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 circumstantial 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.

Thirty years of unfettered, free-market capitalism, based on the neo-liberal model, can no longer obscure the systemic failings 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 commanship and blatant dispossession of assets, as the case of rampant raiding of the National Social Security Fund (NSSF) demonstrates. This eventually led to parasatal 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


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Basic Capabilities Index (BCI)

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<th>BCI</th>
<th>Childre reaching 5th grade</th>
<th>Survivals up to 5</th>
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<td>71</td>
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Gender Equity Index (GEI)

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of Safaricom shares. Despite voices of dissent com-
ing 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 Mobitele 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 govern-
ment’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 out-
right 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 Bro-
kers – 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
swiped 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 rampant of mal-
practices in the NSE but, more importantly, to abuse
of the touted free and efficient market. A section of
social 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 sta-
tus 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 Fi-
nance (owned by the Nairobi Stock Exchange, Jimma
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 institu-
tions, including the National Bank of Kenya and Con-
solidated Bank.

2 Organizations set for privatization: Kenya Electricity
Generation Company (KEGEC); Kenya Pipeline Company;
Chemelil Sugar Company; Sony Sugar Company; Nicola
Sugar Company; Mlilani 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 Creaneries; Kenya Ports Authority
by way of a container terminal at Eldon and outsourcing of
stevedoring services and development of new berths.

The ostrich game

As widespread doubt about the immutable efficien-
cy of market forces grows in the leading capitalist
economies, their client economies in the South are
still in denial, sustained by naive 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 grow-
ing, and these must be taken lest the country experi-
ence a neo-conservative resurgence. In the mean-
time it is important to reject the illusion that South-
ern 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 con-
ference on “The Kenya We Want”, 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 mas-
sive 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.

The stimulus and bailout packages preferred by
Western governments are unlikely to make a
significant difference beyond harmonizing gov-
ernment and business responses to the crisis. As
stop-gap measures, such packages can only delay
the inevitable. Without democratizing the owner-
ship of the means of production and strengthening
internal mechanisms of the domestic economy,
Klaus Schwab’s global redesign initiative, 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 so-
cial praxis is catalyzed by catastrophes like the one
we are experiencing, particularly those that permit
fundamental changes in attitudes and social behav-
ior. 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 recon-
struction by new actors favoured by history. This is
the crisis of liberal democracy, which has failed to
deliver economic justice and equality.