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**UNIVERSITY OF KABIANGA**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BARCHERLOR ARTS ECONOMICS**

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1. **Comprehensively discuss economic growth and economic development while clearly elaborating the measures of economic growth in the developing economies like Kenya. There are obstacles to economic development .illustrate using relevant examples**

Economic growth

It concerns output or production in the economy and changes it over period of time. The output is comprised of products in respect of all the three sectors of the economy classified as primary sectors like agriculture .secondary sector like the manufacture and services like banking. The values are added to get the total value of the output.

The changes relates to period of time e.g. yearly

Economic development

Is a process where an economy real natural income increases for a long period of time.

The term economic development means change over time typically involving growth or expansion, involves people standard of living or is a process involving many economic and social dimensions.

Development can there be conceived as multidimensional process involving major changes in social structures people’s attitude, national institutions as well as acceleration in the rate of economic growth the reduction inequality and eradication of poverty.

Measures of economic growth

1. Gross national product{GNP} equals total national consumption or production of all final goods and services plus investment {IG}
2. Net national product {NNP} equals G.N.P minus depreciation {D}
3. Per capita income equals G.N.P divided by the population
4. Disposable personal income equals NNP minus personal and corporate tax minus and minor adjustments
5. Personal consumption expenditure equals disposable personal income minus saving.

Obstacles to economic development

1. Market imperfection- are largely responsible for the underdevelopment of any country. Refers to forces hindering development of any country, the factors include; immobility, rigidity in prices, ignorance of most conditions, rigid social structure etc. this keeps a country at low output level
2. Vicious circles – the basic vicious circle arise from the facts that LDCS total productivity is low due to deficiency in capital, market imperfection economic backwardness and underdevelopments.

Vicious circles operate from both the demand and supply sides of productivity

Vicious circle of capital deficiency accumulation depends upon two factors

1. Supply of capital

Supply of capital depends upon savings which in turn depend upon saving capacity and willingness of the people in the poor countries, there’s capital deficiency and as a result, productivity is low which in turn causes low real income. When real income is low, capacity to save is low which in turn causes low real income. When real income is low capacity to save is low .investment or capital formation needs, saving –but real saving being low, the investment is also low hence there’s low capital formation and the country becomes capital deficient.

Low productivity

Low capital formation productivity

Low income

Low investments Low savings

1. Demand side;

Demand side depends on the incentive to invest which in turn depends upon level of consumption of the people.

In poor countries like Kenya the demand for capital is low because of low incentive to invest which is the result of the level of consumption of the people. Which again is due to low production capital resulting to low capital which leads to low incentive to invest and so on

Low capital

Low productivity

Low real income

Low investment Low level of saving

1. Socio- cultural constrains- economic development has much to do with human endowment, social attitude political conditions and historical accidents .capital is necessary but not a sufficient condition for the progress, most underdeveloped countries possess certain attitudes which hinder growth.

Lack of development is primarily due to the difference in their political social and religious institution. Lack of occupation, geographical mobility of labor hinders progress.

1. General resistance to change- it means lack of proper attitude for development. people in such society regard work as a necessary evil they lay high value on leisure contentment and participation in festival and religious ceremonies educated people are not engaged in certain types of works which does not dirtify hands.
2. Human resource constraints- human resource constrains is another obstacle in economic development in poor least developed countries, as the people possessing criteria and skills and knowledge required for all round development of the economy are not present in those country.

Underdeveloped man power- resources are manifested in low labor productivity, factor mobility, limited specialization in occupation and customary values and traditional social institution that minimize incentive for economic development.

Further the economic quality of the population remains low when there’s limited knowledge of available resources, possible production techniques , necessary skills existing in the market conditions and opportunities and institutions that might be created to favor economic rationality.

1. International forces-international forces has also been operating against development of underdeveloped countries and are responsible for keeping them backward.

International trade has promoted primary production in under developed countries , large part of those products are exported for developed countries ,thus underdeveloped countries are becoming biased towards export production neglecting other requirement for production and luxury imports etc.

The foreign exchange earned from the excessive export is not ploughed back into production investment but wasted in consumption, real estate and luxury imports.

Since prices of raw materials fall faster than finished industrial products, depression heats underdeveloped countries leading to adverse balance of trade to the exporting country.

1. Lack of capital- this is a major obstacle to development in underdeveloped countries. This is due to in adequate supply of capital, labor intensive techniques of production adopted in agriculture and industry.

The technique of cultivation and manufacturing marketing and transport are all backward as compared to those in developed countries and which in turn lead to low level productivity in every field of economic activity in under developed countries.

1. Political instability- frequent changes of government threats of external aggression or internal subversion have created a situation of political instability in underdeveloped countries.

It creates a lot of future uncertainties which has a lot of adverse effect on economic decisions violating investments. Much resources are wasted on political struggle other than winning poverty.

1. Weak corrupt administration- the process of development creates a responsibility on the public administration personnel. But the public administration is incapable of assuming such responsibilities.

The public machinery is corrupt and in efficient of assuming such responsibilities.

**DIFFERENCE BETWEEN ECVONOMIC DEVELOMENT AND GROWTH**

1. Growth is a narrow concept confirmed only by changes in the output/income of an economy, which in turn sum up total output changes in the primary, secondary and service sectors.

Development include rise in per capital income growth in promoting factors, structural changes in the economy and improvement in the welfare of the poor.

1. Growth is only concerned with changes in income/ output while development encompasses factors that bring about changes in output
2. The concept of growth has no concept of welfare implication while economic development is also concerned with improvement in welfare of people
3. A positive negative and constant growth/output is covered in this concept while in development it’s concerned about wellbeing of the people.

A rise in per-capita income and distribution policies that benefit the poor.

1. **Critique professor rostows stages of economic development , clearly discussing the successive stages and the forces behind it**

According to him the process of economic development is divided into the following five stages;

1. Traditional society- he described it as one whose structure is developed within limited production function based on the pre-Newtonian attitude towards physical world. This implies the structure of the traditional society was based on primitive technology orthodox ideas of the people.
2. The pre-condition of take-off –this is a stage of transition during which conditions necessary for converting a traditional society into a scientific modern society are created
3. Take-off; it’s a period where growth becomes a norm in the society, it comes on account on sharp stimuli like political revolution, technological revolution or internal revolution.
4. The drive to maturity-he defines it as a period when a society has effectively applied a range of modern to bulk of its resources
5. Age of high mass consumption- here leading sector economy, focus on production of durable consumer goods and services, and the attention is shifted from **production and welfare of the people.**

**Critiques of professor rostows stages of economic development**

1. Traditional society not essential for development; number of nations such as u.s.a, Canada and newzeland were born free of traditional societies and withdraw their pre-condition from Britain, it was on ready developed.
2. Pre conditions need not proceed takeoff – the experience of most countries such as newzeland and Denmark the takeoff itself was agriculture development thus agriculture devolution in the take off.
3. Overlapping of different stages the stages of economic growth mentioned by Rowstow are not mutually exclusive and they may overlap each other. The characteristics of earlier stages are found to be mixed up with the characteristics of later stages. A later stage may have some remnants of previous stage. Hence, the splitting up of the process of economic development into various stages is subject to serious limitations.
4. Different to divide growth process in distinct stages. Most of the growth economists do not agree with the possibility of dividing history into specific stages of development. These stages are not inevitable like birth and death nor do they follow a sequence like childhood, adolescent, maturity and old age. It is not necessary that every economy should follow the same sequence of development. It is possible that a country should reach later stages without passing through earlier stages e.g. USA, Canada New Zealand and Australia.
5. Concept of self-sustained growth misleading. According to professor Kuznels, no growth is purely self-sustaining or purely self-limiting. Economic growth is a struggle and it will be wrong and misleading to call it self-generating or self-sustained at any stage.
6. Rostow-a false prophet. Habakkuk (1963) opines that the experience of European countries does not confirm to Rostow's pattern of growth .Even the economic development of underdeveloped countries does not follow Rostow's pattern of growth. Thus, his analysis is not based on sound reasoning.
7. The stage of drive to maturity puzzling. Contain all the features of take-off. Rate of net investment is over10% of national income. Development of new production techniques, leading sectors and institutions. Then here lies the need to separate stage where growth process becomes self-sustained
8. **As a student of economic development , you question analyze and critique the Ricardo theory**

By using the techniques of deduction or abstract reasoning, he constructed a vigorous model in which some selected economic variables were systematically placed to form a logic basis for economic development. Ricardo pronounced no theory of development. He simply discussed the theory of distribution. This theory is based on the marginal surplus principle. Marginal principle explains the share of rent in national output and surplus principle explains the division of the remaining share between wages and profits. The Ricardo theory is based on certain assumptions which are as follows.

* Supply of land is fixed.
* Land is used for production of corn and working force in agriculture helps in determining the distribution in industry.
* Law of diminishing returns operates on land.
* Demand for corn is perfectly inelastic.
* Labor and capital are variable inputs.
* Capital is basically circulating.
* There is capital homogeneity.
* All workers are paid subsistence wage.
* The state of technological knowledge is given.
* There is perfect competition.
* Demand for labor depends upon accumulation of capital.
* Demand and supply price are independent of the marginal, productivity of labor.
* Ricardian system considers agriculture as the most important sector of the economy. The difficulty of providing food to expanding population is the main problem.

According to Ricardo, there are three major groups in the economy. There are landlords, capitalist and laborers among whom the entire productive land is distributed. It is the capitalist who initiate the process of economic development in the society by re investing profits, thus, increasing capital formation. The total national output is distributed among the three groups as rents profit and wage, respectively and the share of cash group can be determined as:

1. Rent per unit of labor is the difference between average and marginal product or total rent equals the difference between average product and marginal product multiplied by the quality of labor and capital on land.

2. The wage rate is determined by wage fund divided by number of workers employed at subsistence wage. Thus output of total corn produced and sold, rent has the first right and the residual is distributed among wages and profits, while interest is divided in profit

Critical Appraisal.

1. Impracticable Laissez Fair Policy. The theory is based on the impracticable notion of Laissez-faire. According to this policy' there is no government interference and economy operates through perfect competition “But in practice, there is no such economy which is free from government interference.

2. Baseless Notion Regarding Population. Ricardo development model is based on the Malthusian theory of population and this theory is less valid in present time. It is stressed in this model that real wages never reach the subsistence level. As development proceeds, the share of wages rises in natural income and brings improvement in the standard of living of the laborers. The workers now-a-days not only receive wages on the basis of productivity but they receive other benefit like bonus, medical and etc. So it is absurd to think of subsistence wages in modern time.

3. Law of diminishing return criticized. The Ricardo system is based on the law of diminishing returns. The operation of this law in agriculture is quite different from his theory of rent. But this theory has been falsified by modern technological developments. The law of diminishing returns can be considered as a matter of past and from their point of view; the theory is less convincing and has no relevancy today.

4. Neglect impact of technology. Ricardo pointed out that the improved technology in the industrial field leads to displacement of labour and the other adverse consequences. When the technological progress is exhausted diminishing returns set in an economy mores towards stationary state. In this way, Ricardo has given unnecessary importance to law of diminishing returns and failed to visualize the impact of science and technology and rapid economic development of the developed nation.

5. Wrong notion of stationary state. Ricardian view that economy reaches a stationary state is baseless because economy in which profits are increasing, production is rising and capital accumulation is taking place cannot attain a stationary state.

6. Neglect institutional factors. This theory neglects the role of institutional factors. Since they play crucial role in the economic development, so they cannot be over looked.

7. Neglect Interest Rate. Ricardian concept neglects the rate of interest in economic growth. The rate of interest is not regarded as independent reward but it is included in profits. This enables to distinguish between the capitalist and entrepreneur.

8. Capital and labor not fixed. The Ricardian assumption that capital and labor are fixed coefficient of production is not correct because labour and capital are independent variables. 9. Distribution Rather than Growth Theory. Schumpeter observes that Ricardian theory is not a growth but a theory of distribution which determines the share of workers, landlords and capitalists. He failed to present a functional theory of distribution because he did not determine the rate of each separately.

10. Land also produces goods other than corn. Ricardo believed that onlyone product corn is producedon land. But this is an old notion because land can produce variety of products other than corn

1. Using Kenya as a case study present the ingredients of economic study economic development
2. **Factor # 1. Natural Resources:**
3. Resources created not through human effort but available from nature and transformed into productive resources have been playing an important role in the development process of a country.
4. In other words, natural resources, such as land, soil, mineral deposits (like iron ore, fossil fuel) are three main factors of production, the other two being labour and capital. The critical element here is the availability of such resources.
5. ADVERTISEMENTS:
6. Other things remaining the same, the growth and prosperity of a nation may be associated with the kind and size of the resources possessed by it.
7. There is a presumption that natural resources are ‘finite’. In fact, no one should ignore the possibility of adding more resources through discovery. Through discovery, opening up and by utilising new resources, many countries in the past had made a higher contribution in output.
8. However, that does not mean natural resources are ‘infinite’. Economic processes impact on the of environment. For instance, perils of resource depletion— both renewable and non-renewable— Trough uses generate insurmountable problems on growth and development of a nation. This then suggests conservation of resources so as to have a sustainable development.
9. Anyway, an abundant supply of natural resources conduces to both agricultural and industrial development. Just as availability of fertile land and abundant supply of water for irrigation purposes are the two essential prerequisites for achieving faster agricultural growth, minerals like coal, bauxite, iron ore, crude oil, copper, tin, etc., if available in plenty, can help the process of industrialisation. Shortage of natural resources often acts as a constraint on output expansion and is often considered as an obstacle to economic development. For example, some poor countries of Asia and Africa have limited natural resources such as land and minerals. And whatever little is available is to be shared by the large population.
10. ADVERTISEMENTS:
11. However, one also sees an inverse association between natural resource abundance and economic growth. There is enough evidence to support that many resource-poor economies have outperformed many resource-rich economies in terms of economic growth! In other words, such an adverse association between resource abundance and growth at least demonstrates that the possession of natural resource is just a necessary’ condition- but not a sufficient condition—for economic development.
12. Above all, resources that we have may be fixed and exhaustible. Growing exploitation of such natural resources to fulfil man’s insatiable demands has now raised the issue of environmental damage that adversely affects economic development. The poor people of poor countries are dependent on their natural environment. Thus the greatest victims to the damage of natural environment are, obviously, the poor people. Herein lies the importance of protecting natural environment so as to have a sustainable develop­ment.
13. **Factor # 2. Human Resources:**
14. Labour is a basic input for virtually all production. It is not possible to make the best possible utilisation of existing natural resources unless there is sufficient manpower. If a country is able to utilise its man­power properly, it will certainly prove to be an important factor in development.
15. The supply of manpower—called human resources—depends, among other things, on population growth. Thus the size of the population is an important factor of economic development. More labour should, therefore, mean greater potential output. In an under-populated (relative to resources) country, population increases do indeed mean economic growth—as more land can be cultivated or more workers may be employed in industry and services.
16. ADVERTISEMENTS:
17. It is to be remembered that not only the size of population but also the quality of laboure force is also an important determinant of an economy’s capacity. There is a feeling among some economists that the quality of labour input—human capital— is the single-most important factor of economic development. Modern economists consider resources devoted to education and training as investment in human capital.
18. The effective use of capital and the application of modem technology depend on the availability of skilled manpower Educated, skilled workers are generally more productive than uneducated, unskilled workers. At the same time workers are also consumers. So, with population growth, there is an expansion in the size of the market and there is greater scope for division of labour and specialisation. Healthy people can work harder and longer than sick people.
19. Anyway, the stock of educated and healthy labour force in any economy contributes to growth and development by (a) creating a more productive and healthy labour force endowed with skills and knowledge, (b) opening up employment oppor­tunities in various sectors of the economy, (c) Indeed, an educated and skilled labour force is a necessary condition for sustained economic growth. Further, there is ample evidence that health and nutrition of a nation affects employment, productivity, and wages favourably. A healthy population is a pre-requisite for economic development.
20. However, the relationship between population growth and economic development is a complex one. Experiences of many countries suggest that ‘rapid’ rates of population growth acts as constraint on development. It reduces per capita income of a nation. It creates environmental problems and overcrowded cities and towns.
21. It reduces savings and capital formation. Thus economic growth is hampered. This means that we have landed in a two-way problem because of two-way relation between population growth and economic develop­ment. Even then, the quality of human capital is an important element in the progress of a nation.
22. **Factor # 3. Capital Resources:**
23. Increases in labour and land productivity, in their turn, depend greatly upon new technology and increased capital resources. The amount of output that workers can produce depends largely on the availability of complementary resources like capital. It is argued that lack of capital is the principal obstacle to growth and no plan for economic development will succeed unless adequate capital is forth­coming. No country can achieve higher growth if certain minimum rate of capital formation is not realised.
24. Capital accumulation or investment refers to the creation of additional capital like plant, equipment, machinery, structures, etc. (physical capital), and social and economic structures like roads, electricity, water, sanitation, etc., to aug­ment output and income. An increasing amount of capital per worker a rising capital/labour ratio is clearly a major source of productivity or output per man-hour.
25. In other words, by increasing the amount of capital per worker, it is possible to increase labour productivity. Capital formation enables a country to enjoy the advantages of large scale production and specialisation. It is indis­pensable not only for augmenting output but also for providing employment to the people. Further, capital accumulation provides a growing labour force with an increased supply of tools and machinery per worker. This then raises efficiency of the workers.
26. Often, poor countries are handicapped by low volume of capital accumulation because of low income and low savings. If domestic capital is not sufficient to meet the investment needs, a poor country may be required to import capital from abroad. However, there is a question mark on the use of foreign capital in the poor developing countries.
27. ADVERTISEMENTS:
28. Modem economists like T. W. Schultz, Jan Tinbergen, Gary S. Becker, etc., have pointed out that human capital formation (investment in training and investment) is as important as physical capital formation, if not more. They have emphasised the contribution of investment in human beings for economic development.
29. **Factor # 4. Technology:**
30. Technological progress is considered as the most important source of development by many economists. It is said that technology has been revolutionising our lives since the dawn of human history. Modem day technological progress that is going on is something unique as far as its depth and rapidity are concerned. Technology refers to our knowledge of how to convert resources into goods and services. Technical progress refers to an improvement in the art of production. Technological progress leads to an improvement in productivity of existing resources.
31. It is the result of research, invention, development, and innovation. With the advance­ment of scientific and technological knowledge, people discover more and more sophisticated techniques of production which steadily raise the productivity levels.
32. It is thus dear that technological progress in a country depends on both pure and applied science. And science depends on the resources allocated towards research and development. Thus education is of crucial importance in any economy in furthering technological improvement. Besides education, entrepreneurial ability is another impor­tant determinant of technical progress. Joseph A. Schumpeter assigned a very important role to the entrepreneur in the economic development of a country. In his view, one of the most important functions of the entrepreneur is innovation getting new methods adopted in effective ways.
33. ADVERTISEMENTS:
34. Thus, through new techniques and methods of production, a country can increase its productive capacity. To an economist, this implies that new technology is a sufficient condition for economic growth. However, technological progress is also a necessary condition for sustained growth. Without it, there would not be enough new capital formation to allow continued increases in labour productivity.
35. It may be noted that a continued increase in labour productivity requires both increased capital and new or modem technology. Continual capital formation will occur only if there is a continual flow of new technology. Thus there is a close rela­tion between technological change and capital and capital formation. These two not only complement but also depend upon each other. New method may require new machinery. Or, when a firm decides to build a new factory, this may lead to discovery of new and better methods of production.
36. **Factor # 5. Institutional Environment:**
37. Further progress of present day market economies is now largely influenced by the institutional environment. In other words, market economies can flourish provided an appropriate institutional environment prevails. Development requires effective state participation. In today’s changing world, state should complement market.
38. However, benefits of development must he widespread and inclusive so that poor people can harvest benefit from the market-oriented growth. It is observed that the state, because of poor governance and ineffective institutional framework, fail to protect property rights, law and order, freedom of individuals, human rights, and so on. Even it fails to protect the poor, vulnerable people. An effective economic institution can ensure public services to the poor and give economic incentives through opening better opportunities and empowering the excluded and vulnerable.
39. ADVERTISEMENTS:
40. Often it is found that institutional environment gets vitiated by the rich powerful of the society and ultimately institutions serve their purposes. Under the circumstance, market, as an institution, marginalises poor people. Protecting poor people from insecurity requires participation and empowerment of these people so that public action is designed by them according to their priorities.
41. Institutional failure results in bad and poor governance and corruption. And corruption definitely hampers progress of majority of the countries. If the institutional environment is made effective the prospect for good investment is likely to brighten. It is the experience of the people that poor governance and corruption has been choking off and disturbing investment at the cost of the poor people. It is said that good institu­tions encourage people to invest, accumulate, and develop new technologies. All these are elements of economic progress of a nation.
42. Using knowledge learnt from economic development ,what policies should a country adopt to achieve sustainable economic growth leading to economic development

* **Maintenance of macroeconomic stability**. Governments should especially build on the progress that has been made in recent years to reduce budget deficits and thereby reduce the risk that unsustainable fiscal imbalances would result in arrears, default or higher taxes.
* **A more efficient tax system**. Governments need to improve tax administration and enforcement in combination with steps to eliminate tax exemptions, resist pressures from special interest groups, and eliminate corrupt practices. By broadening the tax base, these steps should make it possible to raise revenue to support important expenditures, while lowering marginal tax rates.
* **Improved infrastructure**. Serious infrastructure deficiencies, in transportation (ports, roads, railroads), communications, and power generation, remain in most economies in the region. Better allocation of public outlays, as well as opening these sectors to private investment, with appropriate supporting policies to foster competition, would improve infrastructure while limiting the budgetary burden.
* **Privatization of state-owned enterprises**.Appropriately designed and regulateddivestiture should improve efficiency, reduce burdens on the budget, eliminate political interference in decision-making, and provide incentives for more innovation and dynamism.
* **More investment in human capital**. Additional focus on human capital formation is required, especially through shifting the structure of public spending in favor of better delivery of primary education and health-care and other social services.
* **Strong financial systems**. Policies to better mobilize savings and enhance financial intermediation should encompass appropriate independence of the central bank from the government; more effective regulation and supervision of the banking system; recapitalization or liquidation of problem banks; and the fostering of a competitive commercial banking system with foreign bank participation.
* **Realistic exchange rate**. Overall production and exports are hurt by an overvalued currency, which inhibits economic diversification and resilience to future external shocks.
* **Openness to international trade**. Several studies have shown how exchange and trade liberalization have improved the growth performance of countries in the region.[3](https://www.imf.org/external/np/exr/ib/2000/120100.htm#P111_16345) A number of regional organizations are implementing arrangements to promote intraregional trade liberalization, including through lower import duties and simplification of the tariff structure.
* **Regional integration**. This will help countries to overcome the disadvantages of their relatively small economic size, and enhance their ability to trade globally.

1. There are numbers of economic development indicators. discuss those indicators and reason out whether per-capita income is the best indicator for economic development substantiate

**Indicator of development.**

There are several indices which are being used to represent development and these are:

1. Per Capital Income:

In terms of this indicator, development is said to take place when there is arise in the per capital income. The rise in the income has to be a sustained one. That it should continue for a long period spread over several decades. Further, the rise in these incomes should be in real terms. That is the rise in money terms should exceed the rise in the price level. This implies that with the rise in per capital income, there will be more goods and services per head.

**Reasons why per capita income is the best**

1. Its sole concern with income makes it very relevant for the less developed countries where incomes are very low. The subject poverty of the vast masses, caused basically by very meager incomes, requiring for a solution in increase incomes.

2. The concern of the index with the per capital or average income is also of considerable importance of the less developed countries where population growth is quite high, For the average to rise in these countries, it is essential that the growth rate of per capital income should be substantial so as to exceed the high population growth.

3. This index is helpful also for comparing the living standard among countries as also their performance. In comparing their performances two or several countries, the position of one in relation to the other best expressed intern of the difference in the capital income.

b) National income index.

There are some economists like Simon Kuzuels who regard national income rather than per capital income, as a more useful indicator of development. They contend that per capital figure, being a quotient; express only a relationship between two variables which are different in kind. Case for: One important argument is that the focus on national income/product alone can more sharply light the performance of economy. – Therefore concentrates on the analysis of factors that speed up or retard growth of an economy. – It is further argued that the national income index is important when it shows arise. Such arise in all means enlargement of the absolute rise of an economy. It also shows that such a country has acquired the capacity to cope with emergence like drought. – The concentration on national income allows one to examine its major components like consumption goods, and investment goods.

1. Basic needs.

The approach involves satisfying the minimum levels of physical needs. These include items like consumption of food, provision of shelter and access to essential public services such as pure drinking water, sanitation, wealth and education. Depending on the level of development, the physical condition and the culture of a society these needs may differ. The basic needs approach focuses most sharply on the poor of the LDC. It does not regard the necessity of raising income in these countries.

1. Human development.

This was developed by UN. It is based on three aspects of human living income for decent living, educational attainment and life expectancy.

i) Per capital income.

It is the economic indicator. It is taken because it can well serve as a proxy measure for the satisfaction derived from a bundle of basic goods and services. GNP is adjusted for price changes so that it reflects employment level of people.

ii) Educational attainment.

Is indicated by combination of two measures i.e. Adult literacy ratio/and enrolment ratios at primary, secondary and territory-levels which shows the stock of literacy for the youth people.

iii) Life expectancy.

Reflects the process made in such fields of health as infant and child mortality and nutrition. This index is important because it include income which is the single most important factor in determining wellbeing of the poor in LDC. It takes into account social progress as indicated by an important in educational attainment and life expectancy.

1. **Discuss the nature of Kenyan economy**

After a deep analysis of various characteristics of underdeveloped country, one legitimate question automatically arises what is the true nature of Kenyan economy? Whether it is underdeveloped, developing or developed economy.

Kenyan Economy - An underdeveloped of Economy.

i.)**Predominance of agriculture**.

Agriculture is the main sector of Kenya economy, which is the total contrast to the economic structure of a developed economy .More than 70% of the total population is engaged in agricultural activities while the picture is absolutely different in advanced countries. In the US and UK, on the other hand, only 4% and3% population respectively is engaged in agriculture. The low ratio of land to man, subdivision and fragmentation of holding has made mechanization almost impossible. Primitive techniques of cultivation and inadequate use of inputs has made farming inefficient in Kenya.

ii) **Abundant unemployment**.

Unemployment, underemployment or disguised rural and urban unemployment is another chronic characteristic of our economy. As a result of low rate of economic development and high rate of population growth the labor force is increasing rapidly. In the agriculture sector of the total rural population, about30% is disguised employment whose marginal productivity is zero. Thus, the unemployment involves not merely the wastage of physical human capacity but also society of scarce resources.

iii) **Capital deficiency.**

In case of physical capital, its total stock is not adequate for equipping the entire labor force and full utilization of natural resources. Similarly, human capital is far from satisfaction .No doubt, today the rate of capital formation in Kenya is less than 5% which is quite low as compared to Capital formation of other developing countries. The major reasons of low level of capital formation in Kenya is due to;

a) Low inducement to invest

b) Low propensity and capacity to save. The marginal propensity to save is low because of high marginal propensity to consume low income. The inducement to invest is low because of the limited size of the market due to lack of demand. Moreover, conspicuous consumption induced by demonstration effect1 further deteriorates the situation.

iv) **Underutilized natural resources**.

Kenya is rich inhabited by poor people. It means that the country possesses abundant stock of natural resources but the problem is that these resources are not fully utilized for the production of material goods and services. For example: We have big potential agriculture land but out of the total arable land only 30%of it is utilized. In spite of huge water resources, we have utilized only 15% percent of our total hydropower potential and only 2% of our irrigation potential. Wastage of natural resources is no exception and that is mainly because of their under development. Furthermore many natural resources are not properly tapped and a lot may have not as yet been touched and explored.

v) **Technological backwardness**.

Primitive and outdated methods dominate all the productive activities. New technology is not available in Kenya.

vi) **Defective economic organization**.

Economic institutional such as banks and credit agencies so vital for economic development are not adequately developed. In agriculture, there is no credit facility to enable farmers adopt appropriate scientific practices. AFC, the only specialized financial institution for agriculture is at the verge of collapse. Farmer has to depend on their own meager savings for production.

Kenya has the largest economy amongst the members of EAC in terms of GDP.  
Kenya’s GDP accounts for 40 percent of the region’s GDP, followed by Tanzania at 28 percent, Uganda at 21 percent, Rwanda at 8 percent, and lastly Burundi at 3 percent. In terms of GDP at current market prices, Kenya’s 2011 GDP stood at $34 billion, well ahead of the closest rival economy, Tanzania, with a GDP of $24 billion.

**Nature of Kenyan econmy**

The **Economy of Kenya** is a [market-based](https://en.wikipedia.org/wiki/Market-based) economy with a few state enterprises, it is also an emerging market and an averagely industrialised nation ahead of its East African peers. Kenya is a middle income nation and plans to be a newly industrialised nation in 2030. Major industries include agriculture, forestry, fishing, mining, manufacturing, energy, tourism and financial services. As of 2020, [Kenya](https://en.wikipedia.org/wiki/Kenya) had the third largest economy in [Sub-Saharan Africa](https://en.wikipedia.org/wiki/Sub-Saharan_Africa), coming behind [Nigeria](https://en.wikipedia.org/wiki/Economy_of_Nigeria) and [South Africa](https://en.wikipedia.org/wiki/Economy_of_South_Africa).[[18]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-18)

The government of Kenya is generally investment-friendly and has enacted several regulatory reforms to simplify both foreign and local investment, including the creation of an [export processing zone](https://en.wikipedia.org/wiki/Export_processing_zone). An increasingly significant portion of Kenya's foreign financial inflows are remittances by non-resident Kenyans who work in the [United States](https://en.wikipedia.org/wiki/United_States), the [Middle East](https://en.wikipedia.org/wiki/Middle_East), [Europe](https://en.wikipedia.org/wiki/Europe) and [Asia](https://en.wikipedia.org/wiki/Asia).[[19]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-19)

As of September 2018, economic prospects were positive, with above 6% [gross domestic product (GDP)](https://en.wikipedia.org/wiki/Gross_domestic_product) growth expected.[[20]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-20) This growth was attributed largely to expansions in the telecommunications, transport, and construction sectors, a recovery in agriculture, and also the rise of small businesses helping to pull the economy. These improvements are supported by a large pool of highly educated professional workers. There is a high level of IT literacy and innovation, especially among young Kenyans.[[21]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-21)[[22]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-22)

In 2020, Kenya ranked 56th in the World Bank [ease of doing business](https://en.wikipedia.org/wiki/Ease_of_doing_business_index) rating, up from 61st in 2019 (of 190 countries).[[23]](https://en.wikipedia.org/wiki/Economy_of_Kenya#cite_note-23) Compared to its neighbors, Kenya has a well-developed social and physical infrastructure.

**Recent macroeconomic and financial developments**

The Kenyan economy grew by 6.7% in 2021 after 0.3% contraction in 2020. Growth was driven by services on the supply side and by private consumption on the demand side, both benefiting from supportive policies and eased COVID-19 restrictions. Inflation climbed to 6.1% in 2021 from 5.3% in 2020, reflecting increased input costs. The fiscal deficit nudged down to 7.9% of GDP in 2021 from 8% in 2020 due to improved revenue, reversed tax cuts as the economy recovered, and rationalized spending. Public debt surged to 68% of GDP at end-June 2021 from 63% in 2020, driven by the primary deficit. Kenya is assessed as being at high risk of debt distress. The current account deficit widened to 5.2% of GDP in 2021 on the back of an increased trade deficit. International reserves reached $8.8 billion as at end-November 2021 against $8.1 billion in 2020 (5.4 months of import cover), reflecting the SDR allocation of $737.6 million, about half of which was used to finance the fiscal deficit. The exchange rate depreciated by 3.7% year on year in 2021. The banking sector is profitable, liquid, and well-capitalized; yields on government securities and the NSE-20 index, and market capitalization, increased. The number of people in extreme poverty declined to 16% in 2021 from 17% in 2020, and unemployment fell to 12.3% from 14.3% over the period, attributable to per capita income growth, social safety-net programs, and economic recovery.

KENYAN FINANCIAL HUB

Despite Kenya’s relatively developed capital markets, 75 percent of all business financing in the economy was from the banking sector, while the balance came from the capital markets, the Treasury said earlier, adding that the situation was not ideal.

The centre, which has been in the works since 2014, is meant to help direct international investment to Kenya, enabling companies and investors to take advantage of trade and investment opportunities. It aims to raise more than $2 billion (Sh235.74 billion) in investments by 2030.

An international financial centre (IFC) is a location with venues and facilitating services for international activity in areas such as banking, asset management, insurance and financial markets. It works in a regulatory framework that fulfils international standards.

Nairobi International Financial Centre (NIFC) acting chief executive Oscar Njuguna said recently the agency would help firms that are targeting the capital city through the hub get faster access to work permits and other regulatory licences.