of five) in total households.

and kindness and are renowned as one of the hardest working people in the world. By 2005, South Korea's population stood at 48.4 million, (KOICA, 2009) with a current estimation of approximately 50 million. Because of ethnic homogeneity, Korea has not had a negative influence of ethnicity and rent-seeking behaviors in resource allocation and policymaking process. People are united with a common purpose of nation building.

3.5 Government policy interventions

As mentioned above, the contributing factors behind shared growth in Korea were mainly achieved through stick-and–carrot approach in government incentives and support, and equal education and land reform policies.

3.5.1 Education and training

The active role of the government in education dates back to Korea's independence from Japan, with President Rhee Syngman (1948-1960) announcing an ambitious universal and free primary school education on June 1, 1950. Consequently, 18 normal schools (now called teachers colleges) were started immediately after the Korean War to train high school graduates to be teachers (Kim, 2009). School tuition fee for the normal schools were set very low, and jobs after the graduation were guaranteed. The regime promised teachers better job security, tenure-based salaries, and higher pensions. As observed from Table 7 below, there was tremendous improvement in student teacher-ratio in 1945-2005; - the drop in student-teacher ratio in primary schools is an indicator of a healthy education system.

President Park Chung-Hee directly encouraged students by school visits and honoring vocational Olympic medalists, (Choi and Chung, 2004). According to the available literature on Korea's education, as of 1945, 78% of the adult population was illiterate; and only 5.7% of total population enrolled in school of which 93% of them were in the primary grades. Because of education reforms, the enrolment ratio rose rapidly from 5.7% (1945) to 30% in 1970s and 1980s (Kim, 2009).

Table 7: Students per Teacher: 1945-2005

Year	Primary	Middle	Liberal Arts High	Vocational High	University	Junior College
1945	69	-				
1952	67	38				
1960	59	41				
1965	62	39	32	32	22	26
1970	57	42	32	32	22	21
1975	52	43	32	32	24	23
1980	48	45	34	34	28	30
1985	38	40	32	32	46	45
1990	35	25	25	25	41	53
1995	28	25	22	22	35	68
2000	29	20	21	21	40	78
2005	25	19	16	16	38	71

Source: McGinn et al (1980) p.51 and KMOE, *Education Statistics Yearbook*, various years

Schooling in Korea has been open to all with equal opportunities (especially up to secondary education) regardless of the family social background. Because of equalization and free education policy, there was rapid rise (Table 8) in both the school enrollment and advancement to the higher level especially from primary to high schools.

Table 8: Enrollment Rates (ER) and Advancement: 1953-2005

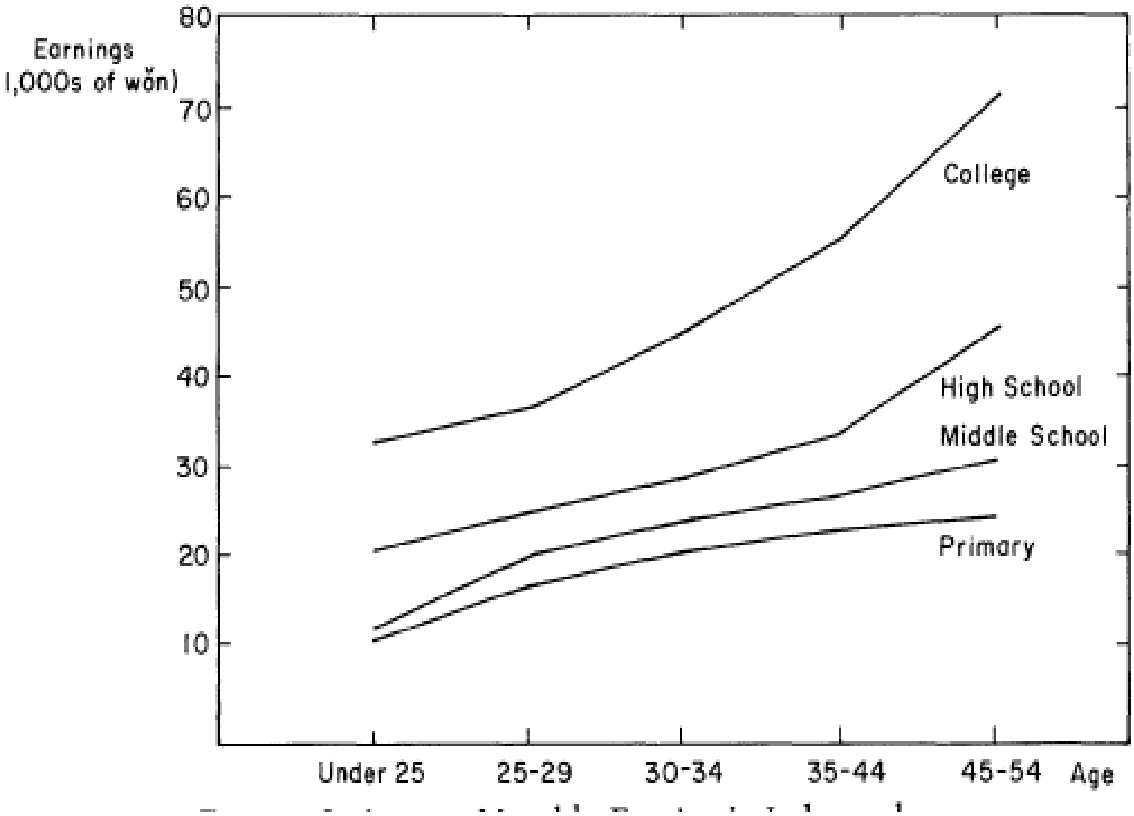
	Kindergarten	Primary School (6 years)		Middle School (3 years)		High School (3 years)			Higher Education (2 or 4 years)
	ER	ER	AR	ER	AR	ER	AR-Academic	AR-Vocational	ER
1953	-	59.6	-	21.1	-	12.4	-	-	3.1
1955	-	77.4	44.8 [1]	30.9 [1]	64.6 [1]	17.8	-	-	5.0
1960	-	86.2	39.7 [2]	33.3 [2]	73.3 [2]	19.9	-	-	6.4
1965	-	91.6	45.4 [3]	39.4 [3]	75.1 [3]	27.0	-	-	6.9
1970	1.3	92.0	66.1	36.6	70.1	20.3	40.2	9.6	5.4
1975	1.7	97.8	77.2	56.2	74.7	41.0	41.5	8.8	4.3
1980	4.1	97.7	95.8	73.3	84.5	48.8	39.2	11.4	6.6
1985	18.9	-	99.2	82.0	90.7	64.2	53.8	13.3	16.2
1990	31.6	100.5	99.8	91.6	95.7	79.4	47.2	8.3	19.1
1995	26.0	98.2	99.9	93.5	98.5	82.9	72.8	19.2	31.7
2000	26.2	97.2	99.9	95.0	99.6	89.4	83.9	42.0	47.8
2005	31.4	98.8	99.9	94.3	99.7	92.7	88.8	67.6	62.2

ource: Data before 1970 are from McGinn et al. (1980), and data since 1970 are from KEDI, Education Statistics Database[8]

Korea's school policy was based on efficient resource allocation and equal distribution of the national cake. General Park administration (1961-1979) ensured that, - all students had equal chances of admission to higher levels of schooling through district-wide lotteries conducted by the Ministry of Education. Through equitable education and training opportunities, the government set a basis for equal access to employment opportunities as means of income earnings and poverty reduction. As observed from Figure 1 below, the more highly educated people (in most cases) are paid more than those with less education. Thus, there is a causal link between education and earnings. Furthermore, education makes people more entrepreneurial, more productive, more efficient, and more mobile.

[8] ER (Net Enrolment Rate)= % of students enrolled out of corresponding school-aged children (kindergarten, 3-5 years old; primary School, 6-11; middle school, 12-14; high school, 15-17 ; and higher education, 18-21) AR = % of students who advance to the next level schools; 1 - 1956-57; 2- 1959-60; 3 - 1964-65)

Fig 1: Average Monthly Earning in Industry by Age and Education, Males, 1972



Source: McGinn et al. (1980)

3.5.2 Technology and Public policy

The Korean government, with a top priority on technicians, promoted mechanical engineering and technical education targeting production of 50 thousand technicians every year nationwide, during the heavy and chemical industrialization drive period in the 1970s. The technical school students received incentives in the form of training subsidies, guaranteed employment, living expenses and exemption from compulsory military service. Further, the government supported model technical schools by providing research funds and teaching materials and facilitated industrial cooperation of sisterhood relationship between technical schools and companies, (Won-chol O, 2009).

In Korea, local effort was a significant factor in the successful acquisition of technology. Korea was the first developing country to systematically address the matter. The government worked,- to formulate and enforce public policy starting in 1966 through establishment of Korea Institute of Science and Technology (KIST) as an integrated technical training centre to meet industry's technical needs – shipbuilding, marine resources, electronics, telecommunications, energy, machinery and chemicals were set up to develop in-depth capabilities. The Ministry of Science and Technology was created in 1967 to provide guidelines in formulation of basic science and technology policies and give incentives to local firms; promotion of development and upgrading technology (Chung-yum Kim, 1994)

Through government initiatives, state-of-the art equipment for practical training was imported from Japan, and Japanese teachers with technical expertise were recruited between 1972-76. By 1976, among 400 new students, more than half were top graduates from middle schools in Korea, (Won-chul O, 2009). Growth in applied technology was very important to Korea's industrial growth without which the country would have reverted to importation of the required technical skills, - definitely at a prohibitive cost.

3.5.3 New village (*Saemaul*) movement

The objective of starting the Saemaul village movement was to improve income as well as living conditions of rural people. Through this initiative, the government supported agricultural research, investment in irrigation, and forestry sectors, developed new varieties of crops and built dams on major rivers. Effective policy coordination through involvement of President Park himself gave great incentives for policy coordination among the government ministries. Through Monthly Economic Trends Report Meetings, which were attended by the President, ministers and high ranking officials, success stories of the Saemaul Movement were reported. The President through his active involvement ensured that, -problems reported by the farmers were immediately redressed, (Park, 1998)

For effective implementation of government policies on Saemaul Movement and dissemination of new farming knowledge, training of village leaders took the centre stage. In these trainings, the president required reports of the success stories of farmers to be reported,

- (Park, 1998). Training in Saemaul villages was directly under the superintendence of the Blue House, (Park, 1998). Through President Park's initiative, study tours were organized for leaders from the least participatory villages to visit the advanced villages. This arrangement allowed the trainees to stay in the advanced village for several days, and, - compare the differences of farming, village life and attitude of people with that of their own village (Park, 1998).

Active participation in Saemaul movement saw the empowerment of the people (especially those aged 40 years) who were born and had been leading their lives in the villages with little choice but to devote their lives in farming until they died (Park, 1998). These people had strong incentives to improve their living conditions through the movement. All villages and regions had equal opportunities; - as training and incentives were readily accessible to all villages that showed positive response to the movement. To reduce communication gaps between local officials and villagers, all chief officers of sub-county offices and police were required to take a one week training course. All the 1,500 sub-county units in the country with more than 6,000 officials received Saemaul training. The presentation of success stories of the farmers made these officials understand the problems of farmers better. Table 9 below, gives details of the number trained for the period 1972-80.

Table 9: Number of Trainees in Saemaul Leaders Training Initiative by Occupation: 1972-80

	1972	1973	1974	1975	1976	1977	1978	1979	1980	Total
Male	1490	1212	1882	2215	2497	2396	2391	1913	1969	17965 (39.7%)
Female	-	1203	1000	978	1079	1202	1062	1505	789	8818 (19.5%)
Co-operative Staffs	-	1903	1538	453	201	302	318	353	430	5498 (12.2%)
Governmet Officials & Social leaders	-	-	1302	878	1257	1445	1282	1692	1908	9764 (21.6%)
Business Leader	-	-	36	380	457	73	301	-	-	1247 (2.8%)
Professor	-	-	-	254	-	-	405	-	-	659 (1.5%)
Other	-	-	32	213	-	-	43	316	687	1291 (2.9%)
Total	**1490**	**4318**	**5790**	**5371**	**5491**	**5418**	**5802**	**5779**	**5783**	**45242 (100%)**

Source: Park, 1998

Women leaders were also trained on factors that affected women's participation in the movement ranging from side-jobs for housewives, modernization of traditional wedding and funeral ceremonies, the role of women in the cooperative movement, education of children and family welfare in rural life to role of women in household savings. Through their active roles, women were able to keep their husbands away from excessive drinking and gambling, - factors which were considered important in affecting the poverty and misery of some families. They campaigned against the habits of overdrinking and gambling by conducting burning ceremonies of playing cards, as reported by Park (1998).

Through the Saemaul Project initiatives, the country saw the construction of new expressways, rapid development of large cities, and renovation of farmhouses, temples and resort areas. Traditional weddings and funeral ceremonies in rural communities were modernized or simplified to save time and expenses; - such expenses were a major cause of farm debt, (Park, 1998). The initiative raised the per capita income among rural households, improved their living conditions and reduced rural poverty and income inequalities.

3.5.4 Saemaul vs. Carrot-and-stick Approach

Carrot-and-stick approach in resource allocation to Saemaul villages focused on the Self-Help principle. Through the approach of giving priority to the successful villages, material support was given only to the self-help villages that met government standards. According to Jwa and Yoon (2004), economic incentives from the government were discriminatively availed to only those villages that excelled in implementing government directives. In 1970, a total of 34,656 villages were given free of charge 300-350 bags of cement to be used for community projects that would improve living conditions and social amenities such as roads, bridge, wells and drainages. In 1971, only 16,600 villages (48% of total villages) with good evaluation continued to receive 500 bags of cement with one ton of iron reinforcing rods. Furthermore, the electricity supply policy for a village was strictly linked to its performance of Saemaul Movement.

Because of carrot-and-stick approach, the spirit of competition and cooperation spread throughout the country. The policy provided for development competition amongst villages. For instance, as a result, shares of villages with access to electricity increased from 27% in 1970 to 98% in 1977 (Park, 1998). Consequently, the carrot-and- stick system of resource allocation contributed greatly on both national economic growth and per capita income among the rural people.

3.5.5 Export financing vs. stick-and-carrot approach

President Park's government strengthened export credit to support export financing and promotion of the export industry by introducing automatic approval of loans by commercial banks to prospective borrowers holding export letters of credit and to importers of raw materials/intermediate goods for export-related use or purchase from local suppliers. Economic incentives (credits) were used effectively as an industrial policy instrument. Export credit was linked with performance of the investors; – those successful in export market were rewarded with more credits, - (Chowdhury & Islam, 1993). The president's intention was to promote new export opportunities and diversify export items. Consequently, the interest rate on export credit was highly subsidized, - loans to exporters remained at 6.5% against 26% interest rate on general loans in 1965 (Cho and Kim, 1997). According to Aoki et al (1997), export promotion in the 1960s and heavy chemical industry drive in the 1970s were both supported by government preferential credit programs and discretionary allocation of credit. The total amount of credit supported by the government in 1961-1975 was 4.5% of total bank credit; 1966-1972 was 7.6% while 1973 was 13.2%.

The government gave economic incentives to the firms so as to enable them increase their assets and growth. Firms that satisfied the government by expanding exports and completing the construction of plants on schedule were assured of continued government credit support. Also, the government ensured that investment environment was stable through its excellent socio economic policies.

3.5.6 Credit financing vs. carrot-and-stick policy

Government credits and subsidies were allocated flexibly according to the performance of the respective supported firms/industries. For instance, the key element in export financing program was to supply credit to exporting firms with letters of credit (L/C) (Cho and Kim, 1997).The approach proved to be a more effective tool of government industrial policy than fiscal incentives. Through this approach, government support was linked to performance-based standards of success.

3.5.7 Land reform

In the 1930s, over 60% of arable land was owned by landlords, mainly Japanese and 83.5% of the population in 1947 was dependent on landlord's decision for access to all or part of the main source of livelihood (Mason et al, 1980). The situation changed when President

Syngman Rhee regime initiated and implemented land reform laws in 1950 resulting in the subdivision of large parcels to smaller ones. According to Mason (1980), by 1964, only 30.5% of all the farmers depended on the landlords and all but 7% had at least some land of their own. The reform provided incentives for tenant farmers who were free from the long-standing exploitation by the landlord to own land, (Cha, Kim, and Perkins, 1997). As observed from Table 10 below, the ratio of tenant farmers to farmland under tenancy decreased from 48.9:63.4 in 1950 to 68.1:39.4 in 1993. Thus, land reform reversed the land ownership system in favor of majority ownership.

Table 10: Proportion of Tenant Farmers and Farmland under Tenancy for the selected years

Year	Proportion of Tenant Farmers (%)	Proportion of Farmland under Tenancy (%)
April 1950 (prior to reform)	48.9	63.4
December 1950 (after reform)	n.a	8.0
1960	26.4	13.5
1977	36.1	16.5
1985	64.7	30.5
1989	70.5	36.5
1993	68.1	39.4

Source: Cha, Kim and Perkins, 1997 p. 481

Land redistribution benefited about 62% of the farm families, tenancy was almost virtually abolished and almost one million tenant farmers were able to expand their holdings. The greatest achievement was an even distribution of land holdings, a condition that is necessary for reducing income disparities among rural people. Land reform contributed greatly to the rise in gross income of the rural household because they no longer paid land rents. As observed from Table 11 below, farm income per household increased from 231.08 yen in 1933 to 324.06 yen in 1962 and to 427.53 yen in 1975.

Table 11: Farm Household Income Net of Rent Payment: 1933-1975

Year	(Constant 1934 yen)		
	(1) Farm Income per Household	(2) Rent per Household	(1) - (2)
1933	299.12 (370.55)	68.04 (84.29)	231.08
1938	327.89 (406.19)	94.80 (117.44)	233.09
1962	327.89	3.83	324.06
1965	327.74	6.00	321.75
1970	382.44	9.69	372.75
1975	436.82	9.29	427.53

Source: Mason et al (1980), p. 239

According to Mason et al (1980), in 1970 "Rural Modernization Act" was enacted to provide the legal background to the land consolidation. The project focused on enlarging plot size, straightening curved paths, waterways and levees and consolidating fragmented plots. Central government, municipalities and farm owners shared the project expenses: the government covered 80% of the cost and landowners paid the remaining 20%. Banks usually made loans amounting to 2\3 of the farmer's share with long-term and low-interest rates.

3.5.8 Policy coordination

The overall success of various government policies can be traced from the direct monitoring role of the government in economic performance. Through close consultation between the government and private sectors; - and the monthly export promotion meetings, export targets were set for each firm based on projected sales. Best performers were rewarded with financial support and were given achievement awards (Kim, 1994). According to Rhee (2006), during 1965-1979, about 300 monthly meetings were held. Through these trouble-shooting sessions, major bottlenecks were identified and corrective action taken immediately. If some projects were found to be lagging behind schedule, the causes of the delay were analyzed and a decision on corrective action taken, often on the spot. By doing so, there was vision sharing among government and private sector, which allowed better policy coordination, (Cho and Kim, 2007).

Monthly meetings helped review both bureaucratic and firm performance, - in essence acting like a “Beauty contest” for government officials. Every official had to be alert to ensure that a project on his authority did not become an object of negative attention at the meeting in the presence of the President. Performance of officials was the critical element of their evaluation and promotion; - corruption-free performance was key element of evaluation and promotion of public officers.

3.6 **Conclusion**

Equalization policy in Korea has been applied to the economy and society in a uniform and equality-seeking manner. The public and many of the democratic political leaders do not support discrimination. Public policy sought to equalize outcomes across various individuals. The question on what made the policy work in Korea as opposed to many developing countries such as Kenya could be explained by the fact that no ethnicity or rent-seeking behavior prevailed against the common interest. Rather, rent-seeking behavior was, managed carefully as part of a comprehensive economic development with a clear vision.

Economic incentives and government support were aligned to the performance of exporters in the international competition, an aspect that encouraged mobilization of high-powered human as well as physical capital in the export sector. Discriminative criterion for the distribution of investment incentives was clear and credible, was reasonably monitored and evaluated to ensure efficient resource utilization and together with effective policy coordination, government was able to move forward the economic growth of Korea.

In summary, the major contributing factors for shared growth in Korea were: equitable income and wealth distribution, ethnic homogeneity (no rent-seeking behavior or political patronage), equal opportunity to education, land, and village projects support and export investment financing, broad access to education and technical know-how, competition, performance-based government support, growth with job-creation, labor intensive export promotion and the spirit of self-help – New Village (Saemaul) movement and workfare.

Korea’s experience provides strong evidence that the government can intervene productively, efficiently and effectively in the early stages of economic development. The scope of government intervention must be re-appraised with a view of fostering greater reliance on market forces once the economic development advances.

CHAPTER IV: KENYA ECONOMIC DEVELOPMENT: Government Role

4.0 Introduction

This chapter seeks to provide evidence that in Kenya, the role of the government in resource allocation is, - influenced by rent seeking behavior, political patronage, and ethnicity. The evidence produced in this chapter supports the argument in the literature review, - that Kenya is a predatory state which endeavors to enrich a few political elites at the expense of the majority of citizens, a reason that explains disparities in income distribution and poverty levels across the geographical and political administrative regions. Due to lack of sufficient data, the analyses mainly use secondary data and past case studies relevant to the assertion. The chapter makes a comparative analysis of the three regimes (Presidents Kenyatta 1963-1978, Moi 1978-2002 and Kibaki 2002 to date) by use of their home region data and data from regions that have had no president.

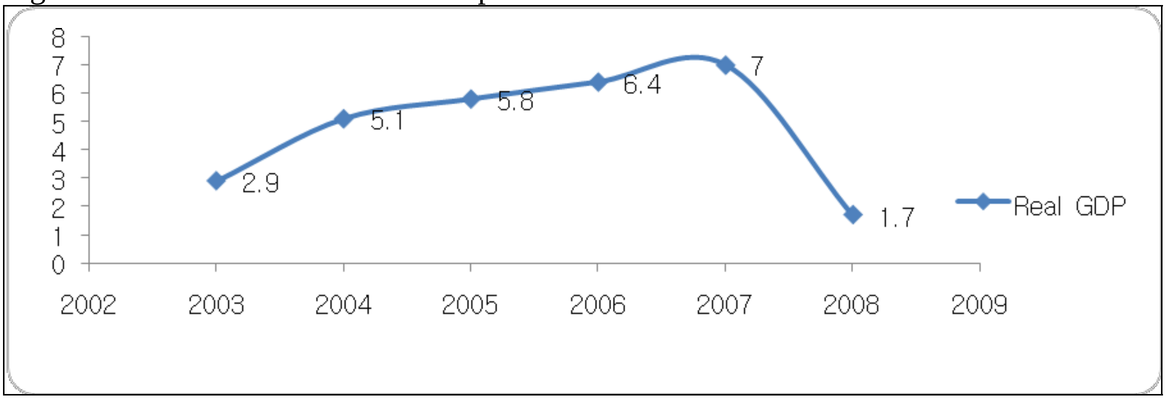
Elements analyzed include, - Kenya's economic background, income distribution, ethnic divisions, resource allocation and ethnicity, ethnicity and bureaucracy, political patronage and economic scandal, and ethnicity and school funding in Kenya. To ensure that government gets credit where it is due, the chapter concludes with an analysis of the type and nature of government policy intervention in resource allocation and national economic growth. However, there is enough evidence that; - policy implementation in Kenya is poor mainly due to a lack of strong institutions and national building spirit.

4.1 Economic Background

Past literature including World Bank Reports and Evans (1989) have shown that, upon independence, Sub-Saharan Africa, including Kenya, was economically at par with East Asian Tigers. World Bank reports say that if Kenya had sustained its economic performance of the 1960s, it would today be in the same league of economic development as Jordan, Argentina, and Portugal. Kenya's economic growth began to experience a downturn soon after former president Daniel Arap Moi came to power in 1978. At that time, the economy was growing at the rate of 5 per cent per annum. But in 1981, the "World Development Report" showed that economic growth had slumped to 2.7 per cent.

Kenya enjoyed strong average economic growth of 6.5% from independence in the 1960s and the 1970s during the reign of Kenyatta, the 1st President of Kenya. However, the rate was not sustained; it declined remarkably between 1980s and 1990s during the regime of President Daniel Arap Moi who ruled the Country for 24 years from 1978 to 2002. As observed from Figure 2, on taking over from Moi in December 2002, President Kibaki (3rd president) revived the economy from negative growth in Real GDP to 7% by the end of his 1st Term in December 2007. Because of December 2007 ethno-election violence and the prevailing global economic crisis, among other reasons, this growth melted down to a very low level of 1.7% in 2008.

Figure 2: Trend of Real GDP for the period 2002 – 2008



Source: Central Bank of Kenya – 2008 Annual Report

Kenya's economy is reasonably diversified, with agriculture contributing approximately 30% of GDP followed by tourism at about 20% and then industrial sector – with approximately 18% of GDP. According to the Central Bank of Kenya's 2008 annual report, Kenya recorded an economic growth rate of 7.0% in the fiscal year ending June 30th, 2007 mainly from the sectors shown on Table 12 below.

Table 12: Economic Indicators 2006 and 2007

	2006 growth rate (%)	**2007 growth rate (%)**
Economic performance		
Agriculture	4.4	2.3
Manufacturing	6.3	6.2
Building & Construction	6.3	6.9
Transport & Communication	11.4	14.9
Tourism	14.9	16.3
Wholesale & Retail		11.5
Debt status		
Budget deficit (% of GDP)	1.8	4.3
Overall debt stock to GDP	46.7	42.3
External debt to GDP ratio	23.1	21.1
Domestic debt to GDP ratio	23.6	21.2
Inflation	10.4	9.8

Source: Central Bank of Kenya, 2008 annual report

In Kenya, government budgetary allocations are skewed towards recurrent (consumption/operations) as opposed to development. This is illustrated on Table 13 below; - of the Kenya shillings 419.6 billion (national budget) for the fiscal year 2006/07, recurrent expenditure was allocated Kenya shillings 339.2 billion (76.3%) while development projects were allocated only Kenya shillings 80.4 billion (23.7%). Similarly, during the fiscal year 2007/08, the total national budget was Kenya shillings 543.5 billion, - the ratio of recurrent (consumption) to development allocations stood at Kenya shillings 412.6 billion (75.9%) to 130.9 billion (24.1%) respectively. The prevailing exchange rate was Kenya Shillings 67.32 to a US dollar as shown on Table 14.

Table 13: Ratio of Public Consumption to Development Expenditure 2006/07 and 2007/08

Year	Total Budget (Kshs. "billion")	Recurrent	Development (Kshs. "billion")
2006/07	419.6	339.2	80.4
2007/08	543.5	412.6	130.9

Source: Ministry of Finance and Central Bank of Kenya: Annual Reports (2008)

In 2007, Kenya's Gross Domestic Product (GDP) stood at US$ 29509 million while Gross National Income (GNI) per capita was US$ 777.1 million, (UNdata, 2009). Table 14 gives details of key economic indicators for the year 2000, 2005 and 2007.

Table 14: Economic Indicators 2000, 2005 and 2007

Economic indicators	**2000**	**2005**	**2007**
GDP (million US$)	12604	19132	29509
Growth rate of GDP at constant 1990 prices (% p.a.)	0.5	5.8	7.0
GDP per capita (US$)	403.3	537.4	786.1
Gross National Income (GNI) per capita (US $)	399.0	523.1	777.1
Gross fixed capital formation (% of GDP)	16.8	18.3	18.8
Exchange rate (national currency per US$)	76.18	75.55	67.32
Balance of payments, current account (million (US$)	-199	-252	-1102
Exports (million US$)			4080.8
Imports (million US$)			8989.3
Projected population (million)			37.538
Population growth rate 2005-2010 (% per annum)	2.7		

Source: UNdata - United Nations Statistics Division, copyright 2009

As observed from table 4.3, there was sustained economic growth, with GDP rising from 0.5% in the fiscal year 2000 to 7.0% in the year 2007. During the same period, there were notable gains in Kenya shilling against the US dollar. However, there was trade imbalance, with balance of payments remaining negative while imports were more than double of exports.

4.1.2 Income distribution

It is estimated that,- 12.6 million of the 38 million people in Kenya live below the poverty line of less than one dollar per day. GDP per capita was $1,063 in 2004 according to the Central Bank of Kenya and the World Bank reports. Institute of Public Policy and Research Analysis estimated poverty indices using 1994 and 1997 welfare monitoring surveys at 57% in 2000 and 40% in year 2005 with absolute poverty of more than 30% of the total population. In comparisons, Korea's absolute poverty declined steeply from 48% in 1961 to less than 10% entering 1980s and to less than 4% currently, (Kim, 2009).

The report of Kenya's Central Bureau of Statistics (CBS), 2005 titled: *Geographic dimensions of well-being in Kenya: who and where are the poor*, reports that,- the richest constituencies are in the central province, while the poorest ones are to be found in Nyanza province, which has poverty levels of 65 percent. The central province has had two presidents out of the total (three presidents) since independence while Nyanza has been largely associated with opposition politics. Part 4.2 of this chapter gives detailed analysis on how political patronage and ethnicity have contributed to the income disparities prevalent in Kenya.

Per capita income was US dollars 399 in 2000, 523.1 in 2005 and 777.1 in 2007 as shown on table 4.3 above, (UN, Data Division 2009). Although the service sector accounts for more than 67.6 percent of GDP, about 75 percent of the population is employed in the agricultural sector. The labor participation rate as a percentage of the total population (15 years and over) is 81 percent. The participation rate for men is much higher at 90 percent while female's participation rate is below the total average at 71 percent, (Kenya National Bureau of Statistics). These statistics indicates that, Kenya's economy depends more on service and agricultural sectors as opposed to manufacturing or heavy chemical industries in Korea.

According to reports of different studies, such as Consultative Group to Assist the Poor (CGAP) and Global Policy Network, 42 percent of the national income in the country is in the hands of 10 percent of the richest households, while only 0.76 percent of the national income is in the hands of the lowest 10 percent. The studies also indicate that in terms of Kenyan shilling, for every one shilling earned by the lowest 10 percent, the highest 10 percent earn more than 60 Kenya shillings. Additionally, when the income groups are subdivided into ten cumulative percentages of household income groups, the GINI coefficient, which measures the inequality of income distribution, is 0.571. Further, in Kenya 4.6 million people work in the informal sector, which constitutes 18.4% of GDP. According to the Global Policy Network, Kenya's GINI coefficient was 0.57 in 2004 and agriculture was the predominant sector employing 24% of Kenyans followed by the informal sector.

These statistics when translated into reality, gives an insight on how individualism has planted its roots in Kenya. Although capitalism is a good incentive for the economic growth, it is inhuman for just 10% of the national population to have extremely super normal life while 90% lives from "hand to mouth". It is ethical to have some equitability in national income distribution across the board.

4.2 Factors affecting development policies

The aforementioned poverty and disparities in per capita income can mainly be explained by ethnically skewed resource allocation. However, most of the economic "think tanks" and policy makers such as Kenya Institute of Public Policy and Research and Analysis (KIPPRA), have argued that, - poor policy design and implementation, weak institutionalization and operationalization of vocational training policy, low capacity of Kenya government and private sector to effectively coordinate Public-Private Partnership, weak linkages between research institutions and industry, low investment in research and development, unfriendly business environment and poor saving culture are the main causes of the noted poverty and income disparities. Women, pastoralists, urban slum dwellers, young unskilled Kenyans, child laborers, the disabled, HIV infected and affected and workers in informal economy and in the Arid and Semi-Arid (ASAL) districts are the people most adversely impacted by unemployment and low productivity.

4.2.1 Ethnic Divisions

The British colonial government[9], through its "divide and rule" policy, divided the Kenyan territory into eight provinces and districts according to ethnic groups and subgroups. The post-colonial government consolidated this ethno-political structure by aligning parliamentary constituencies with ethnic boundaries. From the district to the provincial level, ethnic groups are clustered together so that regions in Kenya are ethnically distinct, - (Alwiya, 2004). In allocation of government resources in the post-colonial era, Kenya government has followed an ethnic pattern, in which important political and administrative individuals have favored their home region and tribe or clan, (Oucho 2002 and Oyugi, 2000 as cited by Alwiya, 2004). During President Kenyatta's regime (1963- 1978), certain parts of the Kikuyu community gained considerably, while President Moi (1978 – 2002) granted similar advantages to his tribe, - the Kalenjin, (Alwiya, 2004). Ethnicity is an important criterion by which groups define and identify themselves within Kenya. Ethnicity promotes competition for influence in the state and in the allocation of resources amongst groups.

Ethnic diversity tends to encourage rent seeking among policy makers and general bureaucrats. Past studies indicate that, - ethnic diversity hinders the adoption of sound policies while encouraging the adoption of growth-retarding policies that foster rent-seeking behavior. In Kenya, high levels of ethnic diversity has encouraged growth-impeding policies with each of the forty two official ethnic groups including Kikuyu - 22 percent of population, Luhya 14%, Luo 13%, Kalenjin 12%, Kamba 11%, Kisii 7%, Meru 6%, Masai 3%, Somali 3% and others 31% trying to compete against each other for the available scarce resources and socio-economic opportunities such as public employment.

The Kikuyu led the fight for independence and dominated politics under President Kenyatta from 1963 until 1978. From 1978, the Kalenjin ethnic group of President Moi

[9] Ruled Kenya With effect from July 1895 when British declared the country a colony and Protectorate, and posted the first Governor, Sir Arthur Hardinge, to establish a formal British administration up to June, 1963

dominated the government. The allocation of road building investments in Kenya between the home regions of the Kenyatta and the Moi ethnic coalitions during their respective governments reveals that, in 1978, the road building investment share of the Kenyatta coalition home regions fell from 44 percent in 1979-1980 to 16 percent in 1987-1988 while the share of the Moi coalition home regions rose from 32 percent to 57 percent in the same period (Easterly, 1987). The share of health expenditures in 1987-1988 going to the regions of the Kenyatta ethnic coalition was 18 percent, while the regions of the Moi coalition received 49 percent. This illustrative evidence reflects how resource allocation in Kenya is influenced by ethnicity and political patronage.

4.2.2 Resource allocation and ethnicity

President Kenyatta (1st President 1964-1978) promoted the interests of his Kikuyu especially those of the Kiambu sub-group to which he belonged. He retained a minimal alliance with other ethnic groups through their representatives in government. Representatives of other ethnic groups received patronage and rewards from Kenyatta in the smallest amounts required to retain their loyalty. Any individual attempt to disrupt this arrangement was frustrated in a mysterious and cold-blooded manner. The murder of political opponents such as Tom Mboya (a Luo eloquent and efficient politician with majority support) in 1969 and J. M. Kariuki (a populist Kikuyu with national appeal in 1975) is seen to have been resultant of their potential power to disrupt the Kenyatta regime, (Barkan, 1994). This illustrates how negative ethnicity is to the potential and general welfare of a country.

Kenyatta ensured that, - the Kikuyu got a larger share of the patronage benefits. Local patrons effectively blocked Kenyatta from direct access to the population controlled grassroots politics. Kenyatta stayed aloof and adopted the position of Mzee (old man) or ‘Father of the nation’’, (Barkan, 1994 as cited by Bienen 1974:75). He exercised his influence by use of his own informal patron-client hierarchies, of which he served as the head.

It is recorded that, President Kenyatta had no consultations with parliamentarians for most of his time in power and his cabinet ministers followed the same trend by ignoring the backbenchers, (Barkan, 1994 as cited by Gertzel 1970:150).

During Kenyatta's regime, the institution of the presidency was allowed to detain individuals without trial and to nominate twelve members of his choice to the national assembly - a tool for strengthening his patronage and influence on public policies. His reign, 1963-1978, was characterized by confrontations between the state authorities and a still relatively autonomous civil society. 'We did not attain independence to have a country of ten millionaires and ten million beggars', (Nyandarua North MP, J.M. Kariuki, shortly before he was assassinated in 1975). Kariuki made these remarks to condemn the culture of public property grabbing that was emerging among the leaders in post-colonial Kenya.

Moi Regime (2nd president) 1978-2002 followed Kenyatta's footsteps. He detained politicians who appeared to be a threat to his regime, - such as Jaramogi Oginga Odinga (father of the current Prime Minister and the leader of opposition) in 1980. Additionally, because of political interests, his regime murdered Robert Ouko in 1990 and detained political reformists Kenneth Matiba and Charles Rubia for their perceived political threat, (Barkan, 1994). In 1982, he pushed for a constitutional amendment, which made his ruling party the only legal party in Kenya. The amendment did not last for long; - the clause was repealed in 1991 as a response to an intensive fight for democratic governance by both the political activists and advocates of the human rights.

Moi's political challenge was to redistribute patronage from Kikuyu to his Kalenjin community through an approach many Kenyans referred to as 'feathering your own nest'. Kalenjin elites were favorably appointed to key positions in the public and the private sectors at the expense of other communities. One notable example was the removal of Udi Gecaga, - Lonrho East Africa Manager, and replacing him with Moi's close confidante Mark Arap Too, (Barkan, 1994 as cited by Africa Confidential, December 21, 1983 and October 23, 1990). During this regime, loyalty to the president was the essential determinant of success in the private sector, as licenses, credit facilities and other benefits were channeled through politically controlled institutions.

To ensure maximum influence on policy issues, the Moi regime fashioned patron-client hierarchy by introducing a ruling party life membership as an obligation for all parliamentarians and chief public executives. He formed a party disciplinary committee to mete out punishment against any leader who did not toe the ‘official political line’. Parliamentary group of the ruling party met behind closed doors, and thus eliminated the need for debate of policy issues in the National Assembly. The National Assembly became just a rubber stamp of policies initiated by the president, his closest advisors and the KANU (President Moi’s ruling party) parliamentary Group.

According to Rothchild, (1997), - sub regional budgetary allocation indicates a tendency towards proportional allocative values in the late 1970s and early 1980s in the home region (Central & Nairobi) of President Jomo Kenyatta and (North Eastern) of President Moi. Studies of budgetary process shows that, - during Kenyatta’s regime, resource distribution was highly skewed in favor of regions supporting ethno-regional interests of his regime. When President Moi came to power, the pattern shifted to those areas where Moi comes from, evidence that policy making in Kenya is dominated by ethnically rent-seeking motives, (Mwangi, 2004). Table 15 below shows that, resource allocation in the Kenyatta’s regions (Central and Nairobi) reduced considerably during President Moi’s regime.

Table 15: Resource allocation index: Kenyatta vs. Moi regime

Resource description	**1974-1975** (President Kenyatta regime)	**1982-1983**(President Moi regime)
1.Central Province Hospital programs index	1.01	0.89
Education programs	0.53	0.45
Educational across the board	1.64	1.16
Road index	0.44	0.70
2. Nairobi province Road index	1.16	0.16
3. North Eastern Province Hospitals	0.67	2.44
Schools index	0.21	0.79

Source: Rothchild, 1997 pg. 79-80

4.2.3 Ethnicity and bureaucracy

The President's ethnic group is normally over-represented in both the cabinet and civil service. Rulers in Africa award senior positions in the civil service and cabinets primarily to members of their own ethnic group, (Mwangi, 2004). Table 16 below shows that, president Moi increased the number of cabinet members from 22 to 28 and 34 in his 1st and 2nd term respectively. He reduced cabinet members aligned to Kenyatta from 35% in his 1st term to 14% in the 2nd term. He also made sure that, the minority of the cabinet (14% in the 1st term and 3%in the 2nd term) were from Kenyatta's ethnic group. Although this imbalance could have been motivated by the need for loyalty, in African settings, ethnicity overrides other factors.

Table 16: Ethnicity and the provision of patronage goods in Kenya

	1st President (Kenyatta) His last Cabinet, 1978	**2nd President (Moi) His 1st Cabinet, 1982**	**President Moi 2nd Cabinet 1988**
Total No. of Cabinet	22	28	34
% of Kenyatta's cabinet retained	-	35%	14%
% of members of Kenyatta's ethnic Group Retained	-	14%	3%

Source: Kimenyi et al. (1982), 'Political Successions and the Growth of Government', Public Choice, Vol. 62, No. 2 (August), pp.173-180.

To entrench his authority, President Moi sacked competent individuals deemed to be anti-government and replaced them with sycophants. Consequently, the civil service became bloated, with the number of employees increasing by 6 per cent between 1982 and 1987.

President Kibaki took over from Moi in December 2002 and appointed a cabinet in January 2003. His cabinet since his 1st term (2003-2007) to the current term (2008-2012) is more ethnically diverse than those of his predecessors due to the fact that,- Kibaki regime is a coalition government comprised of several political parties each with an ethnic base, - in this case the cabinet must be representative of the party as a whole. Table 17 represents the composition of Kibaki's current cabinet.

Table 17: Cabinet status, as at May 2008 (Kibaki's coalition government)

Ethnic coalitions	**Number of cabinet**	**% of the cabinet**	**% of National Population**
Kikuyu/Meru/Embu/Kamba	13	31	45
Luo/Luhya/Kalenjin	18	43	39
Others (More than 30 ethnic groups/minority groups)	11	26	16
Total	**42**	**100**	**100**

Source: Presidential Circular No.1/2008, (May 2008)

However, President Kibaki is seen by a majority of Kenyans to have entrenched political patronage and tribalism in resource allocation too. For instance, he has appointed a majority of Kikuyu (tribesmen/women) in the cabinet and key public sectors, (Office of the President circular, Number 1/2008). In the Armed Forces and Finance, the Chief of general staff and his deputy, police commissioner and his deputy, Director of criminal investigation, Director of National Security Intelligence Services, Minister for Finance and his Permanent Secretary, Head of Budget, Central Bank Governor, Chairman Kenya Revenue Authority and Head of National Anti-corruption Authority all come from his home region and ethnically correct tribal groupings. The scenario cut across all other sectors of the economy. Kenyan society has been trained by political elites to believe that, the chief executive of a public agency, - must have the priority to promote the interests of his ethnic group ("feather his own nest") as opposed to the national interest. This gives strong incentives to the bureaucrats to favor their regions and ethnic groups in resource allocation.

4.2.4 Political Patronage and Economic scandal

During President Moi's regime, sycophancy and political patronage intensified rent seeking activities, which had far-reaching impact on the Kenyan economy. The most notable is the Goldenberg Scandal of 1990 to 1993 involving export compensation for 'fake' diamond and gold transactions. The commission of inquiry appointed in 2003 by the current President (Kibaki) established that, in one transaction alone, some 13.5 billion Kenya shillings ($1.8 billion) was paid out by Kenya Central Bank to Goldenberg International, – a firm jointly owned by an Asian tycoon Kamlesh Pattni and former Director of Security Intelligence James Kanyotu - purportedly to purchase the accruing foreign exchange. While the amounts that were involved are yet to be determined, Kenyans are still counting the cost. The scandal is estimated to have cost the economy more than 10% of the country's annual GDP and it is possible that no gold was exported at all. The scandal appears to have involved political corruption at the highest levels of the government of President Moi. The case is still on-going and some members of the current regime were also implicated in this scandal.

Another scandal is the Anglo Leasing, - a political-patronage multi-million dollar corruption initiated by the Moi regime and executed by Kibaki regime. Kenya's government wanted to replace passport printing system in year 2002 with a sophisticated passport equipment system sourced from a British firm - Anglo Leasing Finance (existing only in name) at 30 million Euros among others, (John Githongo's Report, 2006). The publication of John Githongo's report in 2006 revealed that,- Anglo Leasing Finance was just one of many entities including UK companies used by political elites to commit fraud on the Kenyan taxpayer through non-delivery of goods and services and massive overpricing. In Kenya, “We have in place a system that rewards corrupt networks, patronage and negative ethnicity”, (Sunday Nation, October 4, 2009). This illustrates the burden that, - ethnically motivated resource misappropriation imposes on the Kenyan people as the taxpayers.

From the above analysis, William Easterly is correct in his argument that, parliamentarians and their constituencies are characterized by ethnicity with communities wanting to be sure that a candidate will represent their interests once elected into the National Assembly. The group in power systematically manipulates the multiple exchange rate system to extract rents for its particular ethnic group, which illustrates “how brazen ethnic-based rent-seeking coalitions can become” (Easterly, 1987). The aforementioned examples give an insight of how ethnic divisions foster growth-retarding policies in Kenya as opposed to Korea.

4.2.5 Ethnicity and School Funding in Kenya

Kenyan education enrolment at various levels is characterized by regional and gender disparities and also by declining gross enrolment ratios (Abagi, 1997; Government of Kenya, 1995; Ministry of Education and Human Resources Development, 1995 as cited by Alwiya, 2004).There are persistent regional disparities in access and opportunities in education, frequently acknowledged in educational analysis in Kenya (Abagi, 1997; Bakari and Yahya, 1995; Ogot and Ochieng, 1995; Oucho, 2002; Oyugi, 2000). Kenya’s education policy emphasizes on academic achievement as the criterion for advancement within the system, - (Court, 1979 as cited by Alwiya, 2004). The policy is good but unfairly benefiting the elites or moneyed classes who are capable of educating their children in the best National Schools with sufficient training facilities. To the contrast, children of the poor majority enrolls in poorly equipped schools and academically perform poorly, their chances of being absorbed into the formal employment after schooling are lower compared to moneyed classes.

Miguel (2000) conducted research on ethnic diversity and School funding in Kenya using School Assistance Project (SAP) – a World Bank Program data for 100 out of 337 rural primary schools in Busia and Teso districts. His research study found that, ethnic diversity is associated with sharply lower local school funding and school facilities in Kenyan primary schools. Miguel's findings are supported by Alwiya, - (2004) whose study on "Ethnic Inequalities in Education in Kenya" found that certain, - ethnic groups may have resources and opportunities because of their geographical location and ethnic proximity to the ruling elites.

In his study, Miguel examined the relationship between ethnic diversity and primary school funding in western Kenya by conducting structured field interviews with twelve primary school headmasters in June 2000 in Busia and Teso district. The two districts are ethnically diverse with three main ethnic groups namely, - the Luhya, Teso and Luo. Comparisons of two schools, - Matumbai Primary School (most ethnically diverse school) in Teso district, - and Buduta Primary School (most ethnically diverse school) in Busia district revealed how low levels of inter-ethnic cooperation may lead to reduced educational investment. Most parents refused to fund school projects or participate in meetings due to lack of trust across groups and the absence of a feeling of ownership for the school. Findings of this study illustrate lack of common purpose among different ethnic groups. It also illustrates how ethnicity retards the development of social economic infrastructures in Kenya.

Empirical Framework and Results: School Assistance Project (SAP) (World Bank Program) data for 100 out of 337 rural primary schools in Busia and Teso districts were collected from pupil, school, and teacher questionnaires in early 1996 as baseline information for a non-governmental organization School Assistance Project (SAP). Needy schools were selected by the Ministry of Education district education office in 1995. The schools were stratified by geographic division, and then randomly assigned into four groups that were to receive financial assistance in sequence over the following four years. Financial and demographic data was gathered by NGO Organizations using questionnaire in 1996. More than six thousand pupil questionnaires were administered to all Standard Six through Standard Eight pupils.

School questionnaires were filled by schoolmasters with the assistance of a trained enumerator – and contained detailed information on school finances, infrastructure, inputs, and pupil enrollment. Ethno-linguistic fractionalization (ELF) was used as the principal empirical measure of ethnic diversity. Ethno-linguistic fractionalization is the probability that two people randomly drawn from the population are from different ethnic groups.

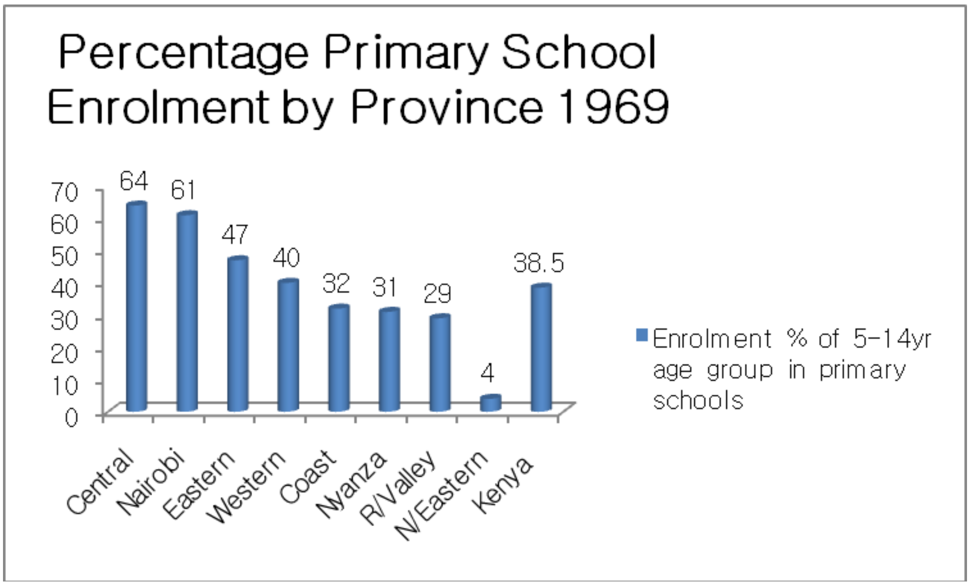
The instrumental variable coefficient point estimates on Ethno-Linguistic Fractionalization (ELF) was negative and significantly different from zero at 95 percent confidence. The results indicated that, - school enrollment rates are lower in ethnically diverse areas and ethnic diversity is associated with worse school facilities which may directly affect the quality of pupils' educational experience.

Through his study on Ethnic Inequalities in Education in Kenya, Alwiya, (2004) argues that, the underlying cause of unequal access to education is the patron-client relationship between the ethnic group of the ruling elite and the government that prevails in Kenya. Political and economic power, and the wealth affiliated with it, is highly skewed to the ruling ethnic group, whose exclusionary practices have created marked inequalities in access to resources, including educational resources. The ruling group uses the resources of the state for the special benefit of its own ethnic community and its allies, and this would be reflected in the educational development pattern, (Alwiya, 2004).

Since independence, inequalities in educational provision and opportunities persisted in measurable factors such as the distribution of government schools in the country, national examination performance and university admission records (Ghai and Court 1974 as cited by

Alwiya, 2004). As observed from Figure 3 below, the Central Province had the highest enrolment rate during President Kenyatta's era.

Figure 3: Percentage Primary School Enrolment by Province 1969



Source: Central Bureau of Statistics: Kenya (1994)

The available data clearly indicates that, by the end of the Kenyatta's era, professionally qualified teachers[10] were over-represented in the Central and Nairobi areas (Table 18), the regions where the Kikuyu, the ethnic group of the President, predominate.

Table 18: Professionally Qualified Teachers in Primary Schools by Province, 1979 (as a percentage of all teachers)

Province	**Nairobi**	**Central**	**R/Valley**	**Eastern**	**Nyanza**	**N/Eastern**	**Coast**
Percentage	99.1	90.2	70.0	69.9	67.8	66.1	64.8

Source: Alwiya, 2004

[10] Teachers who have undergone in-service primary or secondary school teachers training in the respective training colleges and have been awarded certificates of completion.

4.5.1 Educational inequalities – Current status

Kenya's current education system dates back to the colonial period, as its designers sought to offer unequal treatment based on racial or ethnic criteria from the British colonial regime. Most resources went to 'white schools', then the national schools[11], followed by provincial schools and the district schools at the bottom. Even today there is biased pupil selection, teacher posting, bursary allocation and general provision of facilities with national schools admitting high scorers and getting the most highly trained teachers. The System favored national schools[12] most of which are situated in the Central and the Rift Valley Provinces (home regions) of the past two and the current presidents. Most of the University students (future professionals) are produced by these schools/provinces.

Kenya Country Report indicates that investment in Kenya education in terms of real expenditure, and the percentage of expenditure allocated to education is higher than other sectors of the economy but equity remains an issue (Government of Kenya, 1995) and the Education For All (EFA) Assessment Report (UNESCO, 2000). For instance, 1997 Gross Enrolment Rate (GER) shows that, there are fewer school-aged children in schools in the ethnic communities in the Coast Province, as compared with other provinces. Students of the ethnic groups in Coast Province are at a disadvantage compared to other ethnic communities in other Provinces.

Ethno-regional inequalities are also in secondary schooling and post-school education. The Secondary and Higher schooling gross enrolment for the Coast Province (Table 4.8 below) indicates a high dropout rate with a low proportion proceeding to higher levels of education (Government Polytechnics and Universities). As observed on Table 19, students living in the Rift Valley Province have a higher likelihood of reaching secondary or a higher level of education, and thus have an advantage over students in the Coast Province.

[11] 85% high school enrolments admitted from local community and 15% from outside the province.
[12] Two Alliances, Mangu, Starehe, Moi Forces Academy, and Kabarak.

Table 19: Percentage distribution of gross enrolment for 1997

Province	**Central**	**R/Valley**	**Eastern**	**Western**	**Nyanza**	**Coast**
Primary	100	93.4	93.7	108.5	90.0	87.6
Secondary	33.7	29.6	20.4	22.1	38.7	14.2
Post-School Education	2.8	2.3	3.7	5.7	0.5	0.7

Source: Ministry of Education, 1995

Primary school pupil-teacher ratio by province (Table 20) for 1997 shows that, apart from lower enrolment rates in the Coast Province, these provinces also have the highest primary school pupil-teacher ratio by province with 40 primary students per teacher, a figure that is above the national average of 31 students per teacher. This is enough evidence that, Coast Province teachers are overworked and therefore unable to provide an education of the same quality as teachers in other provinces. In contrast, Rift Valley Province, the home of President in the 1990s, had the best educational opportunities and resources in terms of pupils per teacher ratio.

Table 20: Primary Schools Pupil-Teacher Ratio by Province

Province	Central	Coast	Eastern	Nyanza	R/Valley	Western	Total
1997	33.50	40.18	28.03	30.57	27.93	35.43	30.90

Source: Ministry of Education, 1995

Other socioeconomic disparities contribute to regional disparities in education in some provinces. For example, the North Eastern and Coast Provinces may include fewer schools, which are widely scattered and thus more difficult to access. Furthermore, attendance is constrained by a lack of transport facilities and parents' ability to pay school fees, which are particularly high for secondary schooling. Since parents in less endowed provinces, like the North Eastern and Coast Provinces, have a higher incidence of poverty than their counterparts in Nairobi, Central and the Rift Valley Province, education in Kenya facilitates economic disparities more than it bridges them, (Kimalu, et al, 2002 as cited by

Alwiya, 2004). The lack of national secondary schools in the Coast or Northeastern provinces (Swahili and Somali ethnic backgrounds), which somehow guarantee entry to university and future occupational careers intensifies income disparities and poverty across the regions.

The result of this inefficient school funding in Kenya is disparities in adult literacy as observed on Table 21, while its outcome would be low per capita income and high poverty rate in the disadvantaged regions. Therefore, Ethno-regional disparities are significant in Kenya, and students in provinces with little or no political power in Kenya have been disadvantaged.

Table 21: Adult Literacy and Numeracy Rates by Province as at 2006

Province	**Literacy (%)**	**Numeracy (%)**
Nairobi	87.1	86.6
Central	73.3	78.9
Coast	65.1	68.9
Eastern	54.7	57.5
North Eastern	8.1	9.1
Nyanza	66.0	70.0
Rift-Valley	56.5	60.5
Western	56.9	58.0
Total	**61.5**	**64.6**

Sources: Central Bank of Kenya; cited from Economic Survey 2008

4.3 Government interventions

4.3.1 Economic Policy

From 1993 onwards, Kenya government abolished export and import licensing, rationalized and reduced import tariffs, deregulated exchange rate (thus allowing the shilling's rate to be determined by the market), removed current account restrictions, authorized residents and non residents to open foreign currency accounts with domestic banks, removed restrictions on domestic borrowing by foreign owned companies, and on external borrowing by residents, revoked blocked fund provision, liberalized the capital market – thus enabling foreign companies to buy stocks up to a maximum of 40% of a company's total quoted stocks, and individuals up to 5%, removed price controls and repealed Exchange Control Act, (Kenya EPZ, 2005). These reform measures aimed at making the government more responsive to the private sector growth and encouraging foreign investment.

Further, to encourage foreign investors, the Kenyan government gives investors guarantees on repatriation of after tax profits, including retained profits, which, - have not been capitalized; repatriation of investment proceeds after payment of relevant taxes; repatriation of the principal and interest associated with any loan and no expropriation of private property as enshrined in the constitution, (Kenya EPZ, 2005).

4.3.2 Transaction cost policies

The Kenyan government instituted security enforcements policies on ownership rights which reduced costs of exchange among the pastoralist communities, (Ensminger, 1992). For instance, regulations were introduced requiring no buying and selling of stolen goods such as cattle. These policies increased market competition by breaking the virtual monopsony in trade. As observed from Table 22 below, local income per capita from trade activities among the Orma people more than doubled while the size of people engaged in commercial activities grew from 39% to 63% of the total, income from non-livestock sources increased from 26% to 48% per household and absolute number of those involved in substantial wage labor and trade increased by 70%, (Ensminger, 1992).

Table 22: Income (%) by source for two-village household sample by wealth of household, 1980 and 1987

Income source	poor	Middle	Rich	All				
	1980	1987	1980	1987	1980	1987	1980	1987
n/N	16	39	11	30	25	21	52	90
All stock related	61.9	42.1	77.0	49.0	84.9	62.9	74.8	51.3
Stock sales	60.7	40.6	71.8	47.7	67.4	61.4	66.7	49.9
Stock products	1.2	1.5	5.2	1.3	17.5	1.5	8.1	1.4
All wage labor	33.2	52.3	16.7	32.7	6.8	14.8	18.6	33.2
Hired herder	14.6	19.8	3.4	9.5	2.7	5.6	6.7	11.6
Stone digger	16.4	13.3	12.3	16.8	4.1	4.1	10.8	11.4
Casual laborer	0.0	10.5	0.0	2.6	0.0	1.3	0.0	4.8
Traditional	2.2	4.6	1.0	0.3	0.0	0.1	1.1	1.6
Civil servant	0.0	4.1	0.0	3.5	0.0	3.7	0.0	3.8
All trade	4.8	5.5	6.3	18.2	8.4	22.4	6.5	15.4
Shop/kiosk	0.0	3.0	0.0	13.1	3.9	16.0	1.3	10.7
Stock trade	1.4	1.3	6.3	2.7	2.5	6.2	3.4	3.4
Non-stock trade	3.4	1.2	0.0	2.4	2.0	0.2	1.8	1.3

Note: Income does not include subsistence production or gifts from households.
Source: Ensminger, 1992 pg. 91

4.3.3 Decentralization policy

Kenya government launched administrative decentralization initiative in 1983 referred to as District Focus for Rural Development (Government of Kenya, 1983). The program involved moving civil servants out of urban areas to the rural areas where they could be most effective (more effective central government). The policy affected the schools, health centers, agricultural and livestock development offices across the entire administration within the districts.

The result of this policy, according to Ensminger, (1992), is that, - more qualified civil servants were permanently deployed within local public institutions. There was notable improvement in local infrastructures including roads, bridges and health facilities. The economic circumstances of rural people improved due to increased government expenditures and more employment opportunities in schools, construction works and road-building projects.

According to Ensminger, (1992), a precise measure of economic development resulting from government-initiated policy in Kenya is not possible. However, on balance the policies improved environment for economic activities among rural people such as the Orma of North Eastern Kenya. As observed from Table 23, interest rates in rural areas calculated based on differential between the price of cattle when sold to the shopkeepers from whom they took credit and the price of the same cattle received from independent traders who paid cash indicates radical improvement.

Table 23: Interest rates of cattle sold to shopkeeper creditors vs. Independent traders

Year	A. shopkeeper	B. traders	Difference: A-B (%)	Annual increase (%)
1980	4year old head @Kshs. 631	Kshs. 1001	37.0	87
1987	1.7 year old head @Kshs. 825	Kshs. 874	5.6	12 (enormous drop in the cost of consumer credit)

Source: Ensminger (1992)

Although poverty remains evidently predominant among the majority of rural households, on balance, the aforementioned policies, - economic reforms, transaction costs and decentralization policies at least brought some economic opportunities especially to the middle rural households.

4.3.4 Land Reforms and property rights

Kenya's land surface area is approximately 582600 sq. Km, - of this, - high potential land is approximately 30%. Land ownership entails government Land (~10%) - controlled by central government; private land (~20%) - freehold or leasehold tenure and trust Land (~70%) - held in trust for residents by county councils (local authorities) until the formalization of ownership rights. The main land reform programs initiated by the Kenyan government since 1960s include land distribution (allocation), land formalization and land redistribution. These reforms are, - ongoing, and are yet to effectively realize any meaningful results, - many people are still landless. There are massive land owned communally, absentee owned land (idle land) and massive privately owned land at the expense of the majority rural households. Land is therefore, not equitably distributed for the common good of all citizens, and national economic growth.

Kenya has a liberalized economy allowing any one to own or legally acquire land or property anywhere in the country (Kenya EPZ, 2005). Non-residents may invest in Kenyan property directly, or through a joint venture with a resident entity, or ownership of a resident entity. Under the provisions of the Land Control Act, a public company incorporated in Kenya may own agricultural land, even if its shareholders are non-residents. Land and property are bought or sold on the basis of “willing buyer, willing seller” though all land transactions have to be sanctioned by the Ministry of Lands and District Land Boards in accordance with Land Act CAP. IX.

Patents are regulated by the Industrial Property Act and administered by the Kenya Industrial Property Institute (KIPI) while trademarks are regulated by the Trade and Service Marks Act and administered by the Registrar of Trademarks at Kenya Industrial Property Institute (KIPI). The duration of trademarks is seven years from the date of filing and renewable every 14 years.

4.4 Summary

The issues of access to schools, distribution of qualified teachers and other educational resources are equity issues, which influence the persistent poor enrollment rates and educational outcomes for ethnic minority students such as the Swahili and the Somali. Inequalities in education are likely to be a significant factor in explaining the higher levels of poverty in these ethnic communities. Highlights of provincial inequalities among selected groups and descriptive evidence of ethnic inequality presents strong support for the case that ethnicity affects resource allocation and school funding in Kenya.

Ethnic diversity is associated with sharply lower local school funding and school facilities in Kenyan primary schools. Ethnic diversity across tribes has a negative relationship more so in the presence of greater cultural and linguistic differences. Donations from local fundraisers (Harambees) required considerable community coordination and participation to be successful but because of ethnic divisions, they are not successful in ethnically diverse areas.

Determining efficiency costs for policies of ethnic diversity lies in identifying the mechanisms through which diversity affects organizational performance. The formation of meaningful economic linkages extending beyond the immediate community is a necessary pre-condition for modern economic growth. The design of policies that build cooperation or social capital across ethnic groups remains a poorly understood yet promising research agenda with critically important implications for economic development in Kenya and Sub-Sahara Africa.

Inadequate implementation of policies by the government, weak policy conception and formulation are key variables in the performance of Kenya's economic and infrastructural sectors. Most of the policies are only in script, they have never been implemented. Weak policy implementation and the failure to factor the resources required for implementing the policy are the key shortcomings of Kenya's economic development policies. Because of these limitations, the only available policy data in Kenya is policy descriptions with little evidence of policy implementation, progress and policy achievement.

CHAPTER V: DISCUSSION, CONCLUSION, & POLICY IMPLICATION

5.0 Discussion

This study has attempted to explain the Kenyan economic status by analyzing the effects of social-cultural factors such as ethnic diversity, political patronage and rent-seeking behavior on the government role in public resource allocation. Through a comparative analysis of predatory and developmental state concepts in Korea and Kenya, the study has been able to confirm that, different government regimes in Korea adopted a developmental approach to resource allocation while in the Kenyan case; the regimes adopted a predatory approach. In the Kenyan case, the aforementioned socio-cultural factors impacted negatively on the national economic growth[13]; to the contrast, Korean people are homogeneous and cultural factors do not affect public resource allocation; therefore, Korean political elite allocated public resources efficiently within the guiding principle of a shared vision of poverty reduction, equitable income distribution, and unity of purpose in the national economic growth.

The study notes that, initial condition with respect to equitable income and wealth distribution was the single most important reason why Korea's successive governments' intervention could be carried out effectively without giving rise to rampant rent-seeking. Most of the other developing countries, - including Kenya, did not have high levels of educational attainment relative to income and equal distribution of income and wealth as was the case with Korea.

The study has confirmed that, - political elites in Kenya, - have historically exhibited predatory attributes in resource allocation as opposed to the Korean political leadership, -

[13] Accounting for the income disparities between rich and poor as well as inter-regional growth imbalances and high poverty levels.

which on balance exhibits developmental attributes. Because of the predatory behavior in resource allocation, the Kenyan economy could not sustain its 1960s rate of economic growth of more than six percent (World Bank report, 1980). In contrast, Korea and the other East Asian countries such as China adopted a developmental style in the public resource allocation and were therefore able to sustain rapid economic growth especially in 1960s and 1970s. Consequently, this study qualifies Kenya as a predatory state and confirms that, cultural diversity and ethnic fractionalization has had negative impacts in the government role of resource allocation and funding of socio-economic activities such as the education. Political elites in Kenya exhibits political patronage and rent-seeking behavior in resource allocation.

Findings of this study indicate that, policy interventions in Korea were very successful. Korean economic incentives and government support was aligned to the performance of exporters in international competition, an aspect that encouraged the mobilization of high-powered human as well as physical capital in the export sector. Korea's discriminative criterion for the distribution of investment incentives was clear and credible and; - was reasonably monitored and evaluated to ensure efficient resource utilization. Together with effective policy coordination, the government was able to move the economic growth of Korea forward.

In contrast, attempts by the Kenyan government to shape and streamline public resources and economic growth through policy interventions have not had had significant yields mainly because of the aforementioned socio-cultural problems as well as the weak socio-economic institutions such as legal and the property rights systems. Government regimes in Kenya exhibits political patronage and tribal alignments in public resource allocation. Because of this, the country is among the bottom ranked countries in the international transparency rating (Transparency International Annual Report, 2008), with "good" records of international economic scandals, high rate of absolute poverty and per capita income inequalities. In particular, ethnic diversity in Kenya is associated with sharply high regional imbalance in the school facilities, funding and enrolment. Ethnic diversity across tribes has had a negative effect on efficient resource allocation, national growth and development in Kenya, - more so the presence of greater cultural and linguistic differences. The ethnic diversity and divisions especially in the ethnically diverse areas hinder successful policy coordination and community participation in development activities. The challenge to the government is, - how to effectively manage this diversity for the good of the nation, and thus foster socio-economic growth.

In addition, inadequate implementation of policies by the government, weak policy conception and formulation are key variables in the performance of Kenyan economic and infrastructural sectors. Most of the policies are only in script and have never been fully implemented. Weak policy implementation and the failure to allocate sufficient resources required for the policy implementation impacts negatively on the Kenya's economic growth and developmental policies. Because of these limitations, the only available policy data in Kenya is policy descriptions with little evidence of policy implementation, progress or outcome.

As mentioned in the preceding chapters, in contrast to the Kenyan case, the major contributing factors to the rapid economic growth and shared growth in Korea were:- ethnic homogeneity [14], equal opportunity to education, village projects support and export investment financing, broad access to education and technical know-how, performance-based government support, growth with job-creation - initially led by labor intensive export promotion, spirit of self-help: New Village (Saemaul) Movement and workfare and the effective land reform and consolidation policies. These policy initiatives ensured that, - most

[14]Because of homogeneity, Korea is less affected by rent-seeking behavior or political patronage

of the people had access to the economic means of production and income generation, and - thus, income disparities and poverty among rural households were well managed.

5.1 Conclusion

This study has shown that,- the intervention of the state in the economy via credible policies oriented towards growth, the capacity to address coordination failures and to flexibly re-allocate factors of production, as well as the coalitions between the state, private firms and the civil society are necessary ingredients for economic development. The state agencies need to be credible and committed to the national interests of shared economic growth, effective resource allocation, and effective policy intervention. These are the key conditions for developmental states, which are unfortunately lacking in Kenya and most of the other third world countries.

Political elites from developmental states such as Korea may have practiced some sort of rent seeking, as is the case with predatory states but on balance, the consequences of their actions promoted rather than impeded economic growth. In Korea, political leaders are courageous enough to take responsibility for their actions, sometimes by resigning from public office, while in Kenyan scenarios; - leaders who engaged in corrupt
deals are never ready to accept the facts. Rather, they publicly declare that their tribes are being “finished”, - that is, they solicit support from their ethnic community – by involving the whole community, the culprits makes it technically almost impossible to prosecute or recover looted property from them. The aftermath of this conduct is a very wide income gap between political administrative regions, the rich and poor in Kenya.

In Kenya, issues of access to schools, distribution of qualified teachers and other educational resources are equity issues, which influence the persistent poor enrolment rates and educational outcomes for the ethnic minorities. Inequality in education is a significant factor that explains the higher levels of unemployment and poverty among many households in the politically disadvantaged ethnic communities.

Highlights of skewed resource allocation among selected regions and groups, and the descriptive evidence of ethnic inequality presents strong support for the case that ethnicity affects resource allocation and income inequalities in Kenya. The question on what made policy intervention work in Korea as opposed to Kenya has been explained by the fact that no ethnicity or rent-seeking behavior prevailed in Korea against the common interest. Rather, rent-seeking behavior was, managed carefully as part of a comprehensive economic development with a clear vision of national economic growth and development.

5.2 Policy implications

The argument that no ethnicity or rent-seeking behavior prevailed against the common interest in the Korean case does not, in any way justify the rent-seeking behavior that prevails in Kenya. As was the case with Korea, rent-seeking behavior in Kenya could be, effectively and, efficiently managed as part of a comprehensive economic development plan, utilizing a clear vision of shared growth and equitable income distribution. The Kenyan government can borrow a page from the Korean economic models of equalization and the vision of shared economic growth, which were applied to the economy and the society in a uniform and equality-seeking manner. Kenyan public policy design should also seek to equalize policy outcomes across various individuals and regions.

Determining efficiency costs for policies of ethnic diversity lies in identifying the mechanisms through which diversity affects organizational performance. The formation of meaningful economic linkages extending beyond the immediate community is a necessary pre-condition for modern economic growth. The design of policies that build cooperation or social capital across ethnic groups remains a poorly understood yet promising research agenda with critically important implications for economic development in Kenya and Sub-Sahara Africa.

For effective policy intervention, political elites and public officials should be honest, efficient and accountable for their actions. Kenyan citizens should demand responsible politics and the state's commitment to national policies within the perspective of rehabilitation and reconstruction of the socio-economic infrastructure of the country. It is important that, - the Kenyan government fosters an inclusive and populist democracy where all economic players, including women groups, human rights community, grassroots organizations and the rest of civil society, have a say in the distribution of the national wealth.

Finally, with rapid economic globalization, getting socio-economic benefits from ethnic diversity remains a challenge, not only to the Kenyan but also to the Korean leaders. Economic globalization is associated with massive immigration and emigration, - thus even in the case of the current ethnic homogeneity, in Korea, - in the near future, both states should be able to accommodate foreign residents and be able to get the best economic value from the resultant ethnic diversity. Diversity is good in the economic world; the challenge is "how to manage it" especially within the capitalist systems where politically and economically advantaged actors endeavors to accumulate massive wealth at the expense of the poor and politically disadvantaged majority citizens.

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