JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

HRD 2104: PRODUCTION, DOMESTIC, SMALL SCALE & INFORMAL SECTOR

01.00: Lesson 3. Production: Domestic, Small Scale and Informal Sector

An Industry refers to a facility where the production of a specific type of material for trade takes place. It can also be described as a workplace where the processes involved in gathering raw materials and transforming them into new products are carried out.

The small-scale sector holds a significant position in our country's industrial structure. In a nation like Kenya, where there is a pressing issue of unemployment and limited resources, the small-scale sector is best suited to meet the needs of new entrepreneurs.

These industries play a crucial role in generating employment opportunities with minimal capital investment. Consequently, they contribute significantly to the overall economic development of the nation. In fact, the small-scale sector accounts for approximately 70 percent of the country's total GDP, making it a vital component of Kenya's economic growth.

It also contributes around 45 percent of the value added in the manufacturing sector and 70 percent of the industrial production. The role of small-scale industries is a key aspect of Kenya's planned economic development.

This sector has been assigned a significant role in the country's industrialization and economic progress, aligning with the national objective of achieving growth with justice.

Its importance has been increasingly acknowledged as a solution to various challenges faced by the country, such as limited capital, widespread unemployment, regional disparities in industrial development, and unequal distribution of national income. Small enterprises typically have one or two individuals in charge of management, responsible for making major decisions.

Types of Industries Found In Kenya

1) Trade and repair of motor vehicles

2) Manufacturing

3) Food services

Examples of small scale businesses are industries that produce:

1. Leather
2. Hand bags
3. Pots and pans
4. Jua kali pots
5. Water bottle
6. Small toys

7. Paper and stationary.

Characteristics and Significance of Small-Scale Enterprises

Labour Intensive:

They provide employment opportunities to individuals in urban and rural areas, which, in turn, enhances the economic position of the country.

Flexibility:

They adapt themselves as per the dynamic industrial environment.

Innovative:

They use new and innovative techniques, materials, methods of production, new markets, sources of materials, and even new forms of organizations such as sole proprietorship, partnership, and co-operatives.

Decentralization:

They facilitate a balanced growth of the economy as a whole due to dispersal of industries.

Outlet of Entrepreneurial Spirit:

They represents the enthusiasm, persistence, and creativity of an individual who establishes the enterprise.

Importance of Small Scale Industries.

- Utilize locally available human and material resources and expertise/experience
- Create jobs at relatively low cost
- Improve the lifestyle and living standard of people
- Diversify the industrial structure
- Help in increasing the national productivity
- Contribute approximately 35 to 70 percent of export
- Prevent the creation of monopoly
- Ensure more equitable income distribution
- Attract and utilize indigenous entrepreneurship and encourage women entrepreneurs
- Develop a pool of skilled and semi-skilled workers as a basis for future industrial expansion
- Prevents regional imbalances by their presence in backward, rural, and the exterior most part of the country
- Adapt appropriate technological managerial approaches optimally
- Facilitate a favorable balance of trade
- Role of Small-Scale Enterprises in Economic Development

Contribution/Role of Small Scale industries in the Economic Development

- Employment Generation:
- Higher Productivity:
- Better Utilization of Local Resources
- Tapping of Savings
- Utilization of Domestic Technology
- Regional Balance and Rural Development
- Export Contribution
- Contribution to Decentralization
- Complementary to Large-Scale Industries

Informal Sector

- Informal sector enterprises in Kenya are commonly referred to as jua kali and they comprises
- Informal traders and artisans who produce goods and services for market.
- The enterprises are not registered by register of companies and are not covered by the government Social Security Scheme and other employment related government regulations such as the minimum wage and non-payment of social security contributions.
- Workers in the sector do not receive social security benefits like sick pay, disability pension, and old-age pension among others.

Examples of Informal Sector jobs

- Shop assistants
- Waiters and waitresses
- Cooks
- Hairdressers and barbers
- Welders
- Cashiers (in mobile money transactions)
- Tailors
- Machinery mechanics and fitters
- Butchers
- Construction workers

Primary and Tertiary Industries in Kenya

The Primary Sector

The primary sector in Kenya's economy constitutes the largest proportion of the overall economy. The agricultural sector, in particular, has thrived remarkably. Kenya is renowned for its production of high-quality tea and coffee, especially in significant quantities. The finest tea is predominantly exported to global markets, including the United States and numerous European countries. This contributes to an enhanced balance of payments by bolstering export levels and generating more foreign currency.

In terms of mining, Kenya is currently establishing numerous mining sites. These sites extract various minerals, such as fluorspar, salt, small amounts of gold, small amounts of copper, as well as other recently discovered minerals like titanium in the southern region of Kenya and substantial oil deposits in the northern part. The extraction of oil in this region will have positive impacts on the local residents. Given the arid nature of the northern part of Kenya, oil drilling will become a primary economic activity. The citizens in this area will find employment opportunities in these mining sites, leading to an improvement in their living standards. Additionally, numerous businesses are expected to emerge within a short span of time.

Furthermore, the extraction of oil will yield positive consequences for the entire country. Exporting the oil will generate foreign exchange, thereby enhancing the country's level of exports and potentially resulting in a surplus balance of payments. The foreign currency acquired will be utilized to foster the country's development.

The Secondary Sector

The manufacturing sector in Kenya is not well developed, with several infant industries struggling due to cheap imports. This leads to a situation where locally produced goods are often overlooked in favor of cheaper alternatives, hindering the growth and profitability of these industries. For instance, the textile industry in Kenya has suffered due to the influx of cheap "mitumba" imports. Additionally, raw tea and coffee produced in Kenya are usually exported, only to be imported back at higher prices after processing. Processing these products locally would not only increase their export value but also help reduce the balance of payment deficit. The government's policies, such as the establishment of Export Processing Zones, have been beneficial in boosting the manufacturing sector by increasing local production and creating more job opportunities. This, in turn, has led to improved living standards for workers and increased revenue for the government through taxes and production.

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The Tertiary Sector

The service industry is a significant sector that plays a crucial role in Kenya. Among the countries in East Africa, Kenya stands out as one of the best in terms of service provision. The banking and telecommunication sectors in Kenya are well-equipped and highly developed. In fact, some of the Kenyan banks have expanded their operations beyond the country's borders. In the field of telecommunication, companies like Safaricom have made remarkable advancements, thanks to intense competition from other firms such as Telkom, Equitel, and Airtel, who are striving to establish their presence in the market. These companies have also expanded their operations to other countries in order to tap into larger markets.

Quaternary sector

This sector encompasses intellectual endeavors such as education and research activities. The government has made significant strides in the field of education, providing free primary education and subsidized secondary education. Additionally, efforts have been made to enhance tertiary education by seeking scholarships for Kenyan students to study abroad. From an economic perspective, education and training play a vital role in improving human capital, which is essential for any economic activity. Human capital refers to the skills necessary to effectively carry out economic endeavors. Research has proven instrumental in advancing various economic activities. Through research, experts in a particular field can explore and address problems by formulating multiple policies. Economists typically conduct research by collecting data, analyzing it using statistical programs like STATA and SPSS, interpreting the findings, and presenting them through tables, graphs, and charts. By engaging in these activities, they gain insights into the root causes of problems and identify potential solutions.

Types of Industrial Ownership

a) Sources of Capital

- Individual Capital for individual ownership
- Two or more partnerships
- Many individuals through shares – Joint venture
- Family funds
- Cooperate funds
- Government finds like hustle Fund

Types of Ownership

1. Private Sector	2. Cooperative Sector	3. Public Sector
• Individual Ownership • Partnership • Family • Joint venture • Private limited Co. • Public Limited co	• Producers Cooperative Societies • Consumers Cooperatives • Housing • Credit	• Government Organizations • Public Cooperatiosn • Parastates

1. Private Sector Enterprises

- Serves personal interests and it is non-governmental
- Main objective is to earn profits
- Constitutes consumer goods
- Does not undertake risk ventures

Merits

- High Profits
- High Efficiency
- Low wastage of material
- Prompt decision making
- Low political interference
- Competent persons occupy management and governance

Demerits

- Concertation of wealth in few top level leaders
- Leads to monopoly where only few succeed
- Aim at profit and may lead to exploitation.

2. Cooperative Sector

This is an autonomous association of persons united voluntarily to meet their common economic, cultural and social needs and aspirations through jointly-owned and democratically controlled enterprises.

Co-operative society is another means for forming a legal entity to conduct business rather than forming a company.

There are certain principles in which co-operative society operates.

- Voluntary and open membership.
- Democratic control, one member one vote.
- Autonomy and independence.
- Promoting economic activities.
- Promoting education and information technologies.
- Co-operations among co-operatives.
- Concern for the economic and ecological environment.

Advantages:

- Open membership for people.
- It is subjected to control so as to prevent fraud and ensure that every member enjoys equal rights and benefits.
- Easy to form and organize.
- Pools human resources in the spirit of self and mutual help.
- Improves co- operation among members.

Disadvantages:

- There are restrictions on profit disposal and rules to sustain co-operate governance.
- Other than registered co-operative society or unless approved by the chief executive no one shall trade or carry out business under any name or title of which the word co-operative is part of.
- Contains certain rules that are to be followed at any cost.

3. Public corporations

It is the corporations owned and operated by the government, established for the administration of certain public programs.

- It is also called state-owned enterprises and nationalized industries.
- The chairman and board of managers are appointed by the government.
- They are responsible for day to day management but are accountable to the government.
- The funds come from the government, from government approved loans and from the private sectors.
- Public corporations do not seek to make profit but their aim is to work in public interest.

Advantages:

- They base their decisions on the full costs and benefits involved.
- They can be used to influence economic activities.
- To boost the country output, public corporations can be directly encouraged to increase their output.

- Ownership of the whole industries by the government makes planning and coordination much easier.
- Their main purpose is to charge low price and produce good quality as other domestic industries depends on them. (For example electricity and transport).

Disadvantages:

- For larger organization it may be difficult to manage and control.
- They may be insufficient, produce low product and charge high price, due to lack of competition and the knowledge that they cannot go bankrupt.

Types of Ownership

Individual ownership	**Partnership business**
• It has single owner who is responsible for making decision for the company.	• It consists of two or more individuals who share the responsibilities of running the company.
• It starts when a single owner decides to open a business from his own investment.	• It starts when two or more • Individuals decide to go to business with individual investments.
• Profit and losses are not distributed among partners as it has only single owner.	• Profit and losses are shared among partners.
• It has high risks because the owner alone hat to suffer the losses.	• It has minimized risks.
• Single ownership business is difficult to manage as all decisions are taken by the owner himself.	• It is easy to start and manage because multiple partners are involved in making decisions.

Joint-Venture Company

It is a business entity where different stakes can be bought and owned by shareholders. Each shareholder owns company share in proportion evident by his or her shares.

• It allows for the unequal ownership of the business for example some shareholder owns larger proportion of the business and some owns smaller proportion of the business.

• The profit of each shareholder is determined by the proportion owned by the shareholder.

The types of the joint Ventures companies are as follow:

<u>A Corporation</u>

a. Chartered companies:

These types of companies are incorporated under royal charter issued by king or head of state. Under the charter, certain exclusive rights and privileges are granted to the company for undertaking certain commercial activities. Example "East India Company".

b. Statutory companies:

These companies are formed under special act of parliament. A parliament passes special act to form such companies. The objects, power, rights are clearly defined in the act.

<u>A **Registered companies:**</u>

In general these companies are established under the company act of the country concerned. In our countries most of the companies has been established under the provisions of company act.

<u>According to liability:</u>

Companies limited by shares:

Capital of the company is divided into shares and the capital is also divided into shares. Any person can become member of a company by purchasing shares.

Companies limited by guarantee:

These companies are formed by giving a written guarantee that members will pay up to certain fixed amount in the event of liquidation of the country. They may or may not have share capital.

Unlimited companies:

The companies registered without limiting the liability of shareholders to the values of shares are called unlimited companies. Such companies are not usually found.

<u>According to number of members:</u>

<u>Private company:</u>

Can be formed with one member but the maximum number of shareholders cannot exceed 50. Shares are sold among its members only.

<u>Public company:</u>

A minimum of seven members is required to register a public company. There is no restriction on number of shareholders. The shareholders are free to sell their shares in the market.

Advantages:

- Company is managed on behalf of the shareholders by the board of directors elected at annual general meeting.
- Shareholders have the right for voting either to reject or accept the annual report.

- Individual shareholder can sometime stand for directorship of the company.
- Efficient management of profit and losses among the shareholders.
- Better management system.

Disadvantages:

- Profit depends on the proportion owned by the individual shareholder. II. Unequal distribution of profit and losses among shareholders.
- Shareholders are responsible for any debt that exceeds the company ability to pay.

Comparison of various forms of ownership

Factor	Forms of Ownership					
	Sole	**Joint/Family**	**Partnership**	**Private Ltd**	**Public Ltd**	**Cooperative**
Ownership	Single	Family	2≤20≥ Members	2≤ Members	7≤ No upper limit	≥10 No upper limit
Formation	Easy	Easy	Legal agreement	Legal Requirement	Legal Requirement	Legal Requirement
Separate Legal Required	No	No	No	Yes	Yes	Yes
Capital Required	Res-Limited	Limited	Limited	Large	Large	Moderate
Management	By owner	By owners	By owners	Hired	Hired	Elected
Government Requirement	Limited	Limited	Moderately high	Fairly	High	Moderate
Liability	Unlimited	Unlimited	Unlimited	Limited	Limited	By - Laws
Taxation	Less	Less	Less	Heavy	Heavy	Exemptions
Closure	Any time	Any time	As per the agreement	By Act	By Act	By Act
Governed by Law	No	No	Act	Company Act	Company Act	Cooperative Society Act

References:

1. Management Theory and Practise By G.A. Cole
2. Essentials of Management by Koontz, H & O Donnee 7th Edition

Study Questions:

(1) Factors you should considered for deciding the ownership of an industry before starting it.
(2) Differentiate between single ownership and partnership business with advantages and disadvantages of each
(3) Compare individual ownership with partnership firms
(4) Define co-operative organization. State the characteristics of co-operative Organization
(5) How is private sector different from public sector?
(6) Compare various forms of ownership

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