THE IMPACT OF GOVERNANCE ON ECONOMIC DEVELOPMENT IN KENYA

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Governance is the systems and processes that ensure the overall effectiveness of an entity whether a business, government, or multilateral institution. (Governance | UN Global Compact)

Economic Development is a process of creating and utilizing physical, human, financial, and social assets to generate improved and broadly shared economic well-being and quality of life for a community or region. (Seidman, K. (n.d.). Economic development. In *MIT Department of Urban Studies and Planning*. Retrieved September 23, 2023)

Governance plays a crucial role in influencing the economic development of a country. The efficiency, transparency, and accountability of governance systems directly impact various aspects of the economy, including investment, business growth, and overall development. According to The Governance Efficiency Index, Denmark has enjoyed a high rating because of its adoption of good governance, high public trust in government and public administrations, and is notable for its strong economic performance, relatively equal income distribution, and low poverty rates. (Bertelsmann Foundation. (2020). Denmark Country Report. Sustainable Governance Indicators.)

According to the research conducted by Fawaz 2021, Nations with inadequate governance have had lower GDP growth rates. Governance has a significant statistical influence on economic growth, with a 1% increase in governance (Fawaz, F., Mnif, A. & Popiashvili, A. Impact of governance on economic growth in developing countries)

Poor governance has been cited as the major contributor to Africa's economic problems. The continent's issues, such as corruption and regulatory quality demonstrate the continent's severe degree of governance failure. These challenges have hindered the continent’s progress and contributed to developmental issues such as infrastructural deterioration, deteriorating healthcare facilities and schools, educational hardships, and rising crime rates. Despite Africa’s abundant mineral and natural resources and a highly productive population, corruption has hampered human and capital development, resulting in poverty, hunger, and public debt.

In the past ten years, Kenya has undergone substantial political and economic changes that have played a role in ensuring continued economic progress, societal advancement, and improvements in political stability. However, the nation still has to overcome significant development barriers, including corruption. Most scholars suggest that corruption can negatively affect the overall growth of the economy by weakening the environment of governance, diminishing efficiency and trust in institutions at both the state and county level, and eventually undermining sustainable growth and, consequently, the rule of law. (Méon & Weill, 2010). In 2010, Kenya enacted a new constitution, which led to the establishment of the Ethics and Anti-Corruption Commission Act under Article 79. This Act was created with the purpose of investigating and suggesting suitable measures for corruption and unethical behavior, preventing the existence of corrupt practices, educating the public, and seeking their assistance in combating corruption. Additionally, it aims to recover public assets obtained through corrupt means.

The government of Kenya has also established several regulatory bodies with the role of ensuring businesses operate within the legal framework and adhere to the set standards. A good example of these regulatory bodies is the Kenya Bureau of Standards (KEBS). KEBS is responsible for ensuring that products and services always meet the set standards before they reach the market.

Kenya has the capacity to meet its full potential in terms of economic development when these reforms are adhered to.

1.2 Statement of the Problem

Kenya, like many other countries, has encountered significant governance challenges that have had profound effects on its economic development. The inefficiency, transparency, and accountability of governance systems play a key role in shaping the economic landscape of a nation. However, in Kenya corruption has proved to be a hindrance to economic development. This is evident according to the corruption perception index(CPI) released by Transparency International 2022 Kenya scored 32 points out of possible 100 points, ranking 123rd out of 180 countries evaluated. (Kenya Corruption Index - 2023 Data - 2024 Forecast - 1996-2022 Historical Chart." Trading Economics)

The inefficiencies of government institutions in Kenya have provided a big hindrance to economic development thus regulatory quality bodies have come in place to curb the inefficiencies such as the Kenya Bureau of Standards which assess the quality and standards of products. The consequence of the inefficiency of these regulatory bodies would have an adverse effect on economic growth.

1.3 Research Questions

I. Does corruption affect economic development in Kenya?

II. Does regulatory quality affect economic development in Kenya?

1.4 Research Objectives

I. To analyze the relationship between corruption and economic development in Kenya

II. To establish the relationship between regulatory quality and economic development in Kenya

1.5 Significance of the Study

The findings of this study can inform policymakers and government officials about the importance of good governance to promote economic development. It could provide insights into some of the mandates of our organizations and assist the governance board in making decisions in several sectors, such as equitable income distribution and decentralization of government projects, thereby enhancing development in the country.

The findings of this study could be valuable for investors looking to invest in Kenya. Understanding the impact of governance on economic growth and providing insights into the factors that hinder investment in Kenya, then providing solutions that can significantly increase the degree of foreign investment in the nation, resulting in high foreign direct investment and creating employment opportunities, therefore raising a reasonable amount in revenue and income to facilitate government development projects.

The study could contribute to the academic literature on the topic of governance and economic development. It could provide a basis for further research and analysis in this field, helping to advance our understanding of the subject.

1.6 Organization of the Study

The rest of this paper is organized as follows: Section 1 is the introduction. Section 2 reviews the literature. Section 3 presents the models utilized. Section 4 has a descriptive analysis of the data and presents the regression findings. Finally, section 5 presents the results and implications for development policy.