

## **S5 ECONOMICS**

### **DEVELOPMENT PROCESS AND THE CHOICE OF DEVELOPMENT STRATEGY**

#### **Agriculture versus Industrial Development Strategies:**

**Development process** refers to ways of raising the standards of living of the people in a country by increasing incomes, producing basic needs, increasing employment opportunities etc.

**Development strategy** refers to the broad policy guideline which a country takes on and follows in the formulation and execution of its policies aimed at attaining specified development goals and objectives.

**AGRICULTURAL DEVELOPMENT STRATEGY**; this refers to a broad policy guideline a country takes on and follows in formulation and execution of its policies aimed at attaining specified goals and objectives of agricultural development.

#### **Objectives of agricultural development strategy**

- To facilitate growth and development of agro-based industries.
- To increase income per capita of farmers.
- To increase labour productivity in the agricultural sector.
- To adopt modern methods of agricultural production.
- To improve on quality and quantity of agricultural output.
- To diversify agricultural production mainly for export market.
- To increase agricultural contribution to gross domestic product or national income

#### **Merits of agricultural development strategy/agricultural sector**

- It leads to creation of more employment opportunities. This is because it is labour intensive and widely practiced.
- It provides food to the population. This is because most people grow food stuffs on which they survive and sell the surplus.
- It leads to generation of foreign exchange. This is through exportation of agricultural commodities.
- It ensures equitable income distribution. This is because it offers employment to many people since it is widely spread and thus improving their earnings.
- It is cheaper to undertake. This is because its inputs are readily available and are relatively cheap.
- It provides raw materials. This is because agro-based industries use agricultural products as their raw materials.
- It leads to generation of revenue to the government. This through taxation of the agricultural products and the incomes earned by the people in sector.
- It supplies labour to other sectors. In the long run as the sector develops, it requires less labour since it now turns to be more capital intensive; therefore the excess labour is absorbed in other sectors.
- It promotes infrastructure development. The government is compelled to build better roads so as to ease transportation of agricultural products to the market
- It leads to balanced regional development. This is because agricultural activities are widely spread.
- It provides market to industrial output. The sector uses industrial output as inputs e.g. fertilizers, farm implements

### **Demerits of agricultural development strategy/agricultural sector.**

- It generates low tax revenue to the government. This is because the earnings from the sector are still very low which narrows the tax base.
- It leads to seasonal unemployment. This is because farmers depend on natural factors and have no what to do during dry seasons.
- It leads to income instabilities. This is because of the unstable prices of the agricultural products.
- It increases s external dependence. This is because of the inadequate public revenue from the sector which compels the government to borrow.
- It leads to unfavourable terms of trade. This is because prices of agricultural products are low and fluctuating on the world market.
- It leads to balance of payments problem/deficit. This is because of the prices of agricultural exports are low which leads to low export earnings.

## **TRANSFORMATION AND MODERNISATION OF AGRICULTURE**

**AGRICULTURAL TRANSFORMATION;** this refers to the **total or complete change** in the existing agricultural structure in form of **changing activities and techniques** of production to increase agricultural production. It involves shifting from peasantry agricultural systems to high yielding commercial agricultural systems.

**AGRICULTURAL MODERNISATION;** this refers to **improvement/ transformation** of the agricultural sector from traditional subsistence production to **commercialised high yielding** agriculture.

### **REASONS FOR AGRICULTURAL MODERNISATION:**

- **To increase output hence economic growth.** This is achieved because of adoption of modern technology such as irrigation and mechanisation. These result into increased volume of output in the agricultural sector since machines increase the acreage of land under cultivation.
- **To create employment opportunities/to minimise seasonal unemployment.** This is because agricultural modernisation reduces reliance on nature due to introduction of irrigation and thus ensures production throughout the year which reduces seasonal unemployment.
- **To reduce income inequality.** This is because agricultural modernisation leads to increased agricultural production and diversification within the sector all of which widens employment opportunities and thus increased earnings for the people.
- **To reduce dependence on imports/ few economic activities.** Agricultural modernisation leads to increased agricultural output which reduces agricultural imports and at the same time it widens economic activities within the sector thus reducing dependence on a few activities and its negative effects.
- **To provide more revenue to the government.** Modernisation of agriculture leads to increased agricultural output and incomes of the farmers on which the government imposes the taxes.
- **To improve terms trade.** Agricultural modernisation leads to improved quality of agricultural exports and such products now command higher prices on the world market and thus improving the country's terms of trade.
- **To stabilise/ increase producer's income/stabilise prices of products.** This is due to introduction of irrigation farming which ensures production throughout the year and ensures steady supply and thus minimise price fluctuations of prices for such products.
- **To promote food security and ensure a healthy population.** Modernisation of agriculture leads to increased production of a variety of foodstuffs and thus ensures steady supply of food requirements for the country.

- **To promote innovations and inventions/ technological development/transfer.** Modernisation of agriculture creates competition among the commercial farmers, this prompts them to invest in research and thus come up with better methods of production to produce better quality output and earn more profits.
- **To control/minimise/solve structural inflation.** Modernisation of agriculture involves adoption of irrigation in farming which ensures supply of agricultural output throughout the year and this helps to minimise shortages of such products arising out of unfavourable natural factors.
- **To improve Balance of payment position/to increase foreign exchange earnings.** Modernisation of agriculture involves increased production of quality agricultural exports which leads to increased foreign exchange earnings
- **To promote sectoral/regional development/to reduce rural urban migration and its associated effects.** Agricultural modernisation leads to rural transformation and since it is mainly rural based, it leads to balanced regional development.
- **To utilise idle resources.** Agricultural modernisation involves large scale production due mechanisation in the sector, this leads increased utilisation of the idle resources such as land and labour.
- **To widen consumer choices.** This is due to production of a wide variety of agricultural products resulting from agricultural diversification.
- **To promote infrastructural development.** Modernisation of agriculture compels the government to improve infrastructure such roads so as to ease the movement of agricultural inputs to the farms as well transporting agricultural produce to the market.
- **To promote industrial development/to promote sectoral linkages.** Modernisation of agriculture involves large scale production due to mechanisation; this ensures increased supply of raw materials to the agro based industries.
- **To improve/increase labour skills.** Modernisation of agriculture requires employment of skilled labour which compels people to train and acquire the necessary skills so as to be able to acquire jobs.
- **To promote entrepreneurship skills.** More people are encouraged to invest in the agricultural sector due to the increased profits enjoyed resulting from improved quality of agricultural output because of mechanisation in the sector.
- **To improve quality of output.** Modernisation of agriculture involves the adoption of modern farming methods such as use of machines, setting up of agro-processing industries. These lead to improved quality of agricultural output.

## **MERITS OF AGRICULTURAL MODERNISATION:**

- It leads to creation of more employment opportunities.
- It reduces heavy dependence on nature through irrigation farming.
- It increases producers' incomes thereby reducing income inequality.
- It increases on the level of tax revenue through taxing the products and incomes of farmers.
- It leads to increased level of output due to large scale production hence economic growth.
- It leads to increased foreign exchange earnings due to increased volume of agricultural exports.
- It facilitates growth of commercial/monetary sector by reducing subsistence output.
- It leads to development of industrial sector through set up of agro-based industries.
- It increases on food security hence ensuring a healthy population.
- It leads to development of infrastructure for example rural feeder roads thereby encouraging effective movement of inputs and agricultural products.
- It controls price fluctuations through agricultural diversification hence improving incomes of farmers.

- It attracts training of available manpower which helps in carrying out extension services and setting up of demonstration farms.

#### **FACTORS LIMITING AGRICULTURAL MODERNISATION/OBSTACLES TO AGRICULTURAL DEVELOPMENT**

- **Under developed infrastructure.** This limits agricultural modernisation due the difficulty to transport agricultural inputs to the farms and the agricultural products to the market.
- **Unfavourable natural/ unpredictable natural factors/ natural hazards.** These destroy crops and animals leading to low yields.
- **Limited labour skills.** This leads to low labour efficiency and productivity discouraging commercial production due to low levels of profits.
- **Small market size.** This discourages large-scale commercialised agriculture since farmers find difficulty in marketing their products and for fear of making losses by remaining with unsold output.
- **Unfavourable political climate/atmosphere.** This discourages investment in the agricultural sector due to the fear of loss of lives and property by the farmers.
- **Limited capital/funds.** This limits the ability of the farmers to purchase factor inputs.
- **Limited entrepreneurial ability.** This limits investment in the agricultural sector since people are unable to undertake risks and mobilise resources to invest in the sector.
- **Low/fluctuating prices of agricultural products.** This results into fluctuations in farmers' income, which discourages large-scale investment in agriculture
- **Conservatism of most farmers.** Farmers stick to their traditional method of farming which are low yielding.
- **Poor techniques of production.** This leads to high cost of production which discourages production in the sector.
- **Unfavourable/rugged topography.** The hilly areas discourage mechanisation of agriculture because machines cannot be used on such landscape.
- **Low level of accountability.** Some government officials misuse funds meant for agricultural development such as research like in organisation like NAADS and NARO, therefore the agricultural development projects are not completed or not done at all.
- **Poor land tenure system.** This makes it hard for potential farmers to access land to carry out agricultural production.

#### **FACTORS THAT AFFECT/INFLUENCE/DETERMINE THE PERFORMACE AGRICULTURAL SECTOR:**

- The state of infrastructure
- The natural factors
- The availability of skilled labour
- The market size
- The political climate
- The availability of funds/capital
- The entrepreneurial ability
- Level of stability of prices
- Degree of conservatism
- The state of technology
- The nature of the landscape/topography
- Level of accountability
- The land tenure system

## MEASURES THAT CAN BE TAKEN TO IMPROVE THE PERFORMANCE OF AGRICULTURAL SECTOR:

- **Provide affordable credit facilities to farmers.** These will enable the farmers to acquire better agricultural inputs, hire skilled labour and thus increase their capacity to exploit land, which will lead to increased agricultural output.
- **Undertake land reforms.** This will make land more accessible to farmers in different areas and this will enable them to increase output.
- **Undertake agricultural research in all fields/ new farming methods.** These will lead to development of better seeds and animal breeds which mature fast.
- **Provide extension services to farmers.** These will give the necessary advice and educate farmers on better methods of farming.
- **Undertake/Emphasize agricultural diversification.** A number of economic activities are introduced which improve the earnings of the farmers which motivates them to invest more in the sector.
- **Improve technology.** This will reduce cost as well as increasing speed of the farming activities.
- **Improve infrastructure.** This will enable farmers to easily transport their produce to the markets for higher profits.
- **Undertake Industrialisation with in agriculture.** This will provide a continuous market for agricultural produce because they are used as raw materials in the industrial sector.
- **Provide subsidised inputs to farmers.** This will reduce the cost of production which will increase profits and thus motivate them to continue with production.
- **Ensure political stability.** This will encourage people to invest in the agricultural sector because they will not be scared of losing their lives and property.
- **Expand market.** This will increase earnings of the farmers which will motivate them to expand production.

## AGRICULTURAL MECHANISATION

This refers to extensive use of machinery in farm activities. e.g. use of tractors for planting, weeding, harvesting etc.

### Merits of agricultural mechanization in a country

- It increases agricultural output and economic growth.
- It reduces average costs of production.
- It leads to development of skills of labour
- It creates employment opportunities
- It leads to production of better quality products
- It facilitates research/promotes technological development.

### Demerits of agricultural mechanisation in a country:

- It is very expensive
- It leads to technological unemployment
- It promotes income inequalities
- It leads to over utilisation of resources

### Factors limiting agricultural mechanisation in a country

- Limited skilled manpower.
- Underdeveloped infrastructure.
- Poor land tenure system.
- Inadequate market

- Limited capital.
- Limited entrepreneurial skills.
- Conservatism of farmers
- Unstable agricultural prices.
- It's inapplicable where human judgment is necessary for example in tea picking.
- Unfavourable topography.
- Limited accountability/corruption by implementing agents.

## **INDUSTRIAL DEVELOPMENT STRATEGY**

This is a broad policy guideline a country takes on and follows in formulation and execution of its policies aimed at attaining specified goals and objectives of industrial development.

### **Objectives of industrial development strategy:**

- To increase output/GDP
- To increase employment opportunities
- To increase resource exploitation
- To improve the balance of payment position
- To reduce price fluctuations.
- To improve terms of trade

### **Merits of industrial development strategy/Industrial development**

- It creates employment opportunities.
- Provides revenue to the government.
- It improves the balance of payments position.
- It promotes technological development.
- It encourages infrastructural development.
- Reduces economic dependence.
- Improves terms of trade.
- Provides market to other sectors.
- It promotes commercialisation of the economy.
- It ensures stable prices.
- It promotes development of skills.

### **DEMERITS OF INDUSTRIAL DEVELOPMENT STRATEGY:**

- It is expensive. This is because it involves heavy expenses on purchase of machinery and hiring skilled labour
- It encourages external economic dependence. This is because it requires the country to borrow externally to finance establishment of industries.
- It leads to high social costs. This is because the established industries emit toxic materials into the atmosphere.
- It encourages rural urban migration and its associated evils. This is because most industries are urban based which attracts very many people to move to urban centers with hope of acquiring better jobs and enjoying better lives

- It worsens the problem of income inequality. This is due to the fact that it highly pays a small section of the population leaving the majority of the people in other sectors earning far lower incomes.
- It leads to quick depletion of resources. This is due to overexploitation of such resources due to high demand for raw materials.
- It leads regional imbalance in development. This is because the industries are mostly located in urban areas which develop faster than the rural areas
- It leads to technological unemployment. This is because the industries use capital intensive technology which is labour saving.

## **ECONOMIC DIVERSIFICATION STRATEGY**

This refers to the practice of creating a number of sectors within the economy to increase production of goods.

### **MERITS OF DIVERSIFICATION OF PRODUCTION:**

- It helps to create employment opportunities. This is due to development of a number of economic activities which widen job opportunities.
- It widens consumer's choice. This is because diversification in production provides a variety of goods and services.
- It increases foreign exchange earnings/ Improves Balance of Payment position. This is because diversification widens the export base of a country and this leads to increased foreign exchange earnings.
- It increases the tax base/ Tax revenue of the country. This is because economic diversification leads to a wide range of products produced from several sectors, on which taxes are imposed.
- Ensures balanced regional development. This is because economic diversification increases economic activities even in the rural areas which enables them to develop.
- It increases output. This is because economic diversification leads to a wide range of economic activities in the different sectors of the economy which leads to overall increase in the total output produced in the country.
- It promotes utilisation of resources. Economic diversification leads to production of a wide range of products in different sectors of the economy which necessitates the utilisation of the would be idle resources in the country.
- It promotes sectoral linkages. This is because a number of sectors are developed which provide market to each other.
- It reduces price fluctuations. This is because it avoids overproduction of one product because there are many other products to be produced.
- It reduces income inequality. This is because number sectors are developed which increases employment opportunities and these increase incomes of many people.
- It reduces structural inflation. This is because economic diversification ensures steady supply of a variety of products in an economy which enables the economy to reduce shortages.
- It promotes infrastructural development. This is because the government is compelled to develop infrastructure so as to ease the movement of inputs to the production units as well transporting final products to the markets.
- It reduces economic dependence. This is because a number of sectors are established and therefore no longer relies on a particular sector.

## **LABOUR INTENSIVE VERSUS CAPITAL INTENSIVE STRATEGIES:**

### **LABOUR INTENSIVE/CAPITAL SAVING/ONE POUND (1£) TECHNOLOGY:**

These are production techniques that employ relatively more units of labour than other factors of production especially capital.

**OR:** Methods of production which use relatively more labour than other factors of production especially capital.

### **MERITS OF USING LABOUR INTENSIVE TECHNOLOGY IN DEVELOPING COUNTRIES:**

- It is cheap and easily afforded due to the abundant supply of labour.
- It is a source of employment. This is because it requires many units of labour and therefore many people are recruited to work
- It reduces income inequality. This is because it employs many people which help them to increase on their earnings.
- It facilitates the use of vast rural potentials since the technique is mainly rural based.
- It promotes the use of locally available resources. This is because it is mostly the local labour that is required to do the work.
- It widens the tax base. This is because more people are employed and the government taxes their incomes.
- The technology is needed in the agricultural sector where human judgment is paramount. This is because certain activities within the agricultural sector can only be done by human beings.
- It reduces the need to import expatriates. This is because the techniques are operated by the locally available labour.
- It leads to increased output. This is because it is easily spread all over the economy.
- It reduces social costs in form of pollution. This is because there is reduced use of machines that give off bad gases.
- Increase aggregate demand. This is because peoples' income increases and therefore they attain high purchasing power

### **DISADVANTAGES OF LABOUR INTENSIVE TECHNOLOGY:**

- It results into low productivity. This is because it is inefficient.
- It is costly in the long run. This is because labour is expensive to maintain.
- It leads to production of low quality output. This is because human beings are inefficient and it is difficult to standardise output.
- It limits resource exploitation. This is because the technology is slow and therefore a few resources are used at a time.
- It limits development of skills. This is because it does not encourage application of modern skills since there is limited use of machines.
- It limits technological development. This is because of limited innovations and invention.
- It encourages labour unrest strikes. This arises due to the constant demand for higher pay and better conditions of work by the workers.
- It is slow and time consuming. This because human beings operate at a slow rate.
- It is hard to standardize output. This because human beings are largely inaccurate.



### **CAPITAL INTENSIVE/LABOUR SAVING/1000£ (ONE THOUSAND POUND) TECHNOLOGY:**

This is a production method that employs relatively more units of capital than other factors of production especially labour.

**OR:** they are methods of production which employ relatively less labour than other factors of production especially capital.

#### **Merits of using capital intensive technology:**

- It facilitates optimum exploitation of idle resources. This because machines are faster at work.
- It leads production of better quality goods. This is because it involves use of machines which are efficient.
- It leads to high output levels. This is because machines produce at a higher speed.
- It reduces the size of the wage bill. This is because it employs few workers.
- It promotes labour efficiency. This is because machines enable workers to accomplish tasks faster.
- It facilitates technological development/ technological transfer. This is because more research is carried out into better methods of production.
- It promotes development of skills. This is so because the workers have to learn how to use the machines.
- It promotes infrastructural development. This is because the government is compelled to develop infrastructure so as to ease movement of machines to where they are needed.
- It reduces industrial unrest/strikes. This is because a few people are employed and it is difficult for them to organise a strike.
- It saves time. This is because machines are faster at work.
- It helps to standardise output. This is because machines are programmed for that effect.

#### **Demerits of capital intensive technology in developing countries:**

- It is expensive to acquire. This is because the producer needs a lot of capital to acquire such technology and maintain the machines.
- It leads to technological unemployment. This is because people lose jobs due to increased use of machines.
- It leads to income inequalities. This is because producers using such technology earn more income than those using other inferior technologies.
- It leads to quick depletion of resources. This is because resources are irrationally utilised.
- It leads to social costs. This is because the machines emit toxic fumes and gases into the atmosphere.
- It leads to over production. This is because a lot of output is produced yet the market is still small.
- It leads to economic dependence. This is because there is high importation of machines.
- It leads to rural urban migration and associated evils. This is because the technology is mostly used in urban areas which attracts people to move to such areas in search of employment opportunities.

## **Limitations to the adoption of capital intensive technology**

- Limited capital. This limits purchase of the machines as well as maintaining them.
- Inadequate market. This is because it discourages investments as people fear to make losses due to high output.
- Poor/underdeveloped infrastructure. This limits use of machines due to inadequate power facilities.
- Limited entrepreneurial skills; this limits innovations and inventions which limits the expansion of firms.
- Limited labour skills. This makes it difficult to operate machines leading to frequent breakdown.
- Political instability. This discourages potential investors who would have utilised such technology since they fear to lose their lives and property.
- Poor land tenure system. This makes it difficult to get sizeable pieces of land making it uneconomical to use machines.
- Conservatism of the people. This makes people stick to the traditional methods of production and therefore ignore the modern techniques of production.

## **Intermediate versus Appropriate Technology:**

**INTERMEDIATE TECHNOLOGY;** This refers to the method of production which is neither so advanced nor so primitive.

**OR;** It is the technology between labour intensive and capital intensive

### **Merits of intermediate technology**

- It improves on labour productivity.
- It promotes acquisition of skills.
- It leads to better resource utilization.
- Helps in the creation of employment opportunities.
- It helps in saving foreign exchange because it uses local inputs/raw materials.
- It helps to reduce on dependence on foreign technology.
- Stimulates technological development.
- Reduces income inequalities

### **Demerits of intermediate technology:**

- It leads to low productivity because the technology is not very efficient.
- Few jobs are created since it operates on small scale.
- It leads to production of poor quality output.
- It leads to under utilisation of resources.

### **Limitations of intermediate technology in developing countries:**

- Inadequate capital.
- Political instability rampant in developing countries
- Inadequate skilled labour
- Limited entrepreneurial skills
- Inadequate markets for the technology and the products

### **APPROPRIATE TECHNOLOGY:**

This is the method of production which is socially and economically suitable for a given economy/society.

**OR:** It's a production method which is in line with the development objectives and suits the development level of an economy.

### **Factors that determine/affect/influence the development of appropriate technology**

- Availability of funds.
- Level of skills/training/education.
- Level of entrepreneurship.
- Level of innovations and inventions.
- Degree of external/foreign interference.
- Government influence on technological development.
- Availability of market for the technology and the products it produces.
- The cultural factors/ Degree of conservatism.
- Natural factors.

### **TECHNOLOGICAL DEVELOPMENT AND TECHNOLOGICAL TRANSFER.**

**TECHNOLOGICAL DEVELOPMENT:** This refers to the process of introducing, initiating, and improving the indigenous techniques of production to suit the conditions in the country.

#### **FACTORS THAT INFLUENCE/AFFECT/DETERMIN TECHNOLOGICAL DEVELOPMENT:**

- Level of skills/education/training.
- Level of capital for research.
- Level of entrepreneurship.
- Political atmosphere in the country.
- Size of the market for the new technology and new products produced by such technology.
- Degree of conservatism.
- Level of accountability.

**Technological transfer;** this refers to the shifting or movement of new and efficient production techniques from one economy to another mainly from developed economies to less developed/developing economies.

## SMALL SCALE VERSUS LARGE SCALE INDUSTRIES:

A small scale/cottage industry refers to an industry that employs relatively little capital and its output is usually low and mostly produces for the domestic market. Examples of small-scale industries include: leather tanning, poultry feeds, wooden and steel furniture industries, maize milling etc.

### WHILE

Large scale industries refer to industries with large capital investment and produce large quantities of output and in many cases use capital intensive technology.

#### Characteristics of large Scale Industries:

- They **mostly** occupy large space.
- They **mainly** produce high quality products.
- They are **mainly** located in urban areas.
- They **mainly** use capital intensive technology.
- They **mainly** produce high output.

#### Characteristics of small scale industries:

- They **mainly** produce poor/low quality output.
- They **mainly** use labour intensive technology.
- They **mainly** utilise local resources.
- They **mostly** produce for the domestic market.
- They **mostly** occupy small/little space.
- They **mainly** use unskilled and semiskilled labour.
- They **mainly** produce low output.
- They have **limited** linkages with other industries.
- They are **mainly** privately owned.
- They **mainly** produce consumer goods.
- They **mainly** employ semi-skilled and unskilled labour.
- They are **mainly** located in urban and peri-urban areas.

#### Merits of Small Scale industries:

- They promote utilisation of local resources. This is because they use the locally available resources.
- They reduce income inequality; this is because they are easy to start and many people start them for income generation.
- They facilitate industrial development. This is because many are set up and they eventually expand into big industries.
- They promote technological development. This is because producers are constantly innovating which leads to emergence of better methods of production.
- They provide government revenue. This is because government imposes taxes on their activities.
- They create employment opportunities. This is because such industries are mostly labour intensive and thus need people to perform different activities in their factories.

- They provide variety of goods. This is because there are many industries producing differentiated products
- They enable low income earners to have access to goods. This is because they use locally available resources and charge fairly low prices.
- They save the scarce foreign exchange. This is because of limited importation of raw materials since they mainly use local raw materials.
- They promote development of infrastructure. The government is compelled to put better infrastructure in order to lower the cost of production for the industries.
- They lead to creation of forward linkages. This is because they provide market for the already existing industries since small scale industries use products of large scale industries as raw materials.
- They help in promotion of self sufficiency/ Self sustenance. This is due to the increased domestic production of different industrial products and thus reduced dependence on foreign commodities
- They promote development of labour skills. This is because people are trained on the jobs to perfect the skills of production.

#### **Demerits of Small scale industries.**

- They lead to production of poor quality goods. This is due to the poor technology used as well as limited labour skills.
- They lead to limited generation of government revenue. This is because many of such industries dodge paying taxes and at the same time government fears to impose high taxes on such industries.
- They lead to congestion in urban and peri-urban areas. This is because they concentrate in particular place
- They lead to low output. This is because they use inefficient technology which is low yielding
- They lead to increased social costs. This is as a result of increased pollution such as noise and poor waste disposal.
- They lead to high administrative costs. The government incurs high costs in cleaning the areas where such industries are established since they lead to pollution.
- They lead to wastage of resources. This is because of the unnecessary competition and duplication of activities.
- They lead to limited job creation. This is because they operate on small scale

## The role of Foreign Aid in the Economic Development of a country:

**Foreign aid** is the international transfer of resources to a country either directly or indirectly

### Categories of Foreign Aid:

- (a) **Bi-lateral aid:** This refers to direct assistance from one country to another. E.g. China giving assistance to Uganda.
- (b) **Multi-lateral aid:** This is the assistance offered to a country through International aid agencies/multi-national agencies e.g. World Bank, IMF etc.
- (c) **Project aid:** This is aid offered to finance a particular project and it may not be diverted.
- (d) **Tied Aid:** This is aid which requires the recipient country to abide by the conditions set by the donor country e.g.
  - i. The recipient country is required to purchase goods from the donor country using the grant/funds acquired.
  - ii. Aid given to finance specific projects named by the donor.
  - iii. The recipient country is required to implement social, economic and political conditions dictated by the donor countries before the aid can be given.
- (e) **Untied Aid:** This is aid given to a recipient country without any conditions set by the donor country.

### MOTIVES OF GIVING FOREIGN AID:

- For humanitarian reasons in order to assist the victims of natural disasters.
- To earn interest from the money lent.
- To economically dominate the recipient country by dictating economic policies.
- To extend political influence by attaching political strings on the aid.
- To extend social and cultural ideologies to the recipient countries.
- To create employment opportunities when aid is tied to the technical personnel.
- To extend military influence through military aid
- To acquire grounds for research

### MERITS OF FOREIGN AID

- It **fills** the savings- investment gap. This is because the funds acquired are used to set up business firms.
- It **fills** the foreign exchange gap. This is because some foreign aid comes in form of foreign exchange which increases the supply of foreign exchange in the economy.
- It **fills** the skilled manpower gap. Skilled manpower is brought into the country as expatriates.
- It **closes** the technological gap/Leads to technological transfer. Modern techniques of production are brought into the country through technological transfer.
- It **fills** government-revenue expenditure gap. This is because the funds acquired through aid are used by government to meet its expenditure needs

- It **alleviates** the effects of natural disasters. Foreign aid in form of relief/humanitarian aid is extended to help the victims out of the problem e.g. food, medicine etc.
- It **facilitates** development of infrastructure. Foreign aid in form capital enables to set up social and economic infrastructure.
- It **increases** employment opportunities. The funds acquired are used to set investments which provide jobs to the people.
- It promotes utilisation of resources. This is the modern techniques acquired accelerate resource exploitation
- Promotes industrial growth. Foreign aid in form of capital is used to set up industries.
- It **strengthens** international relations/ Improves relation between countries. The recipient country befriends the donor for continued support.
- It promotes development of skills. Foreign aid in form scholarships provides special skills to the nationals.
- **Promotes** economic growth. Foreign aid channeled into different investments increases production of goods and services.

### **Demerits of foreign aid**

- It leads to balance of payments problems. This is due to debt repayment obligations especially when the aid is tied.
- Leads to unemployment. This because aid in form technology is inappropriate which leads to loss of jobs.
- Limits capital formation. This is because much of public funds are used for debt servicing and little is left for saving
- Encourages laziness/kills local initiatives. Provision of needs to the nationals by the donors makes people in the recipient country reluctant to work because they expect to get free more things.
- Leads to planning difficulty. This becomes very difficult for the country to plan effectively since aid is uncertain and sometimes it delays.
- It undermines political sovereignty. This is because of the political strings attached to the aid which the recipient country has to abide by.
- Leads to under -utilisation of local resources. This is because efforts are not done to exploit the local resources because they expect resources from donors.
- Leads to high cost of borrowing. This is because some aid is tied to the source resulting into acquisition of expensive factor inputs.
- Leads to brain drain. This arises when some nationals in the recipient country are given scholarships to go and train from the developed countries; unfortunately, some of them do not come back.
- Leads to cultural erosion/corrodes social values. This is because nationals adopt foreign cultures and discard their own.
- Worsens economic domination by donors. This is because the donors dictate the economic policies to be followed by the recipient countries.



## ROLE OF INFRASTRUCTURE IN THE DEVELOPMENT PROCESS:

### MEANING OF INFRASTRUCTURE;

This refers to a **facility** that is put in place to **support** the production of goods or ease the provision of a service or services to the public. It can be in form of a road, a school, hospital, power dam, bank, water pipeline etc.

### ROLE OF INFRASTRUCTURE:

- **Source of government to revenue.** Government collects taxes from education institutions like private schools and television stations etc.
- **It promotes investment or capital inflows.** Foreign investors are attracted to invest in the country due to existence of supporting infrastructure in form of banks, roads, communication facilities.
- **It promotes the development of labour skills.** Education institutions like universities train people who acquire skills which they use in the production of goods and services.
- **It promotes trade and accessibility to markets.** The roads are used by traders to transport goods from places of production to market centers.
- **It facilitates increased utilisation of resources.** For example power dams generate electricity which is used in production firms. Since production is taking place, resources that would have remained idle are put to use hence reducing excess capacity.
- **Provides employment opportunities.** People are hired to work in schools (teachers and bursars), hospitals (medical doctors and nurses), radio stations (journalists and engineers) this enables them to earn an income to station welfare.
- **It improves social welfare of the people.** Hospitals provide vaccination services against certain diseases like polio and measles as well as treating the sick people and this improves social welfare.
- **Promoting industrial development.** Hydro electricity power generates power which is supplied to industries. This power is used to run industrial machines to produce commodities hence developing the industrial sector in Uganda.
- **It increases productivity/ it enhances growth of GDP.** The existence of various infrastructures like roads and banks encourage production of more goods and services. This is because transportation of goods and access to credit from banks are made easier.
- **Facilitates innovations and inventions/technological transfer.** Modern machines like tractors are acquired from abroad to assist in construction of and repair of infrastructure such as roads, rail lines and power dams. This leads to technological transfers.
- **Controls inflation.** The roads assist in supplying goods to different areas in the country. This increases aggregate supply of goods on market and shortages are eliminated hence checking inflation.
- **It promotes entrepreneurial skills.** The presence of infrastructure encourages investment. The investors bear risks in production and they develop abilities in organisation and they develop abilities in organising the other factors of production to increase output.
- **It leads to increased foreign exchange earnings.** Some industries produce goods for export and the country is able to earn foreign exchange.
- **It enables mobility of factors of production.** By using roads and other forms of transport labour is able to change geographical location or occupation.
- **It reduces conservatism/ fights rigidities among the people.** Through communication infrastructure like radios, people are educated about modern methods of production. This changes attitudes of people and conservatism is reduced. This promotes economic development.

## **PROBLEMS/ CHALLENGES FACED IN DEVELOPING INFRASTRUCTURE IN UGANDA:**

- Limited stock of existing capital / inadequate capital.
- Limited labour skills
- Poor land tenure system that limit access to land for setting up and expanding infrastructure.
- Insecurity in some parts of Uganda.
- Limited investment incentives offered by the government
- Poor entrepreneurial skills
- Limited market especially for industrial goods.
- High rate of inflation that leads to rising production costs and rising costs of setting up and maintaining infrastructure.
- Poor state of technology.
- Low levels of accountability/ Corruption.
- Conservatism/Cultural rigidities among the people.
- Inadequate/ unreliable foreign aid.
- High interest rate on loans for infrastructural development.

## **The role of Education in the economic development process:**

### **Meaning of Education:**

Education refers to a process of acquiring knowledge, values and skills resulting into increase in stock of human capital in a given period of time. Education is both formal and informal.

### **Merits of education**

- It provides skills to labour/increases labour productivity
- It promotes national integration/cohesion /unity
- It promotes development of entrepreneurial skills
- It promotes innovations and inventions through research
- It provides revenue to the government
- Increases output hence economic growth through production of scholastic materials and provision of services to learners
- It reduces dependence on imported skilled manpower(expatriates)
- Saves foreign exchange that could have been spent on importation of skilled labour/source of foreign exchange through exportation of education services.
- Promotes development of infrastructure
- Reduces income inequality
- Promotes resource utilisation hence avoidance of wastage
- Promotes observance of acceptable values and norms/Fights cultural rigidities/conservatism
- Provides markets
- Promote development of industries (that manufacture scholastic materials)

### **Demerits of education**

- It promotes income inequalities
- It encourages or accelerates rural urban migration and its related evils.
- It encourages training of job seekers rather than job makers.
- It encourages brain-drain.
- It results into an increase in expenditure on imports which are demanded by the highly educated people.
- Education is very costly to government and society.
- It involves high risks and uncertainties

## **RESOURCE ENDOWMENT AND ECONOMIC DEVELOPMENT:**

Natural resource endowment is the natural occurrence of resources in the earth's crust i.e. beneath, on and above the earth's surface.

### **Role of natural resource endowment to the economic development of a country:**

- Creates employment opportunities. This is because natural resources promote industrial development since they provide the necessary raw materials such as copper, silver and they also provide power sources which run machines in factories, these include petroleum, natural gas and coal.
- Increases foreign exchange earnings. The natural resources such as petroleum, natural gas and coal are exported to different countries and thus increase foreign exchange earnings for the country with such resources.
- Provides raw materials to the industrial sector/promotes industrialisation. The natural resources provide the strategic raw materials such as diamond, necessary for industrial growth in a country
- Promote tourism. The natural resources such as natural vegetation, wild animals attract people from both within and outside the country to watch or to study the ecosystem; this promotes the tourism industry which generates revenue to the government.
- Promotes economic diversification. The different natural resources of a country such as soils, sunlight, wetlands, lakes, fossil fuels promote different economic activities such agriculture, tourism, industrialisation which results into economic diversification in the country.
- Promotes infrastructural development. The existence of natural resources in different parts of the country compels the government to develop the necessary infrastructure such as roads, railways, power dam projects so as to ease the exploitation and transportation of such minerals to where they are needed.
- Encourages production of a wide variety of products/reduces dependence on a few economic activities. The presence of natural resources such as fossil fuels, minerals, natural vegetation sunlight enables the production of different commodities needed in the country.
- Promotes international relations. Natural resources such rivers and lakes that cut across boundaries, the exported natural resources makes the countries friendly so as to continue with the mutual inter dependence of all those countries involved.
- Increases government revenue. The natural resources such as fossil fuels, mineral soils, sunlight, widen the range of commercial activities in the country which widens the government tax base.
- Increases incomes to the owners. The owners of such natural resources exploit and sell them and thus increase their incomes.
- Improves balance of payment position. The natural resources of a country promote domestic production of the formerly imported industrial goods which reduces foreign exchange expenditure on such goods, at the same time the exploitation and exportation of such resources like petroleum natural gas also increase foreign exchange earnings for a country and thus improve the balance of payments position.
- Promotes urbanisation which reduces conservatism. The exploitation of natural resource endowment leads to increase in the commercialisation which attract many people to adopt modern ways of living.
- Encourages skill development. This enables resource exploration and exploitation of such natural resources and thus avoiding such resources remaining idle.
- Promotes research/inventions and innovations. The existences of vast natural resource endowment attract entrepreneurs to carry out inventions and innovations so as to promote exploitation of such resources and thus earn more profits.