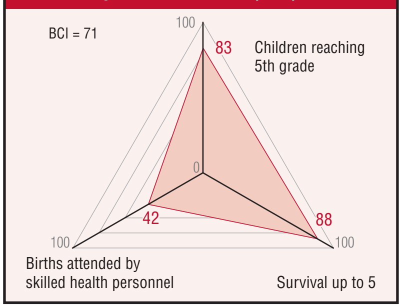
Neo-liberal orthodoxy and the ostrich game

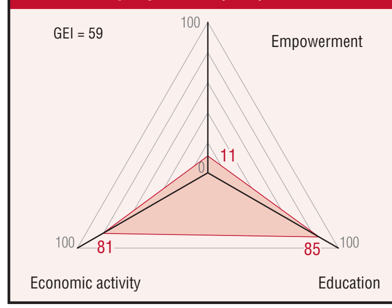
Neo-liberal capitalism has lost its reason to exist. It is a structural crisis of liberal democracy, but in Kenya the Government is in denial, playing the game of the ostrich, burying its head in the sand. The governing elite argues that the crisis is circumstancial and that the national economy is sheltered enough by its weak ties with international capital. Kenyan civil society keeps warning that, contrary to the Government's predictions, the country is about to sink in the turbulent waters of neo-liberalism.

Social Development Network
Prof. Edward Oyugi
Philip Thigo
SEATINI KENYA
Oduor Ongwen
Kenya Debt Relief Network
Wahu Kaara
BEACON
Rebecca Tanui
Daraja-Civic Initiatives Forum
Don Bonyo
Futa Magendo Chapters
Ayoma Matunga
Mazira Foundation
Eddy Orinda
Haki Elimu
Opiata Odindo
Kenya Land Alliance
Odenda Lumumba
Migori Clan
William Janak
KETAM
James Kamau
Kenya-Cuba Friendship Association
Mwandawiro Mganga
Bunge la Mwananchi
George Nyongesa
ChildFund Africa Region
Andiwo Obondoh
Undugu Society of Kenya
Alloys Opiyo

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Thirty years of unfettered, free-market capitalism, based on the neo-liberal model, can no longer obscure the systemic faultlines of a system whose time has run out.

Commoditization and privatization of public assets hitherto considered essential to prosperity has led to the transfer of assets from the public and popular realms to the private and class-privileged domains. The resultant predatory and speculative financialisation of trade transactions has led to the steep rise in the daily turnover of financial transactions in international markets, which rose from USD 2.3 billion in 1983 to USD 130 billion in 2001. No wonder, the accompanying deregulation allowed financial systems to assume centre stage in redistributive activity through speculation, predation, outright fraud and thievery. Stimulus plans may be technical steps in the right direction, particularly if they have the virtues of working bottom-up rather than top-down through the inert banking system. Essentially, however, they remain technical fixes designed to pump up demand and get consumers shopping again instead of empowering them to question the much-touted efficiency of neo-liberal capitalism.

Kenya is more than familiar with stock promotions, Ponzi schemes, structured asset destruction through inflation that has had a lot to do with asset-stripping through fraudulent privatization, debt peonage, corporate conmanship and blatant dispossession of assets, as the case of rampant raiding of the National Social Security Fund (NSSF) demonstrates. This eventually led to parastatal collapses and decimation of stock through credit and share manipulation by unscrupulous capital market insiders, like Suntra Investments, Nyaga Brokers Ltd, Francis Thuo Ltd and others.

The NSSF was established in 1966 as a mandatory provident fund for employees in Kenya. Although both employees and employers each contribute only KES 400 (USD 5.4) monthly, the Fund has, by dint of its sheer size, chalked up a cumulative portfolio of more than KES 80 billion (USD 1.08 billion) or about 8.2% of the country's GDP. It continues to be used by the Government as a gravy train for its close associates, forgetting that it is a contractual savings and investment support scheme for supporting old-age retirement. Originally a department in the Ministry of Labour, the NSSF was elevated to a stand-alone parastatal in 1987. Since then the pensioners have known nothing but melancholy.

In the run up to the first multiparty elections in 1991-92, the NSSF was used as the main source of slush funds for oiling the campaign machinery for the then ruling Kenya African National Union (KANU) party. Pensioners' money was funneled out of the Fund in order to fund dubious real estate deals that created instant billionaires among youngsters then known as "Youth for KANU '92". It continued to be a cash cow for the politically connected and got to the headlines only 10 years later, when in a pre-election deal in 2002 it lost KES 256 million (USD 3.45 million) through a Euro Bank scam to finance the presidential campaign.

In a new election the NSSF, true to character, regained its notorious profile. A commercial plot adjacent to the equally scandal-ridden Laico (formerly Grand) Regency Hotel was sold to a lower bidder. It was reported that the NSSF rejected an offer of KES 1.4 billion (USD 18.88 million) for the plot and accepted that of KES 1.3 billion (USD 17.53 million) after the lower bidder offered a kickback to trustees to the tune of KES 650 million (USD 8.77 million). The Fund's management denied this but in July 2008 the Minister for Labour dissolved the Board and fired the Managing Trustee to pave way for investigations into this and other scandals. In September 2008 it was disclosed that NSSF was at risk of losing KES 1 billion (USD 13.49 million) in Discount Security – a stock brokerage firm that collapsed and was associated with a former Managing Trustee of NSSF. The lie that the neo-liberal state must, as a matter of strategic efficacy, give the market a wide berth has been laid bare by the fact that instead of maximizing its effectiveness away from the market, it has been assigned the role of a prime agent of redistributive policies, reversing the flow of resources from upper to lower classes that can only be associated with the era of embedded liberalism; effectively subsidizing the rich in society through confiscatory deflation practices.[1]

Velvet glove treatment for criminals

Nowhere is this more starkly demonstrated than in the public fraud that was the Initial Public Offer (IPO)

1 See: Wade, R. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization.* Princeton: Princeton University Press, 1992.

of Safaricom shares. Despite voices of dissent coming from the civil society watchdogs as well as the Orange Democratic Movement (ODM) – the principal coalition partner in the Kibaki administration – the Kenyan Government decided to offload 25% of its shares in Safaricom, a mobile telephony company, to raise the badly needed KES 50 billion (USD 674 million) to bridge its budget deficit.

Two concerns arise. First, how could a faceless and foreign company known as Mobitelea came to own 10% and then 5% of a public company in Kenya and, even more perplexing, how could it be that this foreign company never paid a single cent to have shares in Safaricom? Second, when the Government offered to offload 25% of its shares in Safaricom, the public was made to believe that these shares would make ordinary Kenyans own the company. However, when Safaricom was finally on sale, they had no first right of refusal. They had to compete with the rest of East Africans while a whopping 35% of the government's 25% shares on offer had been reserved for some faceless foreign investors. It is believed that these investors are local oligarchs with substantial interest in offshore companies. As if that was not enough swindle, the IPO (the first offering to the public of the company's shares on the stock market) was grossly oversubscribed. In the end, Safaricom's stock brokers had to refund a whopping KES 236 billion (USD 3,183 million) of which KES 119 billion (USD 1.6 billion) was due to local people. Now close to one year down the line, a majority of the applicants (a staggering majority of them being ordinary people who got bank loans) are yet to receive their refunds, while Safaricom shares fell by more than 50% in the week of 9 March 2009.

In the recent past, the Nairobi Stock Exchange (NSE) has witnessed a surge of rogue stock brokers. In less than two years, four of such firms have had to fold up following fraudulent activities and outright theft of clients' investment funds. The first to come to light was Francis Thuo Stock Brokers who were suspended from the NSE in 2007. It should be noted that the owner, Francis Thuo, was a long-serving chairman of the NSE. At the time Francis Thuo brokers were suspended, several complaints were raised about another firm – Nyaga Stock Brokers – to the Capital Markets Authority (CMA), the regulatory body. But nothing was done. Finally, the local press in March 2008 published that Nyaga's operating capital was not only negative but also the firm had been using gains made from illegally trading in clients' shares to prop up its operating capital; the NSE feigned surprise and quickly moved to create a KES 100 million (USD 1.4 million) bailout package to cushion the affected clients. The matter was then swept under the carpet. Nobody at Nyaga or Francis Thuo has to date faced any criminal charges.

In quick succession, Discount Securities and Suntra Investments have followed suit. The velvet glove treatment accorded these criminal firms not only attests to the nature of the rampancy of malpractices in the NSE but, more importantly, to abuse of the touted free and efficient market. A section of civil society has consistently demanded that a market dealing in public funds of this magnitude needs a strong, efficient and independent regulator. The CMA does not qualify: it is obsessed with maintaining status quo, leaving rogue brokers to rule the roost with their perpetual power plays and manipulations.

In the last 20 years, no less than 20 private commercial banks have gone under with depositors' fortunes – mainly those of pensioners and informal sector savers – estimated at KES 70 billion (USD 944 million). Among the private banks and financial institutions that collapsed with depositors' funds are Rural Urban Finance Company, Jimba Credit Finance (owned by the Nairobi Stock Exchange, Jimna Mbaru), Trade Bank, Trust Bank, Continental Bank (owned by close associates of President Kibaki) and Euro Bank. In Kenya, these perpetrators continue to be appointed to high public office. On 16 December 2008 – amid a growing global financial crisis – the Cabinet agreed to privatize more financial institutions, including the National Bank of Kenya and Consolidated Bank.

The ostrich game

As widespread doubt about the immutable efficiency of market forces grows in the leading capitalist economies, their client economies in the South are still in denial, sustained by naïve faith in the cyclic nature of capitalist crises. As the economic principles informing free-market economies began to crumble, the Kenyan political elite, like the legendary desert ostrich, buried its head in the sand; hoping that the crisis would pass. Against this silence, civil society organizations warn that Kenya's economic boat is leaking and rescue measures are urgent.

Opportunities for mobilizing dissent are growing, and these must be taken lest the country experience a neo-conservative resurgence. In the meantime it is important to reject the illusion that Southern economies will be shielded from the meltdown, owing to not being fully integrated into the global capitalist economy and may even benefit through the escalation of domestic demand. They confuse a cyclical (if severe) downturn in the historical fortunes of capitalism with its fundamental crisis. The Kenyan ruling elite remains oblivious to the looming disaster: massive food insecurity, impending environmental disaster (in the Mau Forest, in Mount Kenya, in Lake Victoria, etc.), unemployment/underemployment, spiraling crime and disparity between the wealthy and the poor, declining tourist arrivals and volume of remittances from overseas.

Instead of taking heed, the recent National conference on "The Kenya We Want", like the current policy instrument for turning Kenya into a middle income economy by 2030 ("Vision 2030"), continue to adhere to the thoroughly discredited Washington Consensus. Even as Western economies inject massive new bailout funds into their financial institutions, and in some cases re-nationalize their banks, the Kenyan Parliament is legislating the privatization of the few remaining strategic public assets in order to provide a one-time government revenue injection.[2]

The stimulus and bailout packages preferred by Western governments are unlikely to make a significant difference beyond harmonizing government and business responses to the crisis. As stop-gap measures, such packages can only delay the inevitable. Without democratizing the ownership of the means of production and strengthening internal mechanisms of the domestic economy, Klaus Schwab's global redesign initiave, launched in Davos in February 2009, will do little to resolve the crisis. In the face of such a situation, even the trade agreements currently under discussion, such as the Economic Partnership Agreements (EPAs) must be re-negotiated.

Often, an epic moment in the history of a social praxis is catalyzed by catastrophes like the one we are experiencing, particularly those that permit fundamental changes in attitudes and social behaviour. The signs of capitalism's distress have been showing for a long time, but in gradual installments. Now they are obvious. The global capitalist system no longer merits any retrofitting. It calls for a reconstruction by new actors favoured by history. This is the crisis of liberal democracy, which has failed to deliver economic justice and equity. ■

2 Organizations set for privatization: Kenya Electricity Generation Company (KENGEN); Kenya Pipeline Company; Chemelil Sugar Company; Sony Sugar Company; Nzoia Sugar Company; Miwani Sugar Company; Muhoroni Sugar Company; Kenya Tourism Development Authority and some hotels; National Bank of Kenya; Consolidated Bank; Development Bank of Kenya; Kenya Wine Agencies Ltd; East African Portland Cement Company; Kenya Meat Commission; New Kenya Cooperative Creameries; Kenya Ports Authority by way of a container terminal at Eldoret and outsourcing of stevedoring services and development of new berths.