CHAPTER ONE.

INTRODUCTION.

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OVERVIEW OF KENYA

The republic of Kenya former British colony and protectorate proclaimed itself a republic on December 12-1964. Kenya is located astride the Equator on the East Coast of Africa. It borders Ethiopia and Sudan in the north, Uganda in the west, Tanzania in the south, and Somalia and the Indian Ocean in the East. Though much of country has two wet, and two dry seasons, total rainfall varies unpredictably. Its highlands are temperate and its coastal zone hot humid. Arid areas are generally hot. It covers an area of 582,650 km^2 of which 4,100 square miles consist of natural lakes. Kenya's capital city is Nairobi with a population of approximately 3 million people. The other major towns are Mombasa the main port on the Indian Ocean and Kisumu. During the 1989 census the population was 21.4 million. By 2005 estimates, Kenya's population stood at 34.3 million people with about 30 percent living in the urban areas. Kiswahili is the national language which is spoken all over the country while English is the designated official language that also serves as the medium of communication in schools. Christianity, Islam and Hinduism are the main religions although a substantial number of Kenyans still practice traditional forms of religious worship. Kenya's constitution was introduced during independence on 12th December 1963.[1]

Subsequent amendments of the constitution including adoption of the republican status on 12^{th} December 1964, Kenya became a de facto one-party state in 1969. In November 1991 multiparty system was reintroduced. In 2002 the government had new impetus to review the constitution to reflect the present Kenyan scenario, as the current constitution has been branded as the British one. Kenya has had three multi-party elections held in the months of December of 1992, 1997 and 2002. Governed by a united central government, Kenya's central legislative authority is the National Assembly, consisting of a single house. The president is elected by direct popular vote for a term of five years. Kenya has 8 provinces (including Nairobi). For Kenyans to exercise their constitutional right to elect their representatives and obtain their share of the country's national budget, the government has decentralized the focus for development by designating administrative districts as the focal points for rural development. Since independence, Kenya has been and remains a relatively stable country as compared to most of its neighbors. The country has never experienced any major civil conflicts, although the 1992 and 1997 elections were marred by ethnic clashes.[2]

Kenya has a very diverse population that includes major languages of Africa. Due to Kenya's proximity to the coast and Arabian Peninsula, Arab and Persian settlement sprouted along the cost by the eight-century. During the first millennium of the A.D. Nilotic and Bantu peoples moved into Kenya and now they (Bantu) comprise three quarters of Kenyan population. The intermingling of the

Arab traders and the Bantu a Swahili language was developed as a medium for trade. Arab dominance was eclipsed by the arrival of the Portuguese in 1498. In the 19th century the United Kingdom established its influence until the end of colonization.

The colonial history of Kenya dates back to so-called scramble for Africa in the Berlin Conference of 1885, when the European powers partitioned Africa into various spheres of influence. The British government declared the East African Protectorate in 1895 immediately after it opened the fertile highlands as white settlers. The settlers were allowed a voice in a government even prior it was officially made a British Colony in 1920, but Africans were prohibited from direct political participation until 1944. The present boundaries of the Republic of Kenya have their origin in the spread of British in Africa. Kenya rose for the armed struggle for independence under the 'MAU MAU'; movement "Mzungu Aenda Ulaya Mwafrica Apate Uhuru" which literally meant a white man to go back to Europe then an African to be free [3]. The "Mau Mau" movement commenced on October 1952 to December 1959. Kenya was proclaimed independent in 1963 and in 1964 it was declared a republic. The first direct election for Kenyans to the legislature council took place in 1957. Kenya joined the common wealth in 1964 under the leadership of President Jomo Kenyatta the head of Kenya African National Union (KANU) while KADU a minority party was voluntarily dissolved.

THE KENYAN ECONOMY

"In early 1960's, as Kenya was gaining its independence, its gross national product was not very different from that of South Korea. Today, South Korea's economy is forty times larger than Kenya's", U.S. Senator Barack Obama.[4]

Three outstanding events have occurred in Kenya during the last hundred and thirty years. The establishments of the colonial rule, achievement of independence in 1964 and introduction of multiparty democracy in 1992, all these events have shaped the present economic scenario in Kenya.

The sudden collapse of the British colonialism and emergence of freedom for Kenyans triggered even greater expectations and demands for the liberation of the masses of people from disease, poverty and ignorance. After independence, the quest for rapid economic development through public investment, promotion of smallholder agricultural production, and incentives for private (foreign investment) industrial investments was the priority. Western Multinational and transnational companies have been established in Kenya for a quite long duration now, and have established themselves as a source of foreign direct investment in Kenya.

Kenya's economic growth record has been a mixed bag of blessing and disasters since independence. Kenya's economy is one of the most diversified economies in the sub-Saharan of Africa, it has the largest economy in the whole region of East Africa and bigger than Uganda, and Tanzania [5]. We have elucidated in the form of tables the economic scenario of Kenya and also compared it with the countries neighbouring Kenya, see tables 1.1 and 1.2.

Table 1.1 Selected economic indicators in Kenya

Year	GDP (GNP) US$	GDP growth rate (%)	Inflation (consumer prices) (%)	BOP US$ (Current account balance)
1980	7.27E+09	5.6	13.9	-8.8E+08
1981	6.85E+09	3.8	11.6	-5.6E+08
1982	6.43E+09	1.5	20.7	-3.1E+08
1983	5.98E+09	1.3	11.4	-4.7E+07
1984	6.19E+09	1.8	10.3	-1.3E+08
1985	6.14E+09	4.3	13.0	-1.2E+08
1986	7.24E+09	7.2	2.5	-4.5E+07
1987	7.97E+09	5.9	8.6	-5E+08
1988	8.36E+09	6.2	12.3	-4.7E+08
1989	8.27E+09	4.7	13.8	-5.9E+08
1990	8.59E+09	4.7	17.8	-5.3E+08
1991	8.15E+09	1.4	20.1	-2.1E+08
1992	8.22E+09	-0.8	27.3	-1.8E+08
1993	5.75E+09	0.4	46.0	71170776
1994	7.15E+09	2.6	28.8	71170776
1995	9.05E+09	4.4	1.6	-4E+08
1996	1.2E+10	4.2	8.9	-7.3E+07
1997	1.31E+10	4.2	11.4	-4.6E+08
1998	1.41E+10	3.3	6.7	-4.8E+08
1999	1.29E+10	2.3	5.7	-9E+07
2000	1.27E+10	0.6	10.0	-2E+08
2001	1.31E+10	4.4	5.7	-3.4E+08
2002	1.32E+10	0.4	2.0	-1.4E+08
2003	1.5E+10	2.8	9.9	-1.4E+08
2004	1.61E+10	4.4	11.6	-3.8E+08

(Source, Computed from World Bank Data base).

Table 1.2: The size of selected economies in Africa.

	GNI (current US$(billions)	GNI per capita US$(billions
Kenya	19.1	540
Uganda	8.6	280
Tanzania	12.4	340
Ethiopia	11.3	160

Source, World Bank development indicators 2005.

Nairobi is the capital city of Kenya and is the major commercial hub of all East Africa. Mombasa on the coast has the major port. The largest Airport in East Africa the Jomo Kenyatta International Airports connects the East-Africa to the rest of the World. Nairobi enjoys the regions best communication, transportation infrastructure and trained personnel in the past years. A broad range of foreign firms and international organizations maintain regional branch or representative offices in the city.

The estimated population of Kenya by the World Bank report of 2005 is 34 million against 12.9 million in 1971. Most of the density of the population is concentrated in South Western highland lake region, central province and the coastal strip. Agriculture is the main occupation for the bulk of the people but marketed agricultural produce although vital generates share of GDP that is relatively lower than a country of Kenya's income level. The service and manufacturing sectors are substantially more significant than would be expected. The character and pace of economic development since independence have been profoundly influenced by the legacy of the colonial power, Asian businessmen and other non-African communities. At independence Kenya promoted the export oriented agriculture that was primary large-scale commercial agriculture of the white highlands and European and Asia owned plantations. The government in the 1960's to 70's carried out the land reform Programmes designed to transfer the European land to the Africans and also enabling Kenyans to take control of business. In addition the quest of Kenya's partners in the common market to develop Kenya's manufacturing and service and processing industries to serve their own partners market has had a considerable influence on Kenya's development's policies in the past.[6]

Kenya's economic growth record has been mixed since the country gained independence. Through the post independence era Kenya has transited from high growth scenario in the 1960s averaging 6.6 per cent annually in real terms from 1969 to 1972 to a declining path (1974-1999) that has deteriorated further since 1997. During the 1999-2001 real GDP was dismal 0.8 per cent per year (Economic survey 2004).[6] The World Bank opines that given Kenya's population growth rate, it requires an annual economic growth rate of at least 8 percent yearly to raise average incomes and create opportunities of the expanding number of educated population. The deterioration of the terms of trade, high inflation, low productivity in the agricultural sector, high population growth, which is exceptionally high compared to economic growth adversely, affected the prospect of Kenya's economic development.

The Gross Domestic Product (GDP) grew at annual average rate of 6.6 per cent from 1963 to 1973. Agricultural production grew at 4.7 per cent per year during the 1963-1973, which was stimulated by the redistributing estates, introduction of new crops and opening new land for cultivation spurred agricultural production. In 1974 to 1990 Kenya's economic performance deteriorated drastically.

Inappropriate and misguided agricultural policies, inadequate credit, poor international terms of trade exacerbated the decline of agriculture.

Table 1.3: Real GDP Growth by Sectors, 2000-03 (Constant 1982 Prices)

Particulars	2000 (%)	2001 (%)	2002 (%)	2003 (%)
Non-monetary	1.2	1.7	1.7	1.7
Monetary	-0.3	1.2	1.1	1.8
Enterprises and non-profit institutions	-0.6	1.3	1.1	1.8
Agriculture	-2.1	1.3	0.8	1.5
Forestry	-2.0	0.9	0.8	0.8
Fishing	-2.1	0.8	0.5	3.0
Mining and quarrying	0.9	1 .0	0.8	2.5
Manufacturing	-1.4	0.8	1.2	1.4
Building and construction	-1.5	-0.5	0.3	2.2
Electricity and water	-4.1	1.5	1.2	2.0
Trade, restaurants, and hotels	1 .0	1.3	1.6	1.4
Transport, storage, and communication	2.0	3.2	2.6	1.5
Finance, insurance, real estate, business	0.4	1 .o	0.8	3.0
Ownership o f dwellings	1.4	1.8	1.5	1.7
Other services	0.5	1 .0	1 .0	1.8
Less: imputed bank charges	1.2	1.9	2.0	0.9
Private households (domestic services)	2.4	2.6	2.3	2.4
Producers o f government services	0.7	0.7	0.9	1.6

Source, computed from various Economic Survey Reports Government of Kenya.

Kenya like other Sub-Saharan countries pursued the so-called total self-sufficiency through import substitution or inward looking policy. The skyrocketing of oil prices made Kenya's manufacturing sector uncompetitive, thus strangling the economy. The government's initial action to the reverse this was a massive intrusion in the private sector, which was counter-productive. Lack of export incentives, tight import controls and foreign exchange controls made the domestic investment environment still less conducive and even less attractive.

Table 1.4: Structure of the economy (Percentage Share of GDP)

Particulars.	1982 (%)	1992 (%)	2001 (%)	2002 (%)
Agriculture	13.4	26.6	19.0	19.1
Industry	19.9	18.9	18	18.3
Manufacturing	12.2	11.1	12.5	12.7
Services	46.7	54.5	62.9	62.6
Private consumer	67.1	70.2	79.0	81.1
General Government consumption	18.4	16.1	16.8	10.2
Import of goods and services	28.7	26.9	34.6	31.6

Source, computed from economic survey reports Government of Kenya.

In 1991 to 1993 Kenya registered the worst economic performance since independence in 1964 [7]. The government pursuing the aforesaid suicidal economic policies made the economy to collapse badly. Growth in GDP stagnated and agricultural production shrank at annual rate of 3.9 percent in 1992 there was an outright decline. Inflation touched a record 100 percent in August 1993 and the government deficit was over 10 percent of the GDP. In 1991 as a result of these economic bottlenecks bilateral and multilateral donors and the World Bank suspended their aid to Kenya. In 1993 the government acknowledged that its intrusion or interventionist. Policy approach has been antagonistic and counter productive to economic growth objective of the government. Subsequently the government embarked in major steps into economic reforms and liberalization, which entailed deregulation, privatization and market-opening reforms. A new finance minister and new governor of the central bank undertook a series of economic measures in conjunction with the technical assistance of the World Bank and the IMF. As part of this program, the government eradicated price controls and import licensing removed foreign exchange controls, privatized public owned companies, reduced or retrenched number of civil servants and introduced conservative fiscal and monetary polices. 1994-96 there was a mild recovery, which moved the GDP growth just over 4 percent per year. In 1994 the economy entered a period of slowing economic growth that GDP per capita had declined so that at the end of the last decade, it was lower than it was in 1990. This economic growth deterioration was aggravated in part to adverse weather conditions and decreased economic activities prior to political uncertainty of the general election, in December 1997 [8]. As the new millennium commenced, prospects for improvement for a range of reasons did not appear bright. In 2000 the GDP growth was negative but registered a dismal improvement in 2001 as rainfall returned to almost normal.

In mid 2000 the World Bank and the IMF resumed their programs in Kenya ushering the stage for additional structural adjustment financing. In the 1990s the Bretton woods institutions had suspended these programs because they claimed that the government was not making substantial or credible progress towards the agreed objectives in the areas of political governance (curbing corruption) fiscal and market reforms. The over staffed civil service bureaucracy, fiscal deficits and ongoing drastic deterioration in the provision of basic services or Kenya's extensive once being one of the most impressive, road network has captured recent attention.

Along with fiscal and infrastructural issues, bad weather and AIDS epidemic dimmed the economic growth out look of Kenya. The aftermath of the massive flooding which swept agricultural output in 1997, drought struck immediately. The hardest hit northern hemisphere of the country was by then experiencing insufficient rain in a couple of places, none for three consecutive growing seasons. The country has become dependent on short-term food aid. A number of pastoralist and nomadic communities do migrate in search of grass and fodder for their livestock. Less affected parts of the country had production, which was near normal but the impact extended to hydroelectric installations for power generation, which has led to power cuts, and rationing. Inadequate maintenance, lack of diversified power generation; infrastructure exacerbates the magnitude of adversity brought by idled hydro capacity.

In the last decade the Kenyan economy grew more slowly than any other economy in the region. Gross Domestic Product (GDP) grew by 2.3 percent in 1997 and is estimated to have grown by less than 2 percent in 1998. As growth slackened, employment opportunities diminished, per capita income declined, and standards of living for ordinary Kenyans has fallen. The lack of employment opportunities and declining incomes has adversely affected rural agricultural development, which draws more than half of its income from off-farm sources.

Poverty levels are still very high at 56.8 percent of the population in 2003, while life expectancy at birth has declined to 46.3 years in 2001 from 49.7 years in 1997 largely due to the HIV/AIDS pandemic. [9]

Kenya needs further economic reforms in order to increase GDP growth and combat the poverty that afflicts more than 57 percent of the people. Kenya has taken positive measures on reform, establishment of the Anti-corruption authority and measures to improve the transparency of government procurements and reduce government payroll. The World Bank signed $157 million Economic and Public sector reform credit the Anti-corruption Authority was declared unconstitutional in December 2000 and the other reforms faltered in 2001. This led the I.M.F. and World Bank to suspend aid to Kenya once again.[10]

Under the leadership of President Mwai Kibaki who took charge in December 30th 2002, the Government has embarked on ambitions economic reforms. Anti-corruption economic crimes act and Public Officers Ethics Act in May 2003 aimed at fighting bribery was enacted the bilateral and multilateral as well as the World Bank and IMF restored the economic aid to Kenya. Donors committed $4.2 billion in support for 4 years, these rejuvenated hope for the much needed boost to investor confidence. Economic growth has continued to improve since the year 2002. Both unemployment and poverty are more widespread. El Nino-induced floods in end of 1997, weak soft commodity prices since the Asia financial crisis, two successive years of severe drought (1999 and 2000) the down turn in tourism since the September 11 terrorist attacks in the U.S has impacted the economy negatively. The devastation of HIV AIDS Pandemic, which is affecting the working population, is imposing an increasing economic and social burden on the government and the civil society. Over one million people have died due to the disease since 1980 and another 2.2 million are estimated to be living with it. As a direct consequence of the AIDS epidemic average life expectancy has decreased below 50 years. Health experts warn that approximately 220,000 people will annually die if drastic measures are not taken to avert this pandemic. Over 600,000 children have been orphaned by the death of both parents of AIDS Among the adults who die because of AIDS are equivalent to two per cent of the active work force every year, it also reduces labour productivity directly and indirectly.

The government and the non-governmental organizations have joined hands to fight the menace. Education and prevention initiatives are being put into place however there are many hurdles. In 1999 the government declared AIDS a national disaster and established the National AIDS Control Council to lead the fight against the disease. Legislation was passed which allowed importation and manufacture of cheaper generics of the brand name drugs. A day's supply of anti-retroviral drugs has come down to $1 and may decrease further.

The informal sector accounts for a significant share of total activity in the whole economy. The government and the international financial institutions have promoted the informal sector popularly known as 'Jua Kali' fierce "suns" the small scale enterprises.[11] The 'Jua Kali' is run by women as small businesses goods and services. The informal sector stands out as drivers of economic growth amid slow down of the formal economy and public sector retrenchment. Most of the poor population lives in the rural areas promoting the informal sector which mostly in rural areas will help to fight poverty as 80 per cent of the population live in rural areas. The Bank's strategy in Kenya continues to emphasize strong partnerships with other development agencies in the spirit of the *Paris Declaration on Aid Effectiveness,* and has reached an understanding with the government on deepening partnerships beyond the executive branch, including the judiciary, professional bodies, and civil society organizations.

ECONOMIC REFORMS

Since the 1980s the government has periodically announced its intention to adopt badly needed structural economic and fiscal reforms, but implementation has been consistently slow. Political stability with rich resources Kenya represented a successful economic story in the sub-Saharan of Africa. But the economic deterioration of the 1980s and 1990s casts doubt on this proposition [12]. Food insecurity, Aids epidemic, Corruption cast a grim time ahead. Possibly Kenya has the potential of claiming what for many reasons still seems a rightful place as one of Africa's more successful economies. Kenya has a broad resource base, sectoral diversification, familiarity with free enterprise and sound civil society. If the government will set the policies right and with effective implementation then the economic growth will be fostered. Effective budget control, establishment of realistic measures against government corruption, fast progress on disinvestment of parastatal companies and legislation controlling bank interest rates will help foster economic growth in Kenya.

Even though Kenya's economic growth rates have been disappointing during the last decade the government has implemented extensive economic reforms to create an open, diversified private sector led export-oriented economy and put it on to a higher sustainable graph. The initiated conservative monetary policy, price and exchange rate liberalization, reducing tariffs and dismantling other trade barriers, deregulation of crop marketing, down sizing of the civil servants will help kick start the economy.

Real GDP growth strengthened to an averaged over 4 per cent annually in 1994-1996, fiscal deficit (excluding overseas grants) shrunk to 3.5 per cent of the GDP by the end of 1996. Also most economic indicators performed averagely well and continue to compare favorably to the Sub-Saharan of Africa. Kenya typically runs current account deficits as its merchandise trade deficit and deficit on net international factor payments total more than its surplus international services (led by tourism receipts) and unilateral transfers. Kenya's current account deficit was US$253 million in 2001 equivalent to 2.6 per cent of the GDP, up from US$220 million and US$234 million in 2000 and 2001 respectively. The merchandise and trade deficit alone has averaged more than US$1 billion per year over the 3 years [13].

Infant mortality and illiteracy rates decreased in the 1990 in comparison to the 1980s and the national access to clean drinking water and income distribution to the poorest quintile of the society both saw a great improvement during the 1999. The number of primary schools now stands more than 19900 in comparison to 6000 in 1963, and primary education enrolment increased seven fold to nearly 6.5 million. The introduction of free primary education the enrolment has increased remarkably see table 28. The focus of Kenya's development strategy remains the alleviation of poverty and uplifting national living standards. The government is accelerating the pace of governance reforms in the public sector to ensure that the state resources are allocated efficiently to priority sector for example health, education and physical infrastructure and security. The government has indicated economic reforms on further privatization of state companies like Kenya Telecom and Kenya Commercial Bank. Also the government is accelerating corporate restructuring of Kenya power and lighting company, Kenya ports authority, Kenya Railways Corporation, Kenya Reinsurance Corporation, the Nairobi Water Supply and coffee sector with the view of divesting them to the private sector with the exception of coffee over medium term.

WORLD BANK IN KENYA

The World Bank has supported Kenya since the financial year 1960. The objectives of the World Bank in Kenya are poverty reduction and economic development. It pursues these objectives through lending, through carrying out research and the provision of economic analysis, and through policy advice and technical assistance. The total World Bank commitments between the financial year 1960 and 1970 have been about US$ 1 billion and from 1980-2000 another US $ 3 billion of which US $ 1.2 billion has been adjustment support[13]. The World Bank has been playing a crucial role in providing foreign aid, which is needed in the economic development in Kenya since 1964. As the Kenyan plans became more ambitious the need for foreign aid in large scale through the World Bank became more eminent. There is no way domestic borrowing from local banking institutions can replace the World Bank. Now, Kenya is stuck with a public debt of $ 7.5 billion and a good part of this debt is from the domestic market, which charges exorbitant rates compared to the rates charged by World Bank. The world bank through its projects in Kenya has helped to increase agricultural productivity, reduce air pollution and other environmental problems, manage forests and other natural resources, extend telecommunications networks, generate and distribute energy, expand health care especially for women and children, build and maintain roads, railways, and ports Build schools and train teachers and lastly supply safe drinking water.

World Bank aid is undoubtedly indispensable at the present stage of economic development but it is necessary that the period of indispensability is reduced to minimum. The World Bank has supported development projects in Kenya since financial year 1960. Total bank commitments between financial year 1960 to 1970 have been about US $ 1 billion and between financial year 1980 to 2000 another US$ 3 billion of which $ 1.2 billion has been adjustment support [14]. Share of World Bank to GDP is significant over the years has shown in form of the table below.

Table 1.5: World Bank loans to Kenyan economy.

Year	GNP	World Bank loans (WBA)	WBA/GNP (%)
1980	7265312768	5.28E+08	7.3
1981	6854490112	5.86E+08	8.3
1982	6431539200	7.42E+08	11.5
1983	5979251200	8.4E+08	14.1
1984	6191426560	9.46E+08	15.3
1985	6135028224	1.16E+09	18.9
1986	7239145472	1.38E+09	19.1
1987	7970816512	1.68E+09	21.1
1988	8355302912	1.65E+09	19.7
1989	8271763968	1.78E+09	21.5
1990	8590566400	2.06E+09	23.9
1991	8152118272	2.15E+09	26.4
1992	8220718080	2.07E+09	25.1
1993	5751786496	2.2E+09	38.2
1994	7148143104	2.29E+09	32.0
1995	9046332416	2.41E+09	26.7
1996	12045837312	2.37E+09	19.7
1997	13115728896	2.25E+09	17.1
1998	14093228032	2.36E+09	16.8
1999	12896050176	2.31E+09	17.9
2000	12705273856	2.31E+09	18.2
2001	13058513920	2.29E+09	17.5
2002	13192341504	2.46E+09	18.6
2003	15036096512	2.74E+09	18.2
2004	16087554048	2.88E+09	17.9

Source, World Bank economic Indicators 2006.

KENYA'S OUTSTANDING DEBT

Over the last decade, Kenya's public debt stock has been increasing. The country's public debt enlarged from Ksh 466,294 million (or 67.8 percent of GDP) in 1996 to Ksh 749,392 million (62 percent of GDP) in 2004. In terms of debt category, domestic debt rose from Ksh 120,355 million (17.5 percent of GDP) in 1996 to Ksh 306,235 million (25.3 percent of GDP) in 2004 while external debt rose from Ksh 345,939 million (50.3 percent of GDP) to Ksh 443,053 million (36.6 percent of GDP) in the same period see table 3 below. Regardless of the rise in the stock of debt during the period, the proportion of overall debt to GDP declined due to a more rapid growth in GDP predominantly over the last four years. High debt is an area of concern to the country because it needs servicing of the debt. These repayments divert money directly from basic human needs such as health care and education, and primarily weaken the government's efforts to fight the AIDS pandemic as well as efforts to promote sustainable economic development.

Table 1.6: Public Debt Service in Ksh Million (1995/96 - 2004/05)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
External Principal	19831	19110	21399	21010	28187	12529	23345	19611	20448	10,544
External Interest	11487	8,256	7,804	7,478	8,913	3,886	5,870	9,775	5,830	4,427
Domestic Interest	26168	26582	35,414	31,743	23,744	22068	23231	27567	23281	23,375
Total	**57486**	**53948**	**64617**	**60,231**	**59,168**	**52959**	**39,646**	**56953**	**49559**	**38,346**

Source: Treasury and Central Bank of Kenya

Table 1.7: Public Debt Stock in Ksh Million (1996-2005)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
EXTERNAL	**345,939**	**307,729**	**323,339**	**407,792**	**395,564**	**393,978**	**377,748**	**407,053**	**443,157**
Bilateral	127,753	114,084	108,256	147,937	138,553	132,269	129,973	142,593	162,914
Multilateral	187,812	163,802	179,276	220,192	230,662	228,497	222,452	233,829	260,658
Commercial Banks	28,996	26,302	34,915	35,799	24,867	29,423	24,031	3,597	2,912
Export Credit	1,378	3540	892	3864	1481	3789	1,292	27,034	16,674
(As a % of GDP)	50.3 %	42.2%	39.9%	55.1%	50.9%	40.7%	36.8%	39.2%	36.6%
(As a % of total debt)	74.2 1 %	65.9%	65.3%	70.1%	65.7%	65.0%	61.5%	58.4%	59.1%
DOMESTIC	**120,355**	**159,077**	**171,730**	174,305	**206,127**	**211,813**	**235,991**	**289,377**	**306,235**
(As a % of GDP)	17.5 %	21.8%	21.2%	23.6%	26.5%	21.9%	23.0%	27.9%	25.3%
(As a % of total debt)	25.8 %	34.1%	34.7%	29.9%	34.3%	35.0%	38.5%	41.6%	40.9%
GRAND TOTAL	**466,294**	**466,806**	**495,070**	**582,097**	**601,691**	**605,791**	**613,739**	**696,430**	**749,392**
(As a % of GDP)	67.8 %	64.0%	61.1%	78.7%	77.4%	62.6%	59.8%	67.1%	62.0%

Sources: Treasury & Central Bank of Kenya

Table1. 8: Kenya's outstanding debt by source in (Ksh million)

	1999	2000	2001	2002	2003
Germany	8269.00	8485.65	7652.00	7550.20	8823.00
Japan	49037.00	57235.00	47837.00	50790.00	50514.00
France	21055.00	16681.00	16301.00	9618.00	9604.00
USA	4170.00	5461	5172	4761	6651.70
Netherlands	5906..40	4515.30	4080	2922	3738
Denmark	3913	3114	2527	1947	1937
Finland	221.50	155.70	195.00	333.00	267.00
Other	123062.40	121760.40	24405.40	23817.30	23765.17
IDA	134222.00	170277.00	179930.40	186319.00	186648.00
IBRD	564.00	1462.00	1560.00	3299.00	8566.25

Source, statistical abstract Government of Kenya.

REFLECTION AND INTROSPECTION OF THE ECONOMY

Reflecting the impact of the various policy measures since 2002 the economy recovered with GDP growth improving to 2.8 per cent in 2003 and further 2.3 per cent in 2004. Agricultural and services telecommunications, finance and tourism emerged the key driving sectors of the economy. Economic growth was underpinned in the period 2002-2005 by significant and substantial changes in economic and political governance, favourable weather conditions conducive and attractive and stable macro economic environment that created confidence in the investors. Improved donor support, low interest rates and relatively stable exchange rate boosted the investor's confidence [15].

The Central Bank is pursuing a monetary policy programme geared to keeping inflation low and stability of prices. Food inflation however edged up to double digit levels, fuel and power edged up also. These economic developments reflected the decrease of supply relative to demand occasioned by bad weather that caused shortfalls in food products supply and disrupted crude oil supply in the Middle East. The political tensions in the Middle East, War on terrorism and the sky rocketing of crude oil had disastrous ramifications on the performance of Kenya's economy. Consequently there were increased fuel prices and major reorganization of the public transport sector fares surged upwards and thus caused substantial increase in transport and communication from single digits to about 25 percent.

At the regional level, the peaceful resolution of armed conflicts particularly the recent signing of a peace agreement in Southern Sudan provided business opportunities for the Kenyan economy in the medium term particularly given the planned extension of the railway line to the region and construction of a pipeline to Mombasa for crude oil exports from Southern Sudan. The inauguration of a new Parliament in Somali offers a ray of hope for increased security in the region and this should provide the necessary environment for increased growth in the medium term. However, the optimism is threatened by the unfavourable weather conditions and the slower than anticipated disbursement of the balance of payments support by the IMF and Programme aid from other bilateral donors. Similarly, the sharp rise in world prices of oil and other raw materials poses a near-term risk to global growth, while possibility of a more general rise in inflationary pressure and policy reactions thereto pose a greater medium-term risk. Terrorism threat will also continue to undermine economic growth in tourism and service sectors.[16]

To boost economic performance the Government, through the on-going reforms in the agricultural sector expects to transform most activities into more profitable, commercially viable and internationally competitive ventures especially by identifying key priority legal reforms. In addition, increased attention is being given to research, extension services, and access to credit, inputs and markets. Promotion of domestic and conference tourism and improved security surveillance and particularly in the airports and areas visited by tourists, tourism is bound to pick up significantly to be among the fastest growing sectors in the economy. In the medium term, nevertheless, the ability to quickly regain the country's past glory in tourism in the US, UK and other European markets are, considered key due to the high per capita income of visitors from these sources relative to other markets. American and European markets currently account for over 70 per cent of total tourists in Kenya.

On the fiscal front there has been a substantial improvement in revenue collection accompanied by moderate increases in both development and recurrent expenditures since the year 2002. It is estimated that the central Government debt service will amount to Ksh 22.5 billion reflecting the net effects of repayments of Ksh 25.2 billion, interest payments of Ksh 7.7 billion and rescheduling of Kshs 10.3. In January 2004, Paris Club agreed to reschedule US$ 350 million arrears and maturities falling due in the consolidation period of January 1, 2004, to December 31, 2006, on a total debt service.

The reduced fiscal deficit led to a decline in the ratio of domestic debt to GDP from 24.3 percent to 22.2 percent at the end of June 2002/03 and 2003/04, respectively. The Government has been successful in restructuring the term-structure of domestic debt to longer-term securities, which has helped to reduce debt-servicing costs. While this performance reflected the positive effects of strong revenue collection and the steps taken to tighten the management of recurrent expenditure, fears that the planned large domestic borrowing might crowd out private activity also induced the authorities to curtail some spending programs. Kenya's total outstanding public external debt was estimated at US$ 5.2 billion in 2004. Of this amount, about 62 percent were owed to multilateral institutions, 31 percent to bilateral sources and 7 percent to commercial sources. As a percentage of GDP, the external debt in nominal terms was halved from 80 percent of GDP in 1996 to 40 percent in 2003.

Poverty is also widespread and remains a critical development challenge in Kenya. Based on the 1997 Welfare Monitoring Survey (WMS), the number of poor increased from 3.7 million in 1972, to 11.3 million, or 48.4 percent of the population, in 1990, and to 15 million people, 52 percent of Kenya's population, in 1997. By 2001, it was estimated that 17.1 million people, or 55.4 percent of the population, live in absolute poverty rising to 56.8 percent in 2003. Poverty is particularly severe in the arid and semi-arid lands (ASAL), with over two-thirds of the population of the region living below poverty line, and some of the poorest districts recording over four-fifths.

FINANCIAL SECTOR.

Kenya has one of the most diverse financial systems in Africa, consisting of 41 commercial banks, one development bank, five development finance institutions, two mortgage finance companies, three building societies, two finance companies, forty three insurance companies, as well as several thousand savings and credit co-operatives (SACCOs) and a number of specialist micro finance institutions. There are also several bureaus de change, pension funds, collective investment schemes and securities firms. The capital market is also relatively well developed by African standards, with the Nairobi Stock Exchange being one of the most active in the Region. Credit to the private sector and total deposits, both relative to GDP, are higher than in other Sub-Saharan African and low-income countries.[17]

Historically, the Government of Kenya has been heavily involved in the provision of financial services. Such involvement has resulted in considerable misallocation and misappropriation of resources with a high fiscal cost. The financial sector is plagued by lack of competitiveness and operational inefficiency, which is reflected in high real interest rate reaching 14 percent. High interest rates constitute a major constraint to productive investment and job creation, and therefore set back to poverty reduction. High levels of Non-Performing Loans have contributed significantly to the inefficiency and lack of dynamism in the banking sector. Improvements have been made since 2002; the banking system remains burdened by a large stock of Non-Performing Loans (NPLs), which are heavily concentrated in state-influenced banks. However, several private banks (including some foreign-owned banks) also carry large amounts of NPLs on their balance sheets. The large volume of NPLs is attributable to, among other factors, poor governance and corruption, weak and inconsistent bank supervision, poor lending skills in many banks, and the generally adverse environment for the enforcement of creditor rights. In the case of the state-influenced banks, all these negative factors have been influenced and made significantly worse by direct government interference in credit decisions. The development of the financial sector has a vital role to play in establishing a more broad-based foundation for economic growth. A strong and reliable banking system is needed to bolster confidence in public financial management and enhance efficiency in the delivery of basic social services to the urban as well as rural area[18]

1.2 THEORETICAL FRAMEWORK

Most growth models, such as early classical growth theory by Adam Smith (1776) argued that capital accumulation is the key requirement for sustainable economic growth[19]. The famous American Marshall plan and the emergency of the growth models in the late 1940s advocated for specialization, foreign trade, capital accumulation and increased productivity being the fundamental determinants of economic growth. When a large sum of funds is given to least developed countries, it is expected to have positive and significant impact in reduction of poverty therefore spurring economic development. The United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, USA, as we view it nowadays established the underlying principles of aid in 1944 in an assembly of 44 nations. This meeting later led to the establishment of the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) [20]

The end of the Second World War marked the birth of growth models that recognized the need for foreign capital. The Harrod Domar (1947) [21] "two gap" model and Rostow's (1953) [22] "take off" theory influenced the public policy particularly with regard to foreign aid and its objective to boost the economies of the less developed countries to self-sustainable growth rates. Rosenstein (1961) argued that the objective of international programme aid for less developed countries is to accelerate their economic development up to a level where a satisfactory rate of growth can be achieved on a self-sustaining basis [23]. When this point is achieved by the developing countries they can substitute external aid by local saving. This was the first formal argument in favour of foreign aid. Rosenstein believed that each dollar of foreign resources in the form of aid would result in an increase of one dollar in total savings and hence investment. He postulated that aid should be continued until underdeveloped countries could mobilize a level of capital formation sufficient for self-sustaining growth. However, he argued that foreign capital inflow should be within the limit of absorptive capacity of the developing countries. Therefore the basic goal of aid is to provide in each underdeveloped country a positive incentive in order to increase its rate of growth. Paul Rosenstein Rodan (1961) in his big push theory recommended a flow of foreign aid of heroic proportion in order to push the developing countries out of poverty trap.

The original Harrod-Domar model that assumes only a savings constraint on growth was modified in the sixties in the influential Chenery and Strout (1966) [24] two-gap model. Chenery, and Strout observed the two-gap model, which provides a theoretical framework within which the role of World Bank aid and foreign capital is recognized. They are of the opinion that the less developed countries face two key growth constraints, firstly inadequate savings to finance their desired levels of investment, secondly they lack enough foreign exchange to purchase all necessary imports required for the growth and development of their economy. They identified three phases of development, during the first phase, due to the shortage of financial resources, investment levels are below the rate required to achieve targeted growth. Aid can be used to fill up the gap between available savings and investment required to meet the targeted growth. During the second phase, a trade gap appears, as export earnings are insufficient to finance required imports of capital equipment and raw materials. During the third phase, although the savings–investment gap would disappear, due to structural rigidities the foreign exchange gap would continue requiring aid to finance imports. Because of aid's role in filling the savings– investment and exports–imports gaps, the model developed by Chenery and Strout has come to be known as the two-gap model. It is concluded that the inflow of foreign capital, which is scarce in less developed countries, is the engine of growth and development. The role of foreign aid where the World Bank is the highest contributor we believe springs logically from this analysis.

Although extensive bilateral and multilateral aid programs that aim to reduce poverty and promote economic growth have started after Second World War, there is still no compelling evidence that recipient countries have made economic progress during the last five decades. Foreign aid particularly the World Bank aid has been and continues to be a controversial issue till date. In our present study we will assess whether there is evidence for the positive effect of World Bank aid on economic growth or not. If there is, under which circumstances these positive effects of aid occur. Furthermore, if there is counter evidence about World Bank's foreign aid effectiveness, what are the possible explanations for this aid failure? "In the general sense... the majority of aid does indeed 'work'. It succeeds in accomplishing its developmental goal through contributing positively to the recipient countries' economic performance. This does neither imply that aid works in every count nor in all situations. Its performance differs by country to country and by sector to sector. On the basis to mitigate poverty, even the aid, which accomplishes its objectives, cannot be considered totally satisfactory (Cassen and Associates, 1994: 7) [25].

The moral imperative behind aid is reflected in many valued based systems of thought. Most major religions call on their followers to aid the poor. In Islam *Zakat*, an obligation to give to those in need is one of the pillars of the religion. The Christian tradition of the jubilee calls on creditors to write off debt. Whether motivated by human rights, religious values or economic reasons World Bank aid or foreign aid in general has played a crucial role in eliminating mass poverty, hunger, avoidable diseases and deaths and spurring economic growth in less developed countries [26].

1.3 STATEMENT OF THE PROBLEM

Why should we be interested in the World Bank? Yet there is terrorism, racism, nuclear weapons, and emerging economic powers of Asia haven't we got enough to occupy us? Yes, but what of the plight of the 1.3 billion people living in absolute poverty on less than $1 a day? What is the plight of 52 percent of the population in Kenya living below $ 2 a day? Their health is as extremely bad as their living standards, and until their poverty is reduced their health will not get better. More than forty years later since independence in 1964 these challenges continue to haunt Kenyans. The World Bank's mission statement is "to reduce poverty, and improve living standards by promoting sustainable growth and investment in people". For economists and policy makers concerned with economic development and mitigation of poverty in Kenya, knowledge about the World Bank is important. How is the World Bank performing? Have the economic policies, projects initiated by the World Bank improved the human development, living standards, infrastructure and agriculture of Kenya? Have projects funded by the bank succeeded in achieving its efficacy?

World Bank Aid effectiveness has been a major issue among policy makers and researchers. After the success of the famous American Marshall Plan, more attention was paid to the development of developing countries. Therefore present study which focuses on the analytical and empirical analysis of the role of the World Bank aid in economic development of Kenya is an attempt to fill up the crucial lacunae in the effectiveness of World Bank aid and official development assistance in economic development of Kenya. In a developing country like Kenya where rapid economic growth has taken a center stage, such study analyzing the efficacy and performance of the World Bank assumes a vital significance not only for politicians and policy makers in Kenya but also the World Bank and the donor community at large.

Policy makers, academicians, researchers, politicians and Kenyan citizens are bound to be interested in knowing as to where and what the World Bank aid is financing and how is it performing in terms of achievement of its efficacy. We have to emphasize here that the World Bank aid and official development assistance impose certain costs to the society as a whole like the repayment of the loans at present as well as the future generation. It is crystal clear from the above that a study of this kind is highly needed and vital for all those who have stake in the foreign aid and economic development in Kenya.

After the successful story of Europe the World Bank evolved into poverty eradication and economic development agency of less developed countries where Kenya is not an exception. Kenya being in the sub Saharan Africa the only part of the world where poverty has increased has also witnessed the last two decades of economic deterioration and increase of poverty in a free democratic state. Choosing Kenya as a case study is interesting unlike other African countries, which are poverty stricken because Kenya is the only country which has never gone into war, enjoyed peace since independence yet still it has not attained a developed country status.

No doubt there are varied variations in various estimates of poverty in Kenya due to differences in methodology adopted, region covered and the period of study. Nevertheless certain broad conclusions can be drawn from the percentages of population below poverty line: poverty has not decreased and many people have slipped into abject poverty. What is more disappointing is the fact that in spite of remarkable increase of foreign aid particularly from the World Bank, Kenya has not been able to make a dent on poverty. Recently Kenya has been seeking debt relief from the Paris club and other donors because Kenya is in a debt trap or debt overhang situation.

According to the World Bank report (2005) 52 percent of the Population in Kenya lives below two dollars a day. The report also shows that the people are much poor than 25 years ago [27]. Having the above economic and poverty scenario of Kenya calls us to carry out a research of this type to find out whether the existing financing of programs and projects by the World Bank through the Government of Kenya do reach the vulnerable section of the society. The research being an empirical analysis will assess how the financed projects are performing and whether the World Bank has achieved the efficacy or not. The plethora of cross section studies in the aid effectiveness literature cannot capture accurately the diverse heterogeneous characteristics of the countries included in the sample. Emanating from this contention the macro economic impact of aid is most likely to vary significantly from country to country and this prompted us to study an individual country in our case Kenya. Many studies take African as homogenous continent; which is erroneous.

Africa is made up of fifty three independent countries following various ideologies and economic policies, which influence the efficacy of World Bank aid. It has become usual practice in the literature to treat sub-Saharan Africa as one continent: extremely fifty three diverse nations which are yet thought to have common characteristics, common features, common problems, and common prospects. This is erroneous. Tanzania and neighbor to Kenya in the reign of president Nyerere was of a more of a socialist state while on the other hand Kenya adopted more of a dual economy state. Furthermore, there have been few individual country studies, which from a policy point of view could be more relevant. This thesis attempts to fill this gap assessing the World Bank aid in economic growth and development in Kenya. Evaluation at the country level yields a more accurate and complete picture of the outcome of the Bank's assistance programs than do evaluations of individual programs or projects. Evaluation needs to capture critical dimensions of country assistance programs, as the World Bank has been dramatically altered over the past decades, with the objective of making it more effective in supporting the global fight to eradicate poverty.

This proposed research work, will give vital information and findings about the development and eradication of poverty in Kenya by the World Bank. It will be beneficial to the Government of Kenya, policy makers, economists, politicians, researchers, and NGOs and donor agencies. A research of this magnitude will fill lacunae in the foreign aid and the effectiveness of the World Bank and as development agency. Kenya being in the Sub-Saharan Africa (SSA) this research also will be a model to other countries of the SSA therefore many countries will benefit from this research.

As we have seen from the economic front at the introduction of this research study in this chapter the World Bank aid has become instrumental in shaping the economic and political scene in sub-Saharan African especially Kenya. Recently, the World Bank aid literature shows there is aid fatigue and disillusionment in the western countries and donor agencies. This study will examine the impact of the World Bank aid and prescribe the appropriate conditions for effective aid. By and large, the relation between aid and economic growth remains inconclusive and is worth being studied further. This study seeks to bring out vividly the effectiveness of the World Bank aid and the findings from such demanding investigation will suggest appropriate paradigm, which we believe, will lead to robust economic development in Kenya.

1.4. OBJECTIVES AND HYPOTHESIS OF THE STUDY.

OBJECTIVES OF THE STUDY

The above exposition of our key focus on the statement of the problem leads us to formulate the objectives of the research study. The Major essence of this proposed research study is to examine the role and contribution of the World Bank to the Kenyan economy and to assess the performance of the World Bank and its efficacy in the economic development of Kenya. This will be analyzed by sector wise performance and project wise analysis at national level. The following are the objectives of the proposed research work:

1. To assess whether the World Bank has spurred growth and economic development in Kenya.
2. To assess whether the World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development in Kenya.
3. To find out whether the World Bank has improved the infrastructure facilities.
4. To evaluate whether the World Bank has fostered development of the agricultural and industrial sector in Kenya by supplying them with investment capital.
5. To assess whether the World Bank aid has positive impact on economic growth when there is sound macroeconomic policy in Kenya
6. To find out whether the World Bank aid affects the government expenditure.

HYPOTHESES OF THE STUDY

Hypothesis means a non-obvious statement that makes an assertion or it can be an underlying proposition or statement that can be supported by argument and evidence. Quite often a research hypothesis is a predictive statement capable of being tested by scientific methods that relates to an independent variable to some dependent variable. The hypothesis describes two relationships on the independent and dependent variables. The hypothesis enables the researcher to test relationship of a doubtful statement. From the above logic the following are the hypothesis of the study:

1. The World Bank has spurred growth and economic development in Kenya
2. The World Bank aid contributes to increasing aggregate welfare, measured by infant mortality and the Human Development (HDI), in Kenya
3. The World Bank has contributed to the development of infrastructure like power, irrigation transport and telecommunication in Kenya.
4. The World Bank has spurred development of agriculture and industrial sector by providing investment capital in Kenya.
5. The World Bank aid has positive impact on economic growth when there is a sound macroeconomic policy in Kenya
6. The World Bank aid contributes to the increase in the total public expenditure in Kenya.

1.5 RESEARCH METHODOLOGY AND DATA COLLECTION

The present study has proceeded through two kinds of analysis: descriptive and quantitative analysis. Descriptive analysis of various projects financed by the World Bank is carried out using secondary data collected from various reports and economic reviews published by the institutions in Kenya and other international institutions such as the World Bank, International Monetary Fund

United Nations development programme etc. This research work being built upon secondary data survey makes use of theoretical and historical framework of the World Bank with a major intention of capturing the model of World Bank aid in economic development and the evolving role of the World Bank playing development agency. We carried out tabular analysis using percentages, ratios and tables so as to achieve the objectives of the study. The empirical input enables us to examine the data collected and conclusively say whether the World Bank has performed satisfactorily and its efficacy realized in the economic development in Kenya or not.

Quantitative analysis is carried out after collection and compilation of the required secondary data by applying statistical regression models to capture the functional relationship of World Bank and foreign aid in economic development of Kenya. We have employed a familiar technique for testing hypothesis, the ordinary least squire (OLS) Regression method. The statistical significance of the estimates of the selected variables has been scrutinized by applying t-statistic. The results have been tested at 0.01, 0.05 and 0.10 per cent level of significance for two tailed tests. R^2 has been computed to know the proportion of variations in the dependent variable explained by the independent/explanatory variables. The significance of R^2 has also been checked by applying F-statistic by duly making suitable adjustments in respect with the regression model. We have also used the D.W to enable us identify the degree of auto–correlation in the regression equation. We have interpreted the results accordingly and made the necessary inference. The main element of this method is that it not only makes it possible for us to identify the degree of association among variables but also enables us to predict at what rate dependent variables change per unit change in the value of independent or explanatory variable. It also enables us to test the validity of influence by individual parameters on dependent variables. In addition it allows us to know degree of presence or absence of auto-correlation among residual variables (which is the difference between estimated and actual values of dependent variables). The regression sample runs from 1980 to 2004 and our case study is Kenya. The model tests the performance and efficacy of the World Bank and official development assistance in the economic development of Kenya; this model covers the period of 1980 to 2004.

1.6.2. DATA SOURCES AND THEIR DESCRIPTION.

Past studies of aid effectiveness were mostly based on cross-section data only few studies used time-series data from individual countries. We believe that single country time-series analysis is more useful, as it can capture country-specific features that may not be found in a cross-sectional analysis. The data used is secondary data, which we have scrutinized thoroughly before being applied for empirical investigation. The data used in our study is based on the World Bank world Development indicators 2006. In order for this study to be accurate a reliable data has to be collected. Data provided by the national sources differ significantly from those found in international sources such as the IMF and World Bank. After a rigorous analysis of our topic of study data from the

World Bank and Government of Kenya was selected appropriately. The World Bank data is more reliable as these are collected directly from the donors who have better recording system than Kenya. Although these data are mostly collected from national sources, the World Bank does internal consistency counter checks and supplements the data from the Kenyan source with their occasional sectoral studies. The variables used are the GDP per capita, Official Development Assistance (ODA) the World Bank Assistance (IBRD and IDA), Total national population, money supply, inflation, Infant mortality, and total government expenditure. Our study has adopted the recent empirical studies which have been carried out on the effectiveness of foreign aid and most notably the study by the World Bank by Burnside and Dollar (1997) [28] and the basic model of Chenery and Strout (1966). The Chenery and strout (1966) is considered the core theory, it was reprinted by the World Bank publication in 1979 retaliating its importance and its relevance in the rationale of the World Bank aid. Interpretation of the data will take the form of tables, charts, graphs, diagrams, figures, estimates, percentages, ratios, statistical models like least ordinary squares, mean, and others for clarity purposes.

1.6 LIMITATIONS OF THE STUDY

The study is limited to the performance of the World Bank aid in economic development of Kenya during the study period of 1980 to 2004. There are some limitations of our study as the number of explanatory variables is not exhaustive. We do believe that democracy influences economic development of the country but due to difficulties in its quantification it was not taken into consideration. We will have wished to include the social and political indicator as explanatory variables but it will have been very hectic quantifying them and thus distorting the inferences, which will be drawn from the empirical results. Kenya gained independence in 1964 but our study period is from 1980 to 2004.

1.7 CHAPTERS DESIGN

The entire research study is divided into eight chapters. Brief outline of the thesis is as follows:

Chapter One: It is an Introduction. The chapter discuses the background of Kenya, background of the study, research methodology, objectives, hypotheses, scope, limitation of the study and literature review.

Chapter Two: The chapter discusses the origin of the World Bank, its establishment, membership and its structure so as to understand how the World Bank was formed and its objectives.

Chapter Three: The chapter underscores the financial structure and lending policies of the World Bank in Kenya.

Chapter Four: World Bank financing in Human Development in Kenya.

The chapter analyses the World Bank projects in human development in Kenya.

Chapter Five: World Bank financing of infrastructure development in Kenya. The chapter highlights the World Bank projects in the infrastructure sector in Kenya.

Chapter Six: World Bank financing in Agricultural sector and Industrial sector in Kenya

Chapter Seven: Empirical analysis of the World Bank financing in the economic development of Kenya.

Chapter Eight: Conclusion: Findings, Policy Recommendation and Suggestion for Further Research. It contains summary of the study which includes findings, conclusion, Policy Recommendation and suggestion for further research.

1.8 LITERATURE REVIEW

The most important intend of literature review is to substantiate the rationale of the present research study by providing an overview of historical point of view to highlight the research trends and offer a critique to the research problem. The methodology employed guide the direction of the study, which aims to fill the lacunae into the existing knowledge and examine the relationship and performance of the World Bank aid and foreign aid in economic development. The most important objective of this research study to survey numerous literature is to enable us to develop the model that is presented in chapter seven Empirical analysis.

From the above logic the present research work being an empirical and analytical study has drawn from a variety of books and journals relating to the broad rubrics of economic development and foreign aid effectiveness in relation to the World Bank with the focus of fighting poverty with passion in less developed countries. The effectiveness of foreign aid in developing countries continues to be a hotly debated issue, which is hitherto inconclusive. Many studies are available but we will appropriately select the most deserving ones. Most importantly we have surveyed research papers, reports from both international and national institutions.

Kuznet (1955) [29] the study attempted to identify the major causes of backwardness and there by prescribed strategies for economic progress of the backward economies. On the basis of time series data the study examined the national products of different countries and showed that the process of economic development was commonly accompanied by shifting of the labour force from low productivity agriculture to high productivity industrial sector and argued that industrialization required a higher rate of capital accumulation.

Chenery and Strout (1966)[30] the study examined data from 31 developing countries to identify their stages of development and to determine their needs for foreign assistance in the period of 1957-62. The study established that during the first phase, due to the shortage of financial resources, investment levels are below the rate required to achieve targeted growth. The study identified two gaps: a trade gap and foreign exchange gap therefore Aid can be used to fill the gap between available savings and investment required to meet the targeted growth. The study formally developed the two-gap model to link aid to economic growth at different stages of development. The study established a Positive relationship between aid and growth and therefore justified aid for two reasons: to fill the savings– investment gap and the foreign exchange gap.

Chenery and Carter (1973) [31], expounding the previous two-gap derived model of Chenery and Strout (1966) and using data from 50 countries over the period 1960-1970,the study revealed that the effects of official development assistance (ODA) on the development of countries under study were different among certain groups of countries. In five countries, specifically Taiwan, Korea, Iran, Thailand and Kenya, foreign assistance accelerated economic growth whereas in six cases it hindered growth, namely India, Colombia, Ghana, Tunisia, Ceylon and Chile. The study concluded that Aid might have different effects in different developing countries.

E. Mason and R. Asher (1973) [32] the study attempted to trace the history of the World Bank and assessed the World Bank as a development agency and a guider to a development policy. The study established that the World Bank had increasingly integral part of the complex international machinery that has grown up since the end of the Second World War. The study revealed that the World Bank successfully negotiated the short transition from lending exclusively for reconstruction in Europe to lending for development in the less developed world. The World Bank has had a substantial and generally beneficial impact on the areas in which it has concentrated its lending. The study established that the World Bank had become less of a bank and more of a development agency; its advice was more relevant and equally more useful for the government and donor countries.

Heller (1975) [33] developed a cross-sectional time series model to analyze the behavior of the public sector to foreign aid flow in eleven African countries where Kenya was included in the period of 1960-71 particularly he was concerned whether aid resulted in increased investment needed to spur growth and development. The study established that aid not only increases investment but also simultaneously facilitates a reduction a level of domestic taxes and borrowing.

World Bank (1976) [34] the study assessed the justification of the water supply financing by the World Bank in developing countries. The study asserted that there are significant benefits from improving the quality and quantity of village water supply as it directly contributes to improvement in public health. The study revealed that although this can not be quantified or expressed in economic terms, the strongly held opinion of public health officials and in particular the W.H.O is that the provision of safe water is of prime importance to the public health and in combination with other sanitary measures is an essential prerequisite to eradicating many epidemic diseases. Investments in urban water supply are essential for industry and commerce. In most urban areas no satisfactory alternatives to public system exist and there is a risk of major epidemics if proper supply of water is not provided. It was asserted that small villages have little commercial activity and almost no industry and no other sources of water of varying degree of reliability safely and conveniently do exist. It was concluded that justification of village water supply projects therefore must depend largely on non-quantifiable factors.

Bereket Habte Selassie(1984)[35] The study examined an aspect of governance in the World Bank in reference to management and decision-making and its relationship with the structure and origin of the Bank. It was established that the Bank has become the leading multilateral international lending agency, with an expanding role covering a variety of sectors and involving billions of dollars worth of loans to the less developed countries, on conditions that are not available from commercial banks. It was revealed that the World Bank operates within the framework of a system established at the close of Second World War at Bretton Woods, New Hampshire, guided by the United States of America. The study concluded that the World Bank has become a subject of controversy, of academic discussion and endless debates between the Left and the Right.

Helleiner (1984) [36] the study examined the neglect of least developed countries under the emerging international monetary system, in the distribution of aid and liquidity during the early years of 1980s. It was revealed that international development assistance in terms of multilateral agreed targets has been .appallingly insufficient; it declined annually from 1980 to 1983. Against 0.7 percent of GDP target OCED members remained 0.36 percent in 1983 and indicators revealed that this trend were to continue. The study opined that the, international development association (IDA) must be replenished at more satisfactory levels and the World Bank ought to lend with longer time of adjustment contingency provisions so that the risk of unanticipated shocks should not be borne by exclusively the borrowing poor country.

Mahendra Pal (1985) [37], the study analysed the World Bank in reference to India. The evidence revealed that the World Bank after the successful reconstruction of the ravaged Europe turned its priority to long term financing of development in less developed countries. The study contended that economic policy may be linked to political policy and therefore the World Bank considerations may also have some influence on the domestic affairs of the country. The study revealed that the projects financed by the World Bank helped to reduce the delay of essential freights and permitted rapid movement of important commodities. The study also established that the World Bank in the third plan of India financed eight loans for power projects which generated 8 per cent of the total India's generating capacity. In agricultural sector the World Bank financed for irrigation, seeds, fisheries and weed control projects. Telecommunication facilities were also expanded. The study also opined that there should be more emphasis on agriculture, education, industrialization, population planning, urbanization and tourism, as they are crucial areas in social and economic development.

Sanghvi (1985) [38] assessed the role of bilateral foreign aid in general and the World Bank aid in particular in India, the study revealed that the decline in the interest rates both in the donor countries as well as World Bank credits made the terms of aid little harsh. The study raised concern that share of India in concessional loans from IDA the soft window of the World Bank, which reduced from 40 per cent in 1980 to 28 percent in 1984, there will be further decline if China claims its share for the first time from the IDA funds. The study established that of the total aid commitment for the year 1985 - 86, US $ 2400 million came from IBRD and remaining US $ 700 million from IDA. The study concluded that the role of bilateral aid was dwindling while the role of multilateral World Bank aid was steadily expanding, since the fourth plan, as the share of World Bank aid in India's total aid had gradually expanded from 18 percent in fourth plan to almost 55 per cent in the sixth plan.

Rana (1987) [39] performed a study of 14 Asian countries using both time-series and pooled cross-section data for the period 1965-82. In his model, there were two endogenous variables (growth rate of GDP and gross domestic saving as a percentage of GDP) and five exogenous variables (foreign aid as a percentage of GDP; foreign capital investment including long-term borrowing as a percentage of GDP; change in exports as a percentage of GDP; change in labour force; per capita GDP). Rana found that foreign capital made a positive contribution to the growth of these Asian countries, and in general higher aid flows were associated with more productive investment.

Levy (1988) [40] conducted a study of 22 Sub-Saharan African countries whose population was over one million. In a pooled cross-section of time-series data, the study covered a period of 15 years from 1968 to 1982. The post 1974 data represented a period when domestic investment exceeded domestic savings by more than the amount in the previous period. That is, the savings-investment gap in the post 1974 period was higher than the pre 1974 period. The results in both sub-periods (1968-73 and 1974-82) and for the 15 years (1968-82) period as a whole showed that aid was positively and significantly correlated with investment and economic growth.

Jonathan E Sanford (1989)[41] The study examined the World Bank's loan patterns in recent years to see if there is any empirical evidence of a decrease of interest in poverty alleviation programs. The study employed four very diverse concepts on which poverty reduction is categorized in the international agency's loans: the share of lending going to (1) poor countries; (2) programs targeting direct aid to poor individuals; (3) certain sectors deemed to be fundamentally beneficial in meeting basic human needs, and (4) overall country programs which make poverty a key element of their goals. Every one of the model has different criteria and standards. The study revealed that the Bank appeared to be doing well today in the struggle against poverty than before. The study concluded that in various ways the Bank's current program was more poverty-oriented than bilateral aid programs financed by the United States and other key donor countries. The study established that World Bank aid combined development program and basic human needs which are firmly grounded on a concern about poverty.

Bade Onimode (1989) [42] opines that the challenges for Africa in social political and economical are formidable. Africans have their own internal agenda to pursue in undertaking the necessary economic reforms and it will not succeed without the urgent intervention of the IMF and the World Bank. Study concluded that in order for the Programmes to help the Africans help themselves, they should entail high priority with adequate financial and technical support in the formulation and implementation of growth oriented adjustment Programmes with a human face. Aid from World Bank for economic Programmes alone will not be adequate, debt relief is also vital if the international community genuinely wants to stop millions of Africans who are at the verge of slipping to poverty of less than a dollar a day.

Pack and Pack Jr. (1990) [43], the study empirically evaluates whether foreign aid given for specific categories of expenditure is fungible among them and whether aid reduces tax effort by the recipient government. In this study, Models employed to analyze the fiscal relations among various levels of government in the United States were applied for analysis of the impact of foreign aid. The study concluded that in Indonesia aid is largely spent as the donors intended, that aid does not lead to a reduction in tax effort, and that aid is not diverted to non-development current expenditures.

Vyuptakesh sharan (1991) [44] the study analysed the World Bank group financing activities and in the SAARC nations context. It was revealed that the poverty alleviation program was linked with structural adjustment assistance, as it was realized that poverty reduction would not succeed without appropriate macroeconomic policies. India which is mostly agricultural economy received substantial amount in order to spur living standards of the majority of populace. Transport, sanitation, water supply were financed plus infrastructure. More emphasis was put in lending to human development and restructuring the public sector. It was established that a large quantum of funds couldn't make a break through if they are not utilized effectively. For the sound project to accomplish its efficacy there should be administrative and managerial capabilities available. Nepotism, neglect of discipline and certain ambivalent attitudes toward the public money, lengthy disciplinary procedures and no punishment to the chief executive own men are some of the factors making administrative machinery slack in

SAARC. Most of top executive are educated in advanced countries and remain unacquainted of local problems.

Ankie Hoogvelt; David Phillips etc (1992)[45], the study collected Data for all 45 Sub- Saharan African countries. A total of 40 variables were identified as empirical indicators in seven aggregates of variables spanning the entire spectrum of social, economic and demographic conditions The study established that it had become typical practice in the literature, not least that flowing from World Bank staff pens, to treat Sub-Saharan Africa as one continent: forty-five extremely diverse nations which are yet thought to have common characteristics, common features, common problems, and common prospects. Increasingly, the entire structure of internationally sponsored aid programmes, such as the IMF/WB jointly sponsored structural Adjustment Programmes, has been built on this classification of commonality. The study opined that there should be a difference in the common strategy for Africa as disseminated by the World Bank. In the course of this debate there has become evident a sharp division of opinion over the causes of Sub-Saharan African decline, both generally and particularly in relation to its industrial performance and economic development as a whole. Based on these different attributions of causality, there are deep divisions of opinion over the *World Bank and Africa* desired direction of policy. Specifically, these two visions of 'commonality' have parted ways over. The study concluded that Africa is of three clusters not homogeny or one commonality.

Bevan, D.P. Collier and J.M. Gunning (1993) [46], the study examined the impact of the 1977- 78 coffee boom in Kenya in the government expenditure and did the government adjust its expenditure. The study argued that the coffee boom of 1977-78 facilitated massive rise in public expenditure which surpassed the corresponding in public revenue related with the boom. The boom affected investment negatively as the government of Kenya spent much of the boom earnings on consumption instead of investment. After the boom it was very hard for the treasury to reverse the rise in public spending as the ministries declined to cut their expenditure and instead asked supplementary reallocations of the resources.

Sengupta (1993) [47] the study examined the purpose of aid and development policies in the changed world scenario of 1990s to enable less developed countries achieve suitable infrastructure and attain higher standard of living by financing projects of substantial benefits. The study suggested that the confidence of the donors in the capability of receiving countries to make the most successful use of the received resources would be amplified if the Programmes were implemented in the structure of regulation of World Bank, regional development banks and international donor. This will enhance the flow of finances to less developed countries where they are most needed to finance development Programmes.

Gabriel Kosgey Lagat (1994)[48] the study established that foreign aid has contributed to the improvement of Kenya's road system, education system, land transfers and settlement schemes. He concluded that the foreign aid has stimulated the economic growth and development in specific sectors of the economy like human development (education and health) and road system. The study concluded that the foreign aid in Kenya increases the development expenditure though not by same amount of aid due to the existence of fungibility.

John Loxley; David Seddon (1994)[49] the study analysed the 50 years role of World Bank in Africa. The study revealed that the World Bank's analysis fails to grasp the real problems of African development thus its ideological prejudices lead it down the dangerous path of selecting and even manipulating the evidence to support conclusions it wishes to reach. Therefore these conclusions ultimately are incapable of informing and explaining the real dynamics of African history and African development.

The study suggests that for the World Bank, perhaps 50 years is, indeed, enough as it has not achieved its objective of economic development in Africa. The study opines that there ought to be some diversity of viewpoint on appropriate development strategies and give regional member governments a bigger voice in their own futures.

Sawar Lateef K. (1995) [50] The study examined the challenges the world Bank has faced in it's a half century and how they have reshaped the institution transforming it from an organisation established primarily for reconstruction of ravaged Europe to a development agency focusing on poverty reduction and growth in the less developed world. The study established that the World Bank has evolved and has built in its successes and its mistakes. The bank has contributed to remarkable development gains recorded in the fifty years under consideration. The study also revealed that the World Bank had accomplished a great deal however much remains to be done. The World Bank has positioned itself in the center stage to fight poverty and ensure sustainable development in the less developed world.

Feyzioglu, Swaroop et cetera (1996) [51] argued that since aid is not necessarily used for the purposes for which it is intended by the donor, however, countries with sound policies can use it well but countries with poor policies are free to use it badly. A dollar of project aid in the sector has the same impact on health expenditure as a dollar to the education sector or a dollar of free resources available to the government, every dollar obtained for a specific purpose simply frees a dollar for the government to spend in some other different way.

Walle and Timothy (1996) [52] investigated effectiveness of aid from seven donor countries (United States, United Kingdom, Japan, Canada, Denmark and Sweden) to seven African countries (Botswana, Burkina Faso, Ghana, Kenya, Senegal, Tanzania and Zambia). Walle and Timothy argued that despite some progress in human welfare indicators, in most African countries aid did not contribute to fostering economic growth and poverty alleviation. Due to political instability and civil conflict, progress has been reversed in some countries. From

1980 to 1993 the rate of economic growth was found to be negative in these African countries. The study found that the lack of a government's own management capabilities contributed to the poor performance of aid. The study established other weaknesses were lack of country ownership, poor coordination with donors, and inability to cover recurrent costs.

Burnside and Dollar (1997) [53] in their well-known paper "Aid, Policies, and Growth", they find that aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little impact on countries where such policies are poor. In their panel study of 56 countries for four-year periods from 1970-1973 until 1990-1993 and construct a growth convergence model, in which growth depends on the logarithm of real per capita GDP at the beginning of the period, incorporating the ratio of aid over GDP and an index measurement for macroeconomic policies on the right hand side of the equation. They suggested, "Aid can affect output to the extent that it is used for investment rather than consumption". They argue that aid itself has small and insignificant impact but aid interacting with good policy has a significant positive impact on growth. In fact, policy seems more important for aid effectiveness in lower income countries. The study concluded that foreign aid could foster economic growth, mitigate poverty and achieve most human development indicators when there is a sound policy environment in the recipient country. Aid works much better where the reform is initiated or internalized by local government rather than when outsiders impose it. Therefore, aid is normally more effective when it facilitates efficiently and timely reforms triggered by the local authority.

The World Bank (1998)[54] used a general equilibrium-growth model to examine the endogenous and non-linear effects of aid, and the impact of aid on economic policies and institutional environments in recipient countries. A World Bank team supervised by Lyn Squire argued that Only about 35 percent of aid, on average, increased the investment ratio in a study of 56 countries (42 of which were in Africa or Latin America) over the period 1970-1993; none however seemed to finance tax reductions, and some aid is initially targeted on government consumption such as education, agricultural extension, or public health. The World Bank also addressed the issue of aid fungibility. The empirical analysis of the study revealed that aid helps stimulate economic growth and reduce poverty but only when strong institutions and good economic management exist in recipient countries. The study concluded that aid leads to faster economic growth, poverty reduction and achievements in many social indicators in developing countries with sound economic management, but is less effective where there are weak institutions and policies.

S. Devarajan V. Swaroop et cetera (1998)[55] the study established that most aid (90 percent) boosted government expenditure with no significance evidence of tax relief. The evidence revealed that approximately a half the aid was used to service external debt payments, one quarter financed investments and the other quarter settled down deficit accounts. Health, agriculture and industrial sectors aid was fungible. Education sector was the least fungible aid as the evidence revealed.

Joseph E. Stiglitz (1999)[56], the study examined the World Bank since its establishment. The study revealed that over a half-century, the World Bank has evolved enormously, especially in response to changing economic circumstances and changing needs. Today, the World Bank's core mission remains the promotion of economic growth and the eradication of poverty in the less developed countries. The strategies used to pursue that objective have changed over the years. The Bank's effort has shifted from large scale, growth-oriented projects toward projects, Programmes, and policy advice that more explicitly incorporate the poverty reduction goal. Individual projects remain the core of the Bank's work, and many of these projects have been shown to be quite successful at reducing poverty and its effects, whether by reducing severe malnutrition in Tamil Nadu, India or by helping spur a dramatic increase in girls' education in Bangladesh.

The World Bank's funds projects on environment, labour markets, health, education, judicial systems. Development is concerned not only with increasing GDP, but also with raising living standards. The challenge facing the World Bank, in its core mission of promoting growth and reducing poverty, remain as great as ever. While there has been great progress in reducing poverty, continuing population growth makes the struggle an uphill one.

Hansen and Tarp (2000) [57] examined and summarised empirical cross-country studies of aid effectiveness since the 1960s, and concluded that aid contributed positively to economic performance. They examined 131 cross-country regressions from 29 various studies, which they classified into "three generations". The first- generation studies used the Harrod–Domar growth model and the two-gap model. From the first generation studies they found that aid led to an increase in total savings. Thus, given the underlying Harrod–Domar model, Aid was positively and significantly correlated to economic growth. In the second-generation empirical work, Hansen and Tarp focused on the relationship between aid and growth via investment. In 18 cross-country studies, a positive relationship was found between aid and investment; signifying that aid spurs economic growth. They found in 17 studies that there was a significant positive impact of aid on investment, just one study showed an insignificant effect. Hansen and Tarp's survey reveals that in each generation of studies, those claiming a negative aid–growth or negative aid–savings relationship are clearly in the minority.

Herbst and Soludo (2001) [58] the study examined the relationship between the poor economic performance, foreign assistance and debt rescheduling in Nigeria during the period 1979-1998. The study established that in 1985 general

Babangida government attempted to tackle the intricate economic crisis faced by the Nigeria but was futile to implement a coherent programme because of the ruthlessness of economic reforms as perceived by country's political establishment. This confirms that reforms program in Nigeria did not fail because of lack of ideas, but it failed because of lack of government's commitment to reforms. It was revealed that Nigeria obtained much less aid than other African countries mainly due to that the country has abundant crude oil wealth which prompted donors to presume that Nigeria does not need aid. Most of the aid that Nigeria received was from the World Bank.

Kingsley Banya; Juliet Elu, (2001)[59] , the study critically examined World Bank and other donor agency's policy changes toward financing of higher education in Sub-Saharan Africa. The study established that the Sub-Saharan Africa urgently needs multiple means of funding. The study revealed that soaring enrollments at a time when the region was in socio-economic and political crisis had made classrooms ever more crowded. That situation, together with the lack of computers as well as equipment and supplies for laboratories and libraries, created a gloomy future for higher education in Sub-Saharan Africa. Nevertheless, it was expected that with the change in the attitudes of the World Bank, the region would yet again be in a position to spend in higher education. A variety of ways of funding higher education ought to be initiated even with the shift in Bank. The established that there was no doubt that higher education is needed in the region, how to finance it, however, needs to be diligently considered. The study opined that in the future, proposals from the World Bank and other outside advisors should be seriously scrutinized by African States before program and project implementation.

The World Bank drew the conclusion that its lending strategy should emphasize primary education, relegating higher education to a relatively minor place on its development agenda. The World Bank's attitude has been influential, and many other donors have also emphasized primary education.

Collier and Dollar (2002) [60] , the study re-examined the core Burnside and Dollar results with an extended data set from 59 developing countries and took four-year averages for the period 1974-97. They found support for Burnside and Dollar that aid works in a good policy environment. They also concurred with the findings of the World Bank's *Assessing Aid* that donors were not successful in inducing lasting reforms in recipient countries. Hence, the study concluded that aid should be directed to countries, which already have good policy environment and better governance. They argued that to maximize poverty reduction, aid should be allocated to countries that have a high level of poverty combined with a good policy environment. The study concluded foreign aid can affect growth through its allocation and growth in turn will lead to poverty reduction only where there is a sound policy environment. Collier and Dollar argued that the actual allocation of aid was different than that of poverty-efficient allocation, and claimed that with a poverty-efficient allocation, aid productivity would be almost doubled.

Mosley *et al.* (2004) [61], the study based on cross-country evidence found a significant relationship between pro-poor public expenditure and poverty reduction. The GMM and 3SLS techniques were applied to data from 34 countries for the period 1980-2000. They used a pro-poor public expenditure index to investigate the effect of aid on poverty rather than on economic growth. They considered public expenditure on the basics of health care, primary education, water and sanitation, rural roads and agricultural extension service as pro-poor. In addition to pro-poor expenditure, they also used measures of inequality and corruption, which also influenced the poverty leverage of foreign aid. They found that aid that went to pro poor public expenditure had a longer lasting impact on poverty. They concluded that inter-country reallocations of aid could increase such poverty impact. Corruption, inequality and the composition of public expenditure are particularly strongly associated with aid effectiveness.

James Njeru (2004) [62], expounded on the impact of foreign aid on public expenditure: the case of Kenya", the empirical results indicate that the flow of foreign aid does influence government spending patterns. The study established that there is a positive and statistically significant relationship between the share of government expenditure in gross domestic product (GDP) and the share of net disbursement of overseas development assistance (ODA). While the study finds reasonably slight evidence that aid leads to tax relief, there are strong indications that the government render aid fungible by financing recurrent expenditures. The evidence revealed that the effects of an aid freeze are strong in the short term as the Treasury embarks on stringent fiscal measures to counteract the negative effects.

Stanley Fisher (2004) [63] the study examined the performance of world Bank and IMF fifty years after their establishment .The study established that the World Bank plays a vital role in lending to member countries, coordinating aid, technical assistance and its research and policy analysis. The study contended that if the world Bank goes into liquidation a new institution like it would be invented .It was shown that there is vigor of the World Bank owing to its central role it plays in the world economy which testify to the foresight of the founding fathers who designed it as a bulwark of the post Second World War. Since the World Bank has been lending for projects it can be said that the World Bank has promoted development by encouraging international investments though most of the investments have been in the public sector.

Sachs (2005) [64] ,as Jeffrey Sachs explains in his book "The End of Poverty" (pp. 56-57), most of Sub-Saharan Africa is isolated geographically and economically as basic infrastructure seldom exists. Sub-Saharan Africa seems to be trapped in a vicious circle of poverty not only in income, savings and investment but also a population explosion trap, a fiscal trap and much more. Sachs argues that what are required to push Sub-Saharan Africa out of poverty traps are holistic efforts both by the Africans themselves with partnership with the development agencies. Jeffrey Sachs argues that the "Big Push" of massive aid increases is supposed to get poor countries out of a "poverty trap" which automatically prevents very poor countries from growing. The study concluded that the aid efforts have to be focused on green revolution in agriculture, revamping the health sector reforming education sector and making universal primary education affordable as well as development of basic infrastructure.

Muhammad Yunus [65] , in his opinion "if foreign aid does reach the poor countries at all it goes to build roads, bridges and so forth which are supposed to help the poor in the long run. But in the long run the poor are dead from avoidable diseases, hunger and if they survive nothing trickles down to the poor. Yunus is not against building of roads, airports but the people benefiting directly and indirectly from these are those who are already wealthy, though they do so in the name of the poor. Yunus is of the opinion that development aid should be directed to improve the economic status of the bottom a half of the population in other words economic development should be measured by the per capita real income of the bottom 50 percent of the population. The foreign aid donor should enter dialogue with the poor so they can identify projects which matter to the poor most then participate in their implementation as they are the beneficiaries.

D. M'Amanja, Morrissey. O. (2005) [66], the study examines the effect of fiscal variables (government expenditure and revenue) and aid on growth using annual time series data for Kenya over the period 1964– 2002. The study established that Aid loans have a negative impact on long run growth at the same time grants have a positive one. The study concluded that Government spending has a positive long-run influence on growth, and there is no evidence that taxes retard growth. The proposition of the study is that aid to Kenya could be more effective if given in form of grants, and associated with fiscal discipline. The evidence implies that government spending in its totality has spurred the per capita income and growth in Kenya. It cannot be presumed that this is an effect of government investment only, as recurrent spending (such as on wages or social sectors) can also contribute to income.

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