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Towards an Understanding of Business Systems in Kenya

The Concept and Research Issues in
Metal Products Sub-sector

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By

**BENJAMIN A. OKECH
WINNIE V. MITULLAH
ROSEMARY ATIENO**

1.0 Introduction

This concept paper on the metal products sub-sector in Kenya presents a review of the metal sub-sector, analytical framework, objectives of the collaborative study and methodology to be applied in the study. The planned study is part of a wider research project on business systems in Africa being undertaken by the Institute for Development Studies, University of Nairobi and the Centre for Development Research, Copenhagen. The study is expected to contribute to the understanding of the business systems and enlighten policy makers on how they can use this approach to address socio-economic issues in Kenya's industrialisation efforts.

The business systems approach is based on a broader context of institutional dynamics, as the key factors that influence the performance and outcome of economic actors. The approach will be used to analyse and understand the characteristics of the metal products sub-sector in Kenya. The approach is one of the new trends in economic analysis based on the new institutional economics (NIE) theory. It is a significant departure from the dominance of the conventional approach, based on the concepts of economic rationalism embedded in the neo-classical economic theory. The strength of NIE, and hence adoption of business systems approach compared to the neo-classical theory, derives from its wider scope, which allows the integration of institutions, other than markets and governments, into economic analysis. Thus the approach is based on the perspective that economic activities and behaviour are socially embedded and that they are likely to differ under different institutional contexts.

The study will include a number of activities and outputs. The first activity, which enabled the production of this paper, involved a detailed secondary data collection and review of literature. The aim of this activity was to identify the nature of the metal sub-sector in terms of activities, products, regional distribution and import-export linkages among others. The second activity will be fieldwork, which will be undertaken in two phases. Phase one of the fieldwork will involve a scoping exercise to identify firms and establish their existence, location and activities in the sector. Phase two will involve a detailed field survey consisting of both administering structured questionnaires, conducting of in-depth interviews on key informants with the central aim of identifying inter-firm linkages between the different systems.

2.0 A Review of the Metal Sub-Sector

The metal products sub-sector falls under the manufacturing sector, which has an important role to play in Kenya's economy, especially with respect to the

country's industrialisation strategy. The manufacturing sector is expected to be more dynamic in accelerating economic growth in the country (Kenya, 1997). This is especially through employment creation, linkages between firms (and across regions), skill formation and export earnings. The metal products sub-sector is one of the main sub-sectors in manufacturing, after food, beverages, and tobacco, chemicals, rubber and petroleum products. It, therefore, has an important role to play in manufacturing and Kenya's industrialisation process, in general.

The main activities of the sector include: basic metal manufacture, manufacture of furniture and fixtures, hand tools, and general hardware, structural metal products, fabricated metal products, electrical machinery and appliances, and railroads equipment. The main products produced by the sector include: ferrous metals such as cast and wrought iron and steel products, and non ferrous metals like aluminium, antimony, cadmium, copper, lead, zinc and tin. Kenya's iron and steel industry produces a wide range of products like hot-rolled and galvanised steel products, and manufactured steel pipes. Others include the manufacture of simple products such as *jikos* (charcoal cooking stoves), pans and fabrication of simple capital goods like storage tanks, farm implements, repair and maintenance of vehicles and processing machinery. Due to the diverse nature of the sector, this study focuses on only three sub-sub-sectors namely, structural metal products, fabricated metal products and metallic furniture and fixtures.

An important feature of the manufacturing sector in Kenya is the presence of small-scale enterprises, from the informal sector. The importance of this sector, in employment creation and incomes, has been recognised by the government as reflected in various policy documents. During the last decade, the importance of the informal sector has increased significantly, especially as a source of employment. As the formal sector employment has declined, the informal sector's share in total employment has risen steadily, reaching 70.4 per cent in 2000 (Kenya, 2000). However, the *Jua kali* sector has suffered from a number of constraints, major among which have been poor policy and co-ordination issues as well as legal and regulatory environment (ILO/EAMAT, 1999).