CERTIFICATE OF BASIC EDUCATION

SENIOR SCHOOL CURRICULUM

GRADE 10 BUSINESS STUDIES

COMPETENCY-BASED EDUCATION



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STRAND 1.0: BUSINESS AND ITS ENVIRONMENT

SUB-STRAND 1.1: TYPES OF BUSINESS OWNERSHIP

1.0 INTRODUCTION TO BUSINESS OWNERSHIP

1.1 Meaning of business ownership

Business ownership refers to the legal arrangement through which an individual or group of people owns, controls and operates a business enterprise.

It identifies:

- The person or people who own the business.
- How the business is financed.
- Who makes important business decisions.
- How profits are shared.
- Who bears the risks and losses.
- The extent of responsibility for business debts.

Different businesses operate under different forms of ownership depending on their size, objectives, capital requirements and management needs.

1.2 Types of business ownership

Business enterprises can be classified according to their ownership and control.

A. Private sector business ownership

These are businesses owned and controlled by individuals or private organisations rather than the government.

Examples include:

- Sole proprietorships.
- Partnerships.
- Private limited companies.
- Public limited companies owned by private investors.

B. Public sector business ownership

These are enterprises owned or controlled by the government on behalf of the citizens.

Examples include:

- Government departments.
- State corporations.
- Public authorities.
- Government-owned commercial enterprises.



Important distinction: A public limited company is not necessarily government-owned. The word *public* means that the company can invite members of the general public to subscribe for its shares or debentures, subject to the law. It is different from a government-owned public enterprise.

2.0 LIMITED COMPANIES

2.1 Meaning of a limited company

A limited company is a business organisation incorporated under the law, having a separate legal identity from its owners, in which the liability of its shareholders is limited to the amount unpaid on their shares.

A limited company is formed by people who contribute capital through purchasing shares in the company.

The company uses this capital to establish and operate business activities with the intention of earning profits or achieving other lawful objectives.

Examples in the Kenyan business environment:

- Safaricom PLC.
- KCB Group PLC.
- Equity Group Holdings PLC.

These are examples of public companies. Their shares are traded on the Nairobi Securities Exchange.

2.2 Meaning of limited liability

Limited liability means that shareholders are not normally personally responsible for company debts beyond the amount remaining unpaid on the shares they hold.

For example:

A person purchases 1,000 shares in a company at Ksh 100 per share.

Total value of shares:

1,000×100=Ksh 100,000

If the shareholder has fully paid for the shares, the shareholder will not normally be required to use personal property to settle the company's debts merely because the company becomes insolvent.

However, other personal obligations, such as personal guarantees, fraud or other legal liabilities, may create personal responsibility.

2.3 Important terms used in limited companies

1. Share

A share is a unit of ownership in a company.

For example, if a company has 100,000 ordinary shares and a person owns 10,000 shares, that person owns 10% of the issued ordinary shares.

2. Shareholder

A shareholder is a person or organisation that owns shares in a company.

Shareholders contribute capital and may enjoy rights such as:

- Receiving dividends when declared.
- Voting on certain company matters.
- Participating in the appointment of directors.
- Receiving information as provided by company law.
- Sharing in the remaining assets after creditors have been paid during liquidation, where applicable.

3. Director

A director is a person appointed or elected to participate in directing and overseeing the affairs of a company.

Directors are responsible for providing leadership, making strategic decisions and ensuring that the company operates according to the law.

4. Board of directors

This is a group of directors responsible for overseeing the management and strategic direction of a company.

5. Dividend

A dividend is a portion of a company's distributable profits paid to shareholders as a return on their investment when declared in accordance with the law.

6. Memorandum of association

This is a legal document used during company formation that records the subscribers' intention to form the company and become its members.

7. Articles of association

These are rules governing the internal administration and operation of a company.

8. Certificate of incorporation

This is an official document issued by the Registrar of Companies as evidence that a company has been legally registered.

9. Debenture

A debenture is a document acknowledging a company's debt and setting out the terms under which the company has borrowed money.

10. Share capital

Share capital refers to the capital represented by shares issued by a company.

11. Retained earnings

These are profits kept within the company for future business operations, expansion or investment rather than distributed as dividends.

3.0 PRIVATE LIMITED COMPANIES

3.1 Meaning of a private limited company

A private limited company is a company whose shares are privately held, whose membership is restricted to a maximum of 50 members and which is prohibited from inviting the general public to subscribe for its shares or debentures.

It is registered under the Companies Act, 2015 of Kenya.

Its name normally ends with the word **Limited** or the abbreviation **Ltd**.

Examples of possible company names include:

- Competence Education Group Limited.
- Tamu Agricultural Supplies Limited.
- Masomo Supplies Limited.
- Transmara Building Contractors Limited.

These are illustrative business names.



3.2 Characteristics of private limited companies

A private limited company has the following characteristics:

1. Separate legal existence

A private limited company is legally separate from its owners.

This means that:

- It can own property in its own name.
- It can enter into contracts.
- It can sue and be sued.
- It can borrow money.
- It can employ workers.
- It can continue operating even when some shareholders leave or die.

For example, a private limited company operating a bookshop in Nakuru can purchase land, enter into supply agreements and employ workers in the company's name.

2. Limited liability

The liability of shareholders is limited to the amount unpaid on their shares.

This protects shareholders from automatically losing their personal property when the company experiences financial difficulties.

3. Restricted membership

A private company limited by shares in Kenya cannot have more than 50 members.

This makes it suitable for businesses owned by family members, friends, professionals and a small group of investors.

4. Restrictions on transfer of shares

The transfer of shares is restricted by the company's articles of association.

A shareholder may be required to follow specified procedures before transferring shares to another person.

This helps existing shareholders maintain control over who joins the company.

5. Cannot invite the general public to purchase its shares

A private limited company cannot issue an invitation to the general public to subscribe for its shares or debentures.

It therefore raises share capital from its existing members and other permitted private investors.

6. Managed by directors

The company's affairs are directed by its board of directors.

The directors may also appoint managers to supervise daily business activities.

7. Continuity of existence

The company has perpetual succession.

This means that it can continue operating despite changes in its membership arising from death, retirement or transfer of shares.

8. Ownership through shares

The owners contribute capital by acquiring shares in the company.

The proportion of shares held by each shareholder normally determines their proportionate ownership.

9. Greater privacy in ownership arrangements

The company does not have to raise capital through invitations to the general public.

Its ownership and financing arrangements are generally more privately organised, although it must still meet statutory reporting and disclosure requirements.

10. Legal compliance

A private limited company must comply with relevant provisions of the Companies Act, tax laws, employment laws and other applicable regulations.

3.3 Formation of a private limited company in Kenya

Meaning of company formation

Company formation refers to the legal procedures followed when establishing and registering a company so that it becomes a recognised legal entity.

In Kenya, company registration is administered by the Business Registration Service (BRS) through the eCitizen platform.



Steps followed when forming a private limited company

Step 1: Identify the business opportunity

The promoters identify a business opportunity and determine the nature of the business to establish.

For example, a group of entrepreneurs in Kilgoris may identify an opportunity to establish a company supplying construction materials.

Step 2: Identify the promoters and shareholders

The promoters identify individuals who are willing to establish the company and contribute capital.

They agree on:

- The number of shareholders.
- The proposed shareholding arrangements.
- The responsibilities of the promoters.
- The proposed directors.
- The objectives of the company.

Step 3: Choose and reserve a company name

The promoters select suitable names for the proposed company.

The name is submitted for examination and reservation through the Business Registration Service.

The proposed name must comply with the applicable naming requirements.

Step 4: Prepare the registration information and documents

The promoters provide the required information, including:

- Proposed company name.
- Nature of business.
- Registered office address.
- Details of directors.
- Details of shareholders.
- Share capital information.
- Memorandum of association.
- Articles of association or applicable model articles.
- Other statutory declarations and particulars required by the Registrar.

Step 5: Submit the application

The application is submitted through the BRS eCitizen portal.

The required registration information and documents are uploaded.

Step 6: Pay the registration fees

The promoters pay the applicable registration charges through the prescribed electronic payment methods.

Step 7: Examination and approval

The Registrar of Companies examines the application to establish whether the proposed company has met the legal requirements.

Where the requirements are satisfied, the application is approved.

Step 8: Issuance of certificate of incorporation

The Registrar issues a certificate of incorporation.

This certificate provides evidence that the company has been legally formed.

Step 9: Obtain relevant business registrations and permits

After incorporation, the company undertakes other applicable compliance procedures, including:

- Obtaining or confirming its KRA PIN and tax registrations.
- Obtaining the relevant county business permit.
- Registering as an employer with relevant statutory institutions where applicable.
- Complying with employment and workplace regulations.
- Obtaining sector-specific licences where necessary.

Step 10: Commence business operations

The company establishes its premises, recruits employees, acquires equipment and begins operating in accordance with the law.

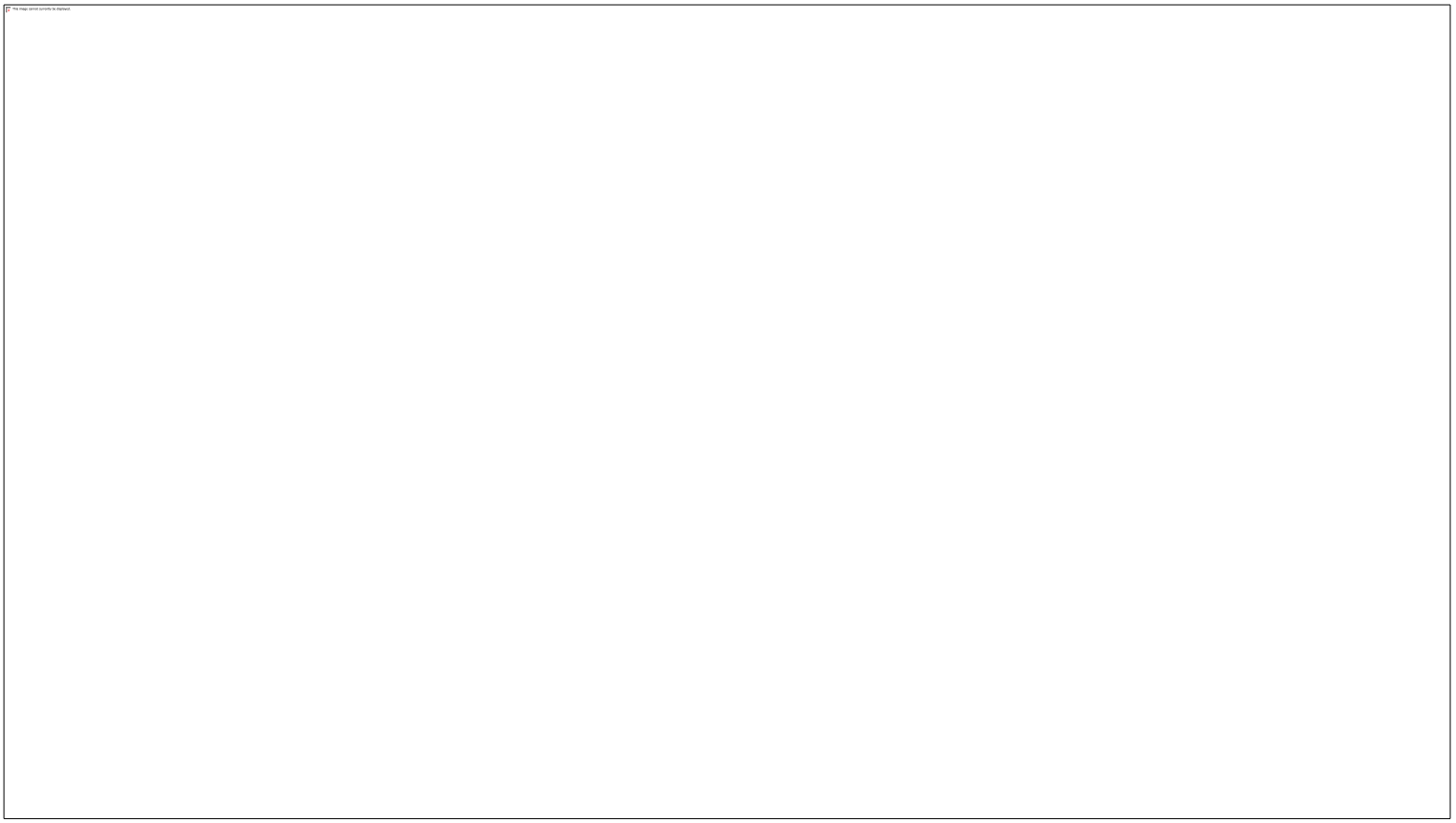
Summary: Formation process

1. Identify a business opportunity.
2. Identify promoters and shareholders.
3. Choose and reserve a company name.
4. Prepare registration documents.
5. Submit the application through BRS eCitizen.
6. Pay the applicable registration fees.
7. Receive the certificate of incorporation.
8. Obtain relevant permits and tax registrations.
9. Commence business operations.

3.4 Management of private limited companies

Management refers to the process of planning, organising, directing, coordinating and controlling business activities to achieve organisational objectives.

A private limited company is managed through different levels of authority.



A. Shareholders

Shareholders are the owners of the company.

Their responsibilities include:

1. Providing capital by purchasing shares.
2. Appointing directors through the appropriate company procedures.
3. Voting on important company resolutions.
4. Approving certain major decisions.
5. Receiving dividends when declared.
6. Participating in annual general meetings where applicable.
7. Monitoring the performance of directors through their legal rights.

B. Board of directors

The board of directors provides strategic leadership and supervises the company's management.

Its functions include:

1. Setting the company's long-term objectives.
2. Approving major business policies.
3. Appointing senior management where authorised.
4. Monitoring the financial performance of the company.
5. Ensuring compliance with relevant laws.
6. Approving major investments.

7. Protecting the interests of the company.
8. Monitoring risks affecting business operations.

C. Managing director or chief executive officer

The managing director or chief executive officer is responsible for leading the company's executive operations.

Duties include:

1. Implementing decisions made by the board.
2. Supervising departmental managers.
3. Coordinating daily operations.
4. Ensuring that business targets are achieved.
5. Managing organisational resources.
6. Reporting business performance to the board.

D. Departmental managers

These are officers responsible for specific departments.

Examples include:

- Finance manager.
- Human resource manager.
- Marketing manager.
- Production manager.
- Procurement manager.
- Operations manager.

Their duties include supervising departmental activities, preparing budgets, managing employees and ensuring departmental targets are achieved.

E. Employees

Employees perform the daily tasks required for the company to operate.

Examples include:

- Accountants.
- Sales representatives.
- Teachers.
- Technicians.
- Drivers.
- Clerks.
- Production workers.

Important: A private limited company must have at least one director who is a natural person. Its management structure may be relatively simple compared with that of a large public company.

3.5 Sources of finance for private limited companies in Kenya

Sources of finance refer to the various ways through which a company obtains money to establish, operate and expand its business activities.

A private limited company may obtain finance from the following sources:

1. Share capital from founders

The founders contribute money in exchange for shares in the company.

For example, four people may establish a company and contribute Ksh 500,000 each.

Total capital:

4×500,000=Ksh 2,000,0004×500,000=*Ksh*2,000,000

2. Retained profits

The company may reinvest part of its profits instead of distributing all the profits to shareholders.

This reduces dependence on external borrowing.

3. Commercial bank loans

The company can borrow money from commercial banks to finance expansion, purchase machinery or acquire working capital.

Examples of Kenyan commercial banks include:

- Equity Bank.
- KCB Bank Kenya.
- Co-operative Bank of Kenya.
- Absa Bank Kenya.

4. Loans from directors and shareholders

Directors or shareholders may lend money to the company.

The company is expected to repay the loan according to the agreed terms.

5. Trade credit

The company may obtain goods and services from suppliers and pay at an agreed future date.

For example, a hardware company may receive cement from a supplier and pay after 30 days.

6. Leasing and hire purchase

The company may obtain machinery, vehicles or equipment through leasing or hire purchase arrangements.

This enables it to use productive assets without paying the full purchase price immediately.

7. Debentures and other private debt arrangements

A company may raise borrowed capital through legally permitted debt instruments and arrangements with private investors.

8. Asset disposal

The company may sell assets that are no longer required and use the proceeds to finance other activities.

9. Venture capital and private equity

A private company with good growth potential may attract investment from venture capital or private equity investors.

These investors provide capital in exchange for an agreed ownership interest or investment return.

10. Government enterprise support programmes

Eligible companies may benefit from government financing initiatives, enterprise development programmes and other support schemes where the relevant eligibility requirements are met.

4.0 ADVANTAGES OF PRIVATE LIMITED COMPANIES

Private limited companies have several advantages to owners, employees and the economy.

1. Limited liability protection

Shareholders' personal assets are generally protected from company debts beyond the unpaid amount on their shares.

This encourages people to invest in businesses without taking unlimited financial risks.

2. Separate legal identity

The company can enter into contracts, own assets and conduct business in its own name.

This makes business transactions more organised and legally recognised.

3. Continuity of business

The company continues to exist even when a shareholder dies, retires or transfers shares.

This promotes business stability.

4. Easier access to capital than a sole proprietorship

A private limited company can raise capital from several shareholders rather than depending on one individual.

5. Better management

The company can employ qualified managers and professionals to improve efficiency and productivity.

6. Specialisation of duties

Different departments can be established to handle finance, marketing, production and human resource management.

This improves performance.

7. Increased public confidence

Some customers, suppliers and financial institutions may have greater confidence in a properly registered company because its ownership and legal structure are formally recognised.

8. Flexibility in decision-making

A relatively small group of shareholders can make decisions without dealing with a large public investor base.

9. Ability to expand

The company can expand its operations by attracting additional permitted investors, retaining profits and obtaining loans.

10. Sharing of business risks

The financial burden of investing in the business is distributed among the shareholders.

11. Professional management

The company can recruit people with specialised knowledge and skills.

12. Improved business reputation

A registered private limited company may find it easier to establish formal relationships with suppliers, institutional customers and other businesses.

5.0 DISADVANTAGES OF PRIVATE LIMITED COMPANIES

1. Restrictions on raising capital from the public

The company cannot invite the general public to subscribe for its shares.

This limits its ability to raise very large amounts of share capital.

2. Restrictions on transfer of shares

Shareholders may face restrictions when transferring their shares to outsiders.

This makes it more difficult to sell their investments quickly.

3. High formation costs compared with simple business forms

The process of incorporation, legal compliance and professional services may be more expensive than registering a simple business name.

4. Legal formalities

The company must comply with the Companies Act and other relevant regulations.

This requires time, documentation and administrative resources.

5. Possible disagreements among shareholders

Differences in opinions about management, profit distribution and business expansion may lead to conflicts.

6. Separation of ownership and management

Shareholders may not participate directly in daily operations.

This can create disagreements between owners and managers.

7. Limited access to large-scale investment

The inability to invite the public to purchase shares may make it difficult to raise very large amounts of capital.

8. Disclosure and reporting obligations

The company must maintain proper records and submit statutory information and returns as required by law.

9. Risk of business failure

A limited liability structure does not guarantee business success.

Poor management, competition and financial difficulties may lead to losses or insolvency.

10. Difficulty attracting some investors

Investors who want easily transferable shares or access to a public securities market may prefer public companies.

6.0 PUBLIC LIMITED COMPANIES

6.1 Meaning of a public limited company

A public limited company is a company whose constitution permits members to transfer their shares and which is not prohibited from inviting the public to subscribe for its shares or debentures.

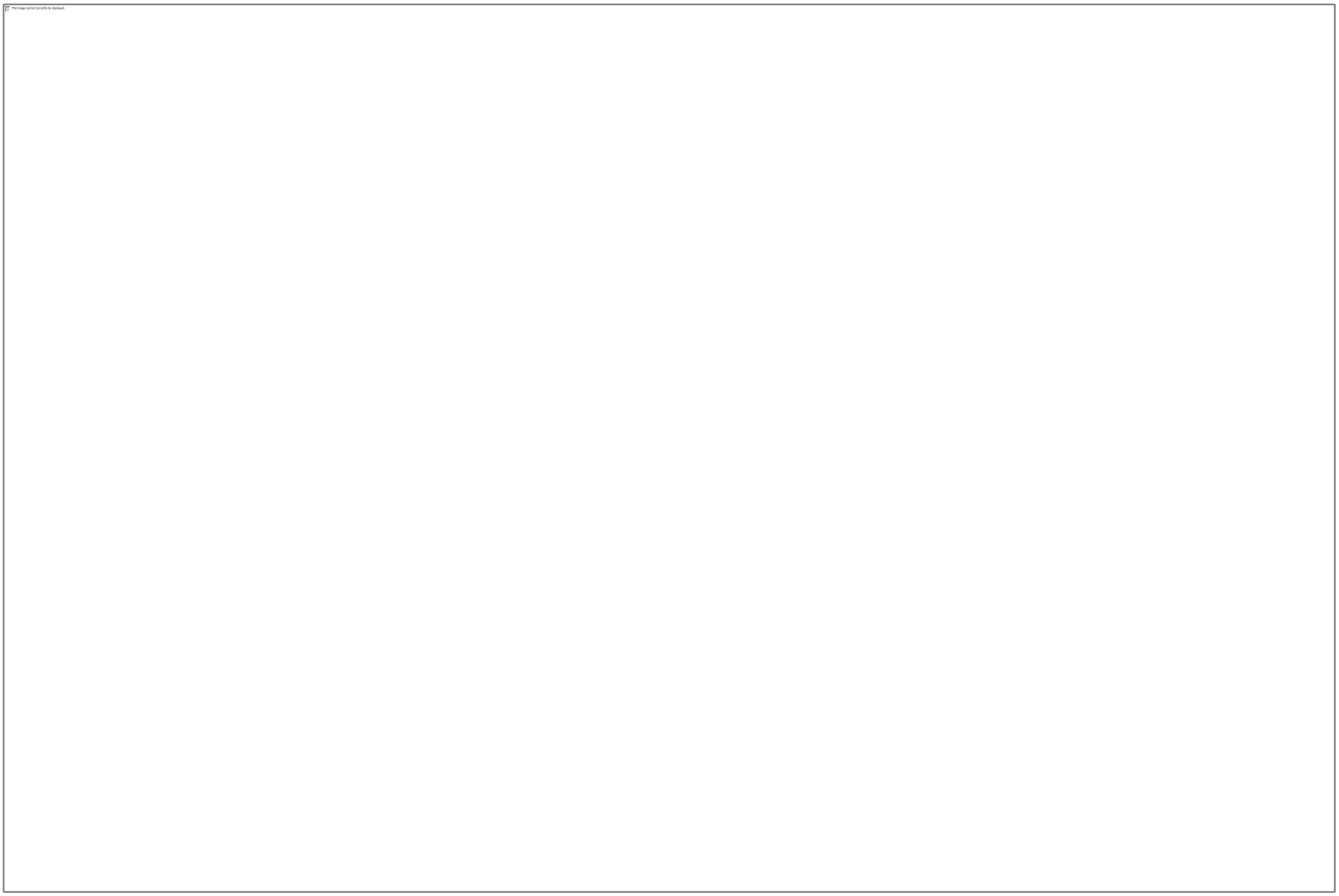
It is registered under the Companies Act, 2015 of Kenya.

Its name ends with the words **Public Limited Company** or the abbreviation **PLC**.

A public limited company can raise share capital from members of the general public, subject to the applicable legal and regulatory requirements.

Examples in Kenya include:

- Safaricom PLC.
- KCB Group PLC.
- Equity Group Holdings PLC.
- Kenya Airways PLC.



6.2 Characteristics of public limited companies

1. Separate legal identity

A public limited company has a legal identity separate from its shareholders.

It can own property, borrow money, employ workers and enter into contracts in its own name.

2. Limited liability

Shareholders are liable only up to the amount unpaid on the shares they hold.

This encourages wider investment.

3. Ability to invite the public to subscribe for shares

A public limited company may invite members of the general public to purchase its shares, subject to applicable securities laws.

This enables it to raise substantial capital.

4. Transferability of shares

Shares in a public company are transferable, subject to applicable legal requirements and restrictions.

For companies listed on the Nairobi Securities Exchange, shares can generally be bought and sold through the securities market.

5. Large membership potential

Unlike a private limited company, a public limited company is not restricted to a maximum of 50 members.

It can therefore have a large number of shareholders.

6. Use of PLC in its name

The company must use the prescribed public company designation.

For example:

Safaricom PLC.

7. Professional management

Public limited companies normally have a structured management system involving directors, executive officers and departmental managers.

8. Continuity of existence

The company continues operating despite changes in its shareholders.

9. Greater disclosure requirements

Public companies are subject to statutory reporting and disclosure obligations.

Where listed, they also comply with additional requirements imposed by the relevant capital markets and securities exchange regulators.

10. Board of directors

A public limited company must have at least two directors under Kenyan company law.

11. Ownership and management are separate

The shareholders own the company, while directors oversee its strategic direction and professional managers handle its daily activities.

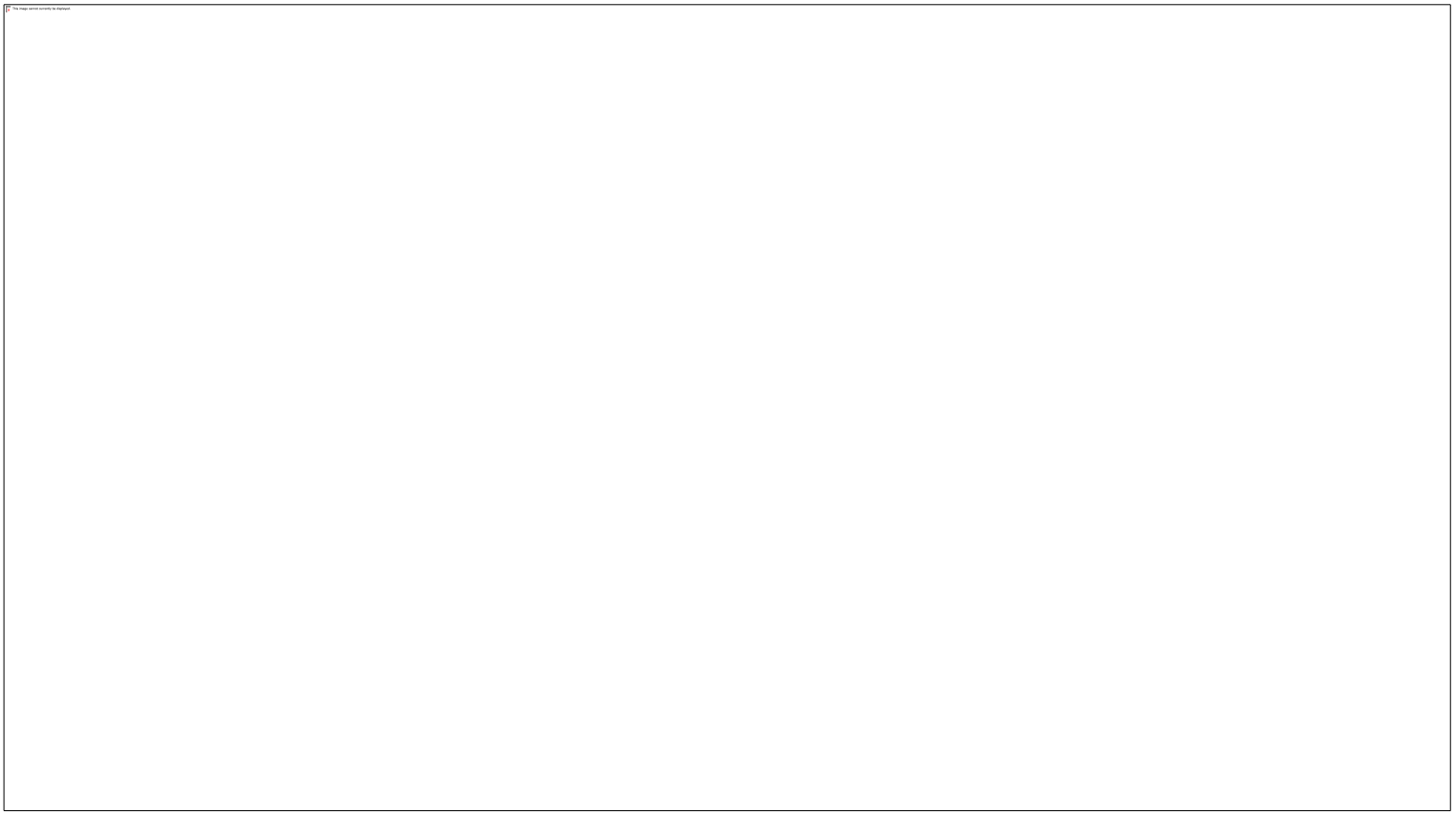
12. Potential stock exchange listing

A public limited company may seek listing on the Nairobi Securities Exchange if it satisfies the relevant listing and regulatory requirements.

Important: Not every public limited company is listed on the Nairobi Securities Exchange. Being a public company and being a listed company are two different things.

6.3 Formation of a public limited company in Kenya

The formation of a public limited company involves legal and administrative procedures.



Steps followed in forming a public limited company

Step 1: Identification of a business opportunity

The promoters identify an opportunity requiring substantial capital investment.

For example, investors may identify an opportunity to establish a large manufacturing company.

Step 2: Appointment of promoters

Promoters organise the establishment process and identify potential investors.

They prepare the initial business proposal and determine the company's objectives.

Step 3: Selection of a company name

The promoters propose a suitable name ending with PLC or Public Limited Company.

The name is submitted to the Business Registration Service for approval.

Step 4: Preparation of incorporation documents

The promoters prepare the required company documents, including:

- Memorandum of association.
- Articles of association or applicable model articles.
- Details of proposed directors.
- Statement of share capital and initial shareholdings.
- Registered office details.

- Other documents required by the Registrar.

Step 5: Appointment of directors

The company appoints the required directors to provide leadership and oversight.

Step 6: Submission of registration application

The promoters submit the required information and documents through the BRS eCitizen platform.

Step 7: Payment of registration fees

The prescribed company registration charges are paid.

Step 8: Approval and incorporation

The Registrar examines the application and, if all requirements are satisfied, issues a certificate of incorporation.

Step 9: Arrange the company's capital raising

The company makes arrangements to raise share capital in accordance with its constitution and applicable laws.

Where a public offer of securities is intended, the company must comply with the relevant Capital Markets Authority requirements and applicable securities regulations.

Step 10: Obtain other necessary licences

The company obtains relevant business permits, tax registrations and industry-specific licences.

Step 11: Commencement of business operations

The company establishes its premises, acquires assets, recruits employees and begins operations in accordance with applicable law.

6.4 Management of public limited companies

Public limited companies usually have a more elaborate management structure because of their large size and number of shareholders.



A. Shareholders

Shareholders are the owners of the public limited company.

Their functions include:

1. Providing share capital.
2. Electing or appointing directors through the appropriate procedures.
3. Voting on major company resolutions.
4. Approving certain significant corporate changes.
5. Receiving dividends when declared.
6. Participating in annual general meetings.
7. Holding directors accountable through their shareholder rights.

B. Board of directors

The board is responsible for providing strategic direction and overseeing the management of the company.

Its functions include:

1. Setting the company's strategic objectives.
2. Approving major investment decisions.
3. Supervising executive management.

4. Ensuring that the company complies with legal requirements.
5. Monitoring financial performance.
6. Protecting shareholders' interests while considering the company's wider obligations.
7. Evaluating organisational risks.
8. Approving important corporate policies.

C. Chairperson of the board

The chairperson provides leadership to the board.

Responsibilities include:

- Presiding over board meetings.
- Promoting effective decision-making.
- Coordinating board activities.
- Ensuring that directors participate effectively.
- Providing leadership in corporate governance.

D. Chief executive officer or managing director

The CEO is responsible for the overall executive management of the company.

Duties include:

- Implementing the company's strategic plans.
- Coordinating departmental operations.
- Supervising senior managers.
- Ensuring that organisational targets are achieved.
- Reporting performance to the board.
- Managing the company's resources.

E. Departmental managers

These are officers responsible for specific functional areas.

Examples include:

Department	**Main responsibility**
Finance	Managing company finances
Human resource	Managing employees
Marketing	Promoting and selling products
Production	Producing goods and services
Procurement	Purchasing business requirements
ICT	Managing information systems

Operations	Coordinating daily activities

F. Employees

Employees carry out the daily activities of the company.

They include professionals, technicians, accountants, clerks, sales representatives and production workers.

G. Company secretary

A company secretary provides corporate administration and statutory compliance support.

The secretary assists in:

- Organising company meetings.
- Preparing meeting records.
- Maintaining statutory registers.
- Advising on corporate governance procedures.
- Ensuring statutory filings are made.

Public companies are required to have a company secretary under the applicable legal provisions.

6.5 Sources of finance for public limited companies in Kenya

Public limited companies require substantial capital to finance large-scale activities such as manufacturing, banking, telecommunications, transport and infrastructure.

They can obtain finance through the following sources.

1. Sale of shares to the public

A public limited company can invite members of the public to purchase shares through an authorised public offering.

This is an important source of long-term capital.

2. Retained earnings

The company can retain part of its profits to finance expansion and other business activities.

3. Commercial bank loans

Public companies can borrow from commercial banks to finance major investments and working capital requirements.

4. Debentures

A company can borrow money by issuing debentures under agreed terms.

Debenture holders are creditors rather than owners of the company.

5. Rights issues

A rights issue enables an existing company to offer additional shares to its existing shareholders, usually in proportion to their current holdings.

This helps raise additional capital while giving existing shareholders an opportunity to maintain their ownership proportions.

6. Private placements

A company may raise capital by offering securities to selected investors through a legally permitted private placement.

7. Sale of assets

A company may dispose of surplus or obsolete assets and use the proceeds to finance other operations.

8. Leasing and hire purchase

A company can obtain machinery, vehicles and other equipment through leasing or hire purchase arrangements.

9. Government financing and investment

Eligible companies may obtain government support, financing or investment through relevant programmes and institutions.

10. Foreign investment

Public companies may attract capital from foreign investors who wish to participate in profitable business ventures in Kenya.

11. Institutional investors

Public companies may attract investment from pension funds, insurance companies, investment funds and other institutional investors.

12. Bonds and other debt securities

Where permitted, companies can raise long-term funds through the issuance of bonds and other debt securities.



7.0 ADVANTAGES OF PUBLIC LIMITED COMPANIES

1. Ability to raise large amounts of capital

Public limited companies can obtain funds from a large number of investors.

This enables them to finance major projects such as factories, telecommunications infrastructure and transport networks.

2. Limited liability

Shareholders enjoy limited liability.

This encourages individuals and institutions to invest in the company.

3. Economies of scale

Large companies can produce goods and services on a large scale, reducing the average cost of production.

4. Professional management

They can recruit experienced managers, accountants, engineers and other professionals.

This promotes efficiency.

5. Continuity of business

A public limited company has perpetual succession.

It can continue operating despite changes in its shareholders.

6. Easy transferability of shares

Shareholders can transfer their shares subject to applicable laws and the company's constitution.

For listed companies, investors can trade shares through the stock exchange.

7. Greater investment opportunities

Members of the public can participate in company ownership by purchasing shares.

8. Improved public image

A properly managed public company may enjoy greater visibility and confidence among customers, suppliers and investors.

9. Expansion of business operations

The company can raise substantial capital to establish branches, acquire modern equipment and enter new markets.

10. Risk sharing

Business risks are distributed among numerous shareholders.

11. Increased research and innovation

Large financial resources enable companies to invest in research, technology and product development.

12. Ability to attract skilled employees

Large companies may offer attractive career opportunities, training and professional development.

8.0 DISADVANTAGES OF PUBLIC LIMITED COMPANIES

1. Expensive formation process

Establishing a public limited company may involve substantial legal, professional and administrative expenses.

2. Complex legal procedures

Public companies must comply with company law and, where relevant, securities market regulations.

3. High disclosure requirements

Public companies must meet statutory reporting and disclosure obligations. Listed companies face additional disclosure requirements.

4. Separation of ownership and control

Shareholders may not participate in daily management.

This can create differences between shareholders and directors.

5. Slow decision-making

Major decisions may require board approval or shareholder resolutions.

This may delay certain business operations.

6. Possibility of loss of control

Founders may lose their controlling interest when additional shares are issued to new investors.

7. Risk of hostile takeovers

A company may become vulnerable to an unwanted acquisition if another investor obtains sufficient voting control, subject to takeover regulations.

8. High management costs

Large public companies require professional managers, auditors, legal advisers and other specialists.

This increases operational expenses.

9. Pressure from shareholders

Shareholders may demand higher returns and improved financial performance.

This may put pressure on management.

10. Possibility of conflicts

Disagreements may arise among shareholders, directors and senior managers over company policies and the use of resources.

11. Exposure to market fluctuations

For listed companies, changes in market conditions may affect share prices and investors' confidence.

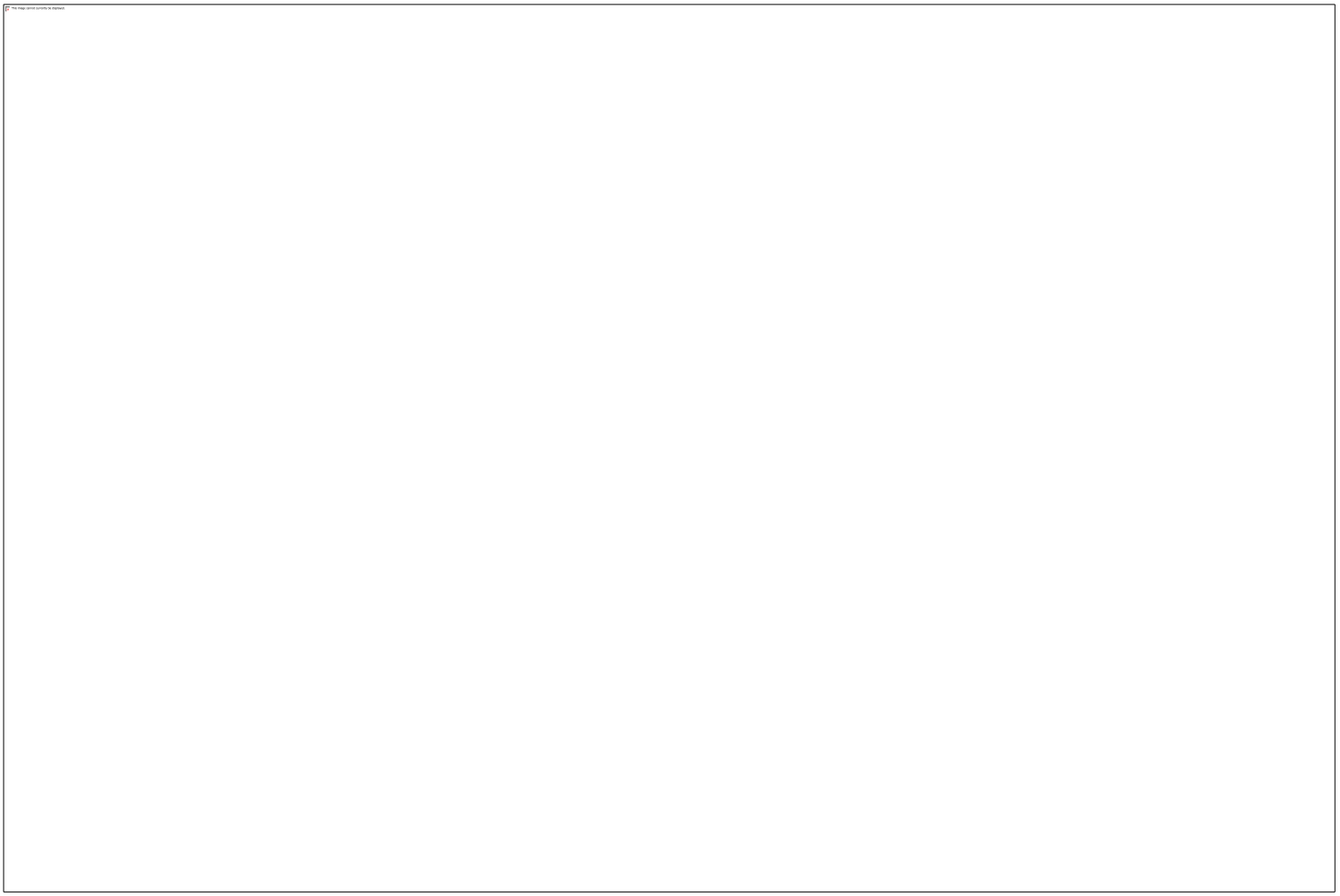
12. Risk of mismanagement

Poor corporate governance, corruption, fraud or inefficient leadership may result in financial losses.

9.0 DIFFERENCES BETWEEN PRIVATE AND PUBLIC LIMITED COMPANIES

The following table summarises the major differences.

Basis	Private limited company	Public limited company
Meaning	Privately held company	Company permitted to invite public investment
Membership	Maximum of 50 members	No maximum of 50-member restriction
Name	Ends with Ltd or Limited	Ends with PLC or Public Limited Company
Public invitation	Cannot invite the public to subscribe for shares or debentures	May invite the public subject to applicable laws
Share transfer	Subject to restrictions in its articles	Shares are transferable, subject to applicable law and constitution
Capital	Mainly private investment	Can raise capital from public investors
Management	Often relatively simple	Usually more elaborate
Directors	At least one natural-person director	At least two directors
Company secretary	Required in specified circumstances under the law	Required
Disclosure	Statutory reporting requirements	Additional disclosure obligations, especially if listed
Formation	Generally less complex	Generally more complex
Ownership	Usually a relatively small group	May have many shareholders
Stock exchange	Cannot list as a private company	May qualify for listing
Decision-making	May be relatively quick	May involve more formal procedures
Expansion finance	Relies on private sources	Can access public share capital



Examination reminder: A public limited company is not automatically listed on the Nairobi Securities Exchange. Listing is an additional process involving regulatory and securities exchange requirements.

10.0 IMPORTANCE OF LIMITED COMPANIES IN A COUNTRY

Limited companies play an important role in economic and social development.

Their importance can be explained as follows.

1. Creation of employment opportunities

Limited companies employ people in different sectors of the economy.

For example, manufacturing companies employ engineers, technicians, accountants, drivers and production workers.

This helps reduce unemployment.

2. Promotion of industrial development

Companies establish industries that process raw materials into finished products.

For example, food processing companies add value to agricultural products such as milk, tea, coffee and maize.

3. Contribution to government revenue

Companies pay taxes and other statutory charges.

These include:

- Corporation tax.
- Value Added Tax (VAT), where applicable.
- Pay As You Earn (PAYE) on employees' taxable employment income.
- Excise duty where applicable.
- Import duties where applicable.

The revenue helps the government finance public services.

4. Mobilisation of savings

Limited companies encourage people and institutions to invest their savings in productive business activities.

This helps mobilise financial resources for national development.

5. Provision of essential goods and services

Companies supply goods and services required by households, institutions and other businesses.

Examples include:

- Electricity.
- Banking services.
- Telecommunications.
- Transport.
- Construction materials.
- Food products.
- Educational materials.

6. Promotion of technological development

Companies invest in modern technology, machinery and research.

This improves production methods and service delivery.

7. Infrastructure development

Companies participate in the development of roads, buildings, communication networks, electricity systems and other facilities.

8. Promotion of international trade

Companies export goods and services to other countries.

This enables Kenya to earn foreign exchange and strengthen its international trade relationships.

9. Development of entrepreneurship

Limited companies encourage individuals to identify opportunities, organise resources and establish businesses.

This promotes an entrepreneurial culture.

10. Improvement of living standards

Companies provide employment, goods and services that improve people's quality of life.

11. Promotion of competition

The existence of several companies encourages competition.

Competition may lead to:

- Better quality products.
- Lower prices.
- Improved customer service.
- Product innovation.
- Greater efficiency.

12. Regional development

Companies establish branches and industries in different parts of the country.

This promotes economic development beyond major towns.

13. Development of human skills

Companies train employees and provide opportunities for professional development.

This improves the skills available in the national labour force.

14. Support for other businesses

Large companies purchase goods and services from smaller enterprises.

For example, a manufacturing company may purchase packaging materials from a small local enterprise.

15. Promotion of investment

Limited companies attract local and foreign investors who provide capital for economic development.

16. Reduction of poverty

Through employment creation, business opportunities and the provision of goods and services, companies contribute to poverty reduction.

11.0 ROLE OF PRIVATE LIMITED COMPANIES IN THE ECONOMY

Private limited companies make important contributions to the Kenyan economy.

1. Supporting small and medium-sized enterprises

They provide a formal business structure through which entrepreneurs can establish and expand enterprises.

2. Creating employment

They employ people in retail, education, construction, agriculture, manufacturing and other sectors.

3. Promoting local investment

They encourage individuals, families and business partners to combine resources and invest in productive activities.

4. Supporting innovation

Private companies develop new products, services and business models to meet customer needs.

5. Promoting local production

They establish production facilities that manufacture goods for local consumption.

6. Developing rural economies

Private companies establish enterprises in rural areas, creating jobs and providing essential goods and services.

7. Supporting agricultural development

They provide agricultural inputs, equipment, processing facilities and marketing services.

8. Improving service delivery

They provide services in education, transport, health, hospitality, ICT and other industries.

9. Promoting competition

Private companies compete with other enterprises, encouraging efficiency and improved quality.

10. Supporting government revenue

They contribute to government revenue through taxation and statutory payments.

11. Encouraging entrepreneurship

They provide opportunities for business owners to develop management and investment skills.

12. Promoting partnerships and business networks

They establish commercial relationships with suppliers, distributors, customers and other enterprises.

12.0 ROLE OF PUBLIC LIMITED COMPANIES IN THE ECONOMY

Public limited companies make significant contributions to national economic growth.

1. Mobilising public savings

They enable individuals and institutions to invest in businesses by purchasing shares.

2. Financing large-scale projects

They raise substantial capital for major investments such as manufacturing plants, telecommunications infrastructure and transport systems.

3. Creating employment

They provide employment to large numbers of people in different economic sectors.

4. Promoting capital market development

Public companies, particularly listed companies, contribute to the development of the Nairobi Securities Exchange and the wider financial sector.

5. Attracting foreign investment

They attract local and international investors who provide capital for economic activities.

6. Promoting industrialisation

They establish large-scale industries that produce goods and services for local and international markets.

7. Supporting infrastructure development

They invest in energy, transport, telecommunications and other infrastructure-related activities.

8. Promoting technological advancement

They invest in research, modern equipment and digital technologies.

9. Facilitating wealth creation

Investors may earn returns through dividends and increases in share value.

However, returns are not guaranteed.

10. Increasing exports

Large companies produce goods and services for international markets, helping generate foreign exchange.

11. Improving international competitiveness

They help Kenya compete in international markets through improved production capacity, quality and innovation.

12. Supporting government revenue

They contribute to government revenue through taxes and other statutory obligations.

13.0 DIFFERENCES IN THE ECONOMIC CONTRIBUTIONS OF PRIVATE AND PUBLIC LIMITED COMPANIES

Although both types of companies contribute to national development, their contributions may differ in scale and approach.

Private limited companies	Public limited companies
Often support smaller and medium-sized enterprises	Often support large-scale enterprises
Mobilise capital from a restricted group of investors	Can mobilise capital from a wider investing public
Often operate within specific markets or regions	May operate nationally and internationally
Usually have more restricted access to share capital	Can raise substantial share capital from the public
Often respond quickly to local market opportunities	May have greater capacity to finance major projects

Create employment in small and medium-sized enterprises	Can create employment on a large scale
Often promote family and entrepreneurial investment	Encourage wider public participation in corporate investment
Support local suppliers and smaller businesses	May establish extensive supplier and distribution networks

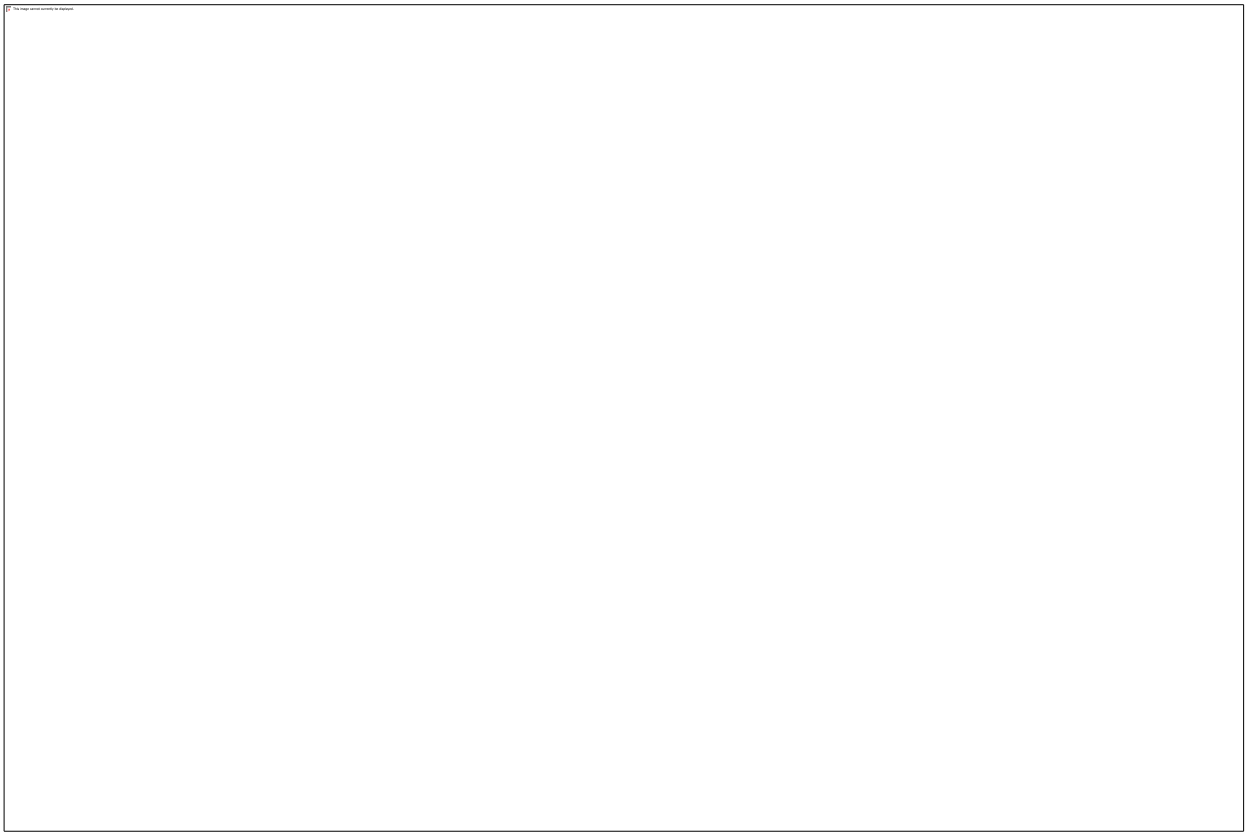
Note: These are general tendencies, not absolute rules. A private company can become very large, while a public company may operate on a relatively small scale.

14.0 ILLUSTRATION: HOW A LIMITED COMPANY CONTRIBUTES TO THE ECONOMY

Consider a hypothetical company called *Transmara Food Processors Limited*.

The company is established to process milk purchased from dairy farmers in Narok County.

Its contribution to the economy can be explained as follows:



1. It purchases raw milk from local farmers, providing them with a market.
2. It employs factory workers, drivers and accountants.
3. It processes milk into yoghurt, butter and other dairy products.
4. It pays taxes to the government.
5. It provides consumers with processed dairy products.
6. It purchases packaging materials from other local enterprises.
7. It trains employees in modern processing techniques.
8. It may expand production and supply neighbouring counties.
9. It encourages farmers to increase milk production.

10. It contributes to rural economic development.

This example demonstrates how a single limited company can create economic benefits across several sectors.

15.0 APPLICATION OF LEARNING: CASE STUDY

Case study: Establishment of a business in Nakuru County

A group of five entrepreneurs in Nakuru identified an opportunity to establish a company dealing in the production and distribution of school learning materials.

They agreed to contribute capital and register a private limited company.

After three years, the business expanded and attracted additional investors. The directors began considering changing the company's structure to a public limited company so that it could raise more capital from the public.

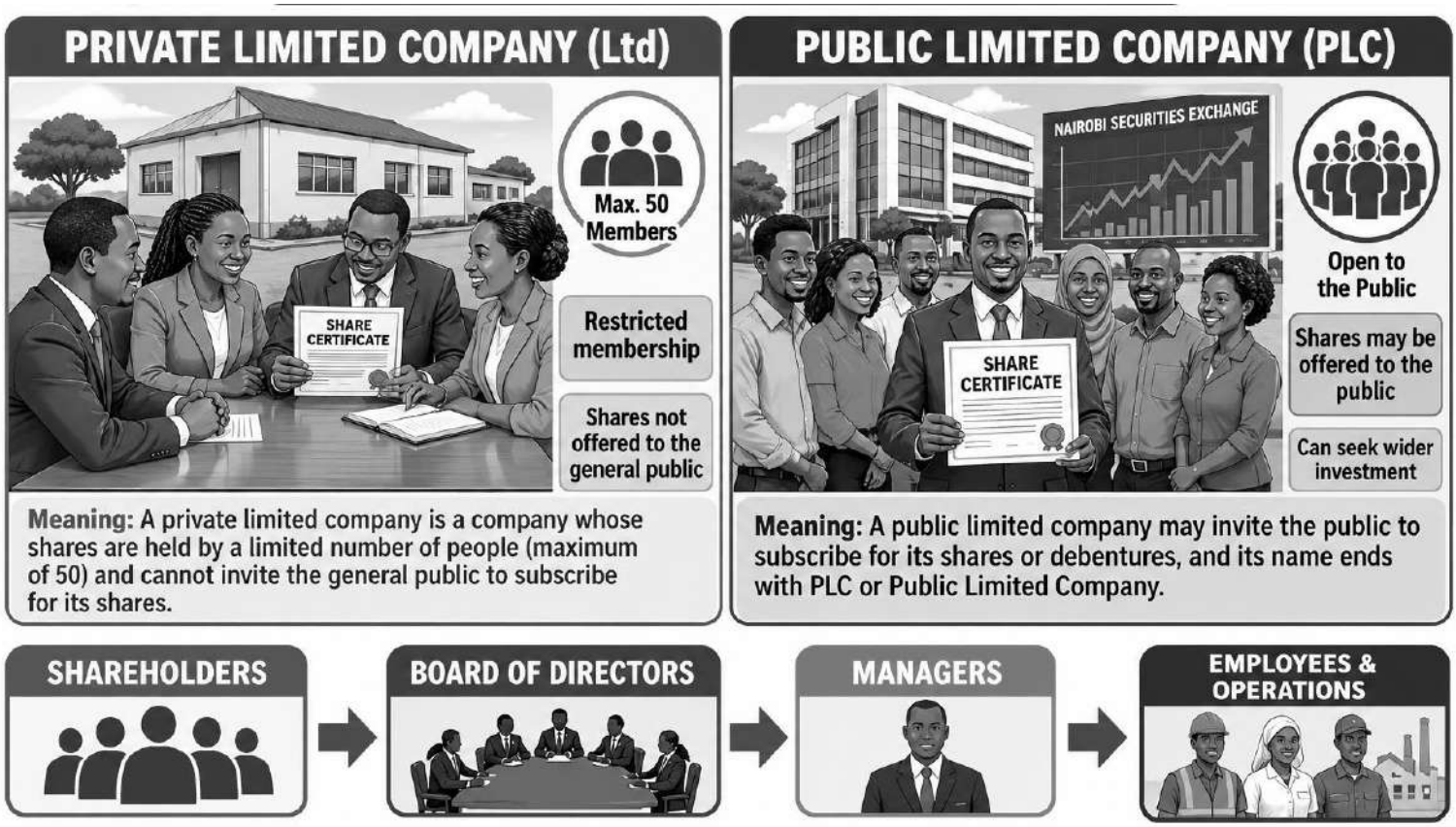
Learning activities

1. Identify the type of company initially established by the entrepreneurs.
2. Explain four characteristics of the company's initial ownership structure.
3. Describe five steps the entrepreneurs would follow when registering the company.
4. Identify four sources of finance available to the initial company.
5. Explain five advantages of operating as a private limited company.
6. Give four reasons why the directors may consider becoming a public limited company.
7. Explain five benefits that the proposed company may bring to the Kenyan economy.
8. Distinguish between a private limited company and a public limited company.

KEY TERMS AND DEFINITIONS

Term	Meaning
Business ownership	Legal arrangement through which a business is owned and controlled
Limited company	Incorporated business whose members' liability is limited
Private limited company	Company restricted from inviting the public to subscribe for its shares
Public limited company	Company permitted to invite the public to subscribe for its shares
Share	A unit of ownership in a company
Shareholder	A person or organisation that owns shares
Director	A person appointed to direct or oversee company affairs
Board of directors	Group responsible for strategic oversight of a company
Dividend	Distribution of company profits to shareholders when declared
Debenture	Instrument acknowledging a company's debt

Incorporation	Legal process of forming a company
Certificate of incorporation	Official document confirming company registration
Share capital	Capital represented by shares issued by a company
Retained earnings	Profits kept within a company for reinvestment
Limited liability	Limitation of shareholders' liability to the unpaid amount on their shares
PLC	Abbreviation for Public Limited Company
Ltd	Abbreviation for Limited
Promoter	Person involved in organising the formation of a company
Stock exchange	Organised market where securities are bought and sold
Capital market	Market for raising and investing long-term financial resources



REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. What is meant by business ownership?

A. The process of selling goods to customers.

B. The legal arrangement through which a business is owned and controlled.

C. The process of employing workers.

D. The method of advertising products.

2. A limited company is characterised by:

A. Unlimited liability of all shareholders.

B. Absence of legal identity.

C. Limited liability of its shareholders.

D. Ownership by one individual only.

3. Which of the following best describes a private limited company in Kenya?

A. A company that must be owned by the government.

B. A company that can invite the general public to buy its shares.

C. A company restricted from inviting the public to subscribe for its shares.

D. A company that cannot employ workers.

4. The maximum number of members permitted in a Kenyan private company is:

A. 10. B. 25. C. 50. D. 100.

5. Which abbreviation is commonly used at the end of a public limited company's name?

A. Ltd.

B. PLC.

C. NGO.

D. LLP.

6. Which institution is responsible for registering companies in Kenya?

A. Kenya National Bureau of Statistics.

B. Business Registration Service.

C. Kenya National Examinations Council.

D. Central Bank of Kenya.

7. The document issued as evidence that a company has been legally incorporated is called:

A. Trading licence.

B. Share certificate.

C. Certificate of incorporation.

D. Tax invoice.

8. Which of the following is a function of shareholders?

A. Supervising every employee daily.

B. Owning shares in the company.

C. Preparing all departmental budgets.

D. Managing every production activity.

9. Which organ provides strategic direction and oversight in a company?

A. Board of directors.

B. Customers.

C. Suppliers.

D. Casual workers.

10. A payment made to shareholders from distributable company profits is called:

A. Salary.

B. Rent.

C. Dividend.

D. Commission.

11. Which of the following is a source of finance for a private limited company?

A. Public share offering.

B. Retained earnings.

C. Public subscription for shares.

D. Compulsory government grants.

12. Which source of finance involves obtaining goods from suppliers and paying at a later date?

A. Share capital.

B. Trade credit.

C. Retained earnings.

D. Asset disposal.

13. Which of the following is a major advantage of limited liability?

A. Shareholders automatically control daily operations.

B. Shareholders are protected from unlimited liability for company debts.

C. The company cannot make losses.

D. The company does not pay taxes.

14. One major disadvantage of a private limited company is that it:

A. Has no separate legal identity.

B. Cannot own property.

C. Cannot invite the general public to subscribe for its shares.

D. Cannot employ professional managers.

15. Which of the following enables a public limited company to raise capital from the general public?

A. Trade credit.

B. Public share offering.

C. Personal savings only.

D. Sale of household property.

16. A company whose shares are traded on the Nairobi Securities Exchange is an example of a:

A. Sole proprietorship.

B. Listed public company.

C. Business name.

D. Partnership.

17. Which of the following is NOT a characteristic of a private limited company?

A. Restricted membership.

B. Limited liability.

C. Ability to invite the general public to subscribe for shares.

D. Separate legal identity.

18. One important contribution of limited companies to the Kenyan economy is:

A. Increasing unemployment.

B. Discouraging investment.

C. Creating employment opportunities.

D. Preventing technological development.

19. Which of the following is a disadvantage of public limited companies?

A. Ability to raise capital from the public.

B. Limited liability.

C. Complex legal and disclosure requirements.

D. Ability to attract investors.

20. A company that keeps part of its profits to finance future expansion is using:

A. Retained earnings.

B. Trade credit.

C. Hire purchase.

D. Debentures.

SECTION B: STRUCTURED AND SHORT-ANSWER QUESTIONS

Question 1: Introduction to limited companies

a) Define the term limited company. (2 marks)

b) Explain six characteristics of limited companies. (12 marks)

c) Explain three rights enjoyed by shareholders in a company. (6 marks)

Question 2: Private limited companies

a) Define a private limited company. (2 marks)

b) Explain six characteristics of private limited companies. (12 marks)

c) Explain six advantages of private limited companies. (12 marks)

d) State four disadvantages of private limited companies. (4 marks)

Question 3: Formation of companies

a) What is meant by company incorporation? (2 marks)

b) Explain eight steps involved in forming a private limited company in Kenya. (16 marks)

c) State four documents or categories of information required during company registration. (4 marks)

Question 4: Public limited companies

a) Define a public limited company. (2 marks)

b) Explain eight characteristics of public limited companies. (16 marks)

c) Identify six sources of finance available to public limited companies in Kenya. (6 marks)

Question 5: Management of limited companies

a) Define management. (2 marks)

b) Explain five functions of shareholders in a limited company. (10 marks)

c) Explain six functions of the board of directors. (12 marks)

d) State three responsibilities of a chief executive officer. (6 marks)

Question 6: Comparison of companies

a) Distinguish between a private limited company and a public limited company. (10 marks)

b) Explain five reasons why a business may prefer to operate as a private limited company rather than a public limited company. (10 marks)

c) Explain five reasons why a large company may prefer to become a public limited company. (10 marks)

Question 7: Economic importance of limited companies

a) Explain ten ways in which limited companies contribute to the economic development of Kenya. (20 marks)

b) Explain five roles played by private limited companies in the Kenyan economy. (10 marks)

c) Explain five roles played by public limited companies in the Kenyan economy. (10 marks)

Question 8: Sources of finance

a) Define the term source of finance. (2 marks)

b) Explain eight sources of finance available to private limited companies. (16 marks)

c) Explain six sources of finance available to public limited companies. (12 marks)

18.0 PRACTICAL CBE LEARNING ACTIVITIES

The following activities help learners develop practical business skills and competencies.



Activity 1: Company identification

Learners work in groups to identify five registered companies operating in Kenya.

They investigate:

- Their names.
- Their products and services.
- Their ownership classification.
- Their contribution to the economy.
- Their sources of finance.

Activity 2: Company registration simulation

Learners simulate the process of registering a private limited company.

They should:

1. Identify a business opportunity.
2. Choose a company name.
3. Identify potential shareholders.
4. Determine the shareholding structure.
5. Prepare sample company registration information.
6. Develop a simple management structure.

Activity 3: Business ownership comparison

Learners prepare a chart comparing private and public limited companies.

They should consider membership, management, financing, liability, formation and economic contribution.

Activity 4: Entrepreneurship project

Learners identify a business opportunity within their community and propose the establishment of a private limited company.

They prepare a simple business proposal showing:

- Business name.
- Business objectives.
- Proposed shareholders.
- Required capital.
- Sources of finance.
- Management structure.
- Expected contribution to the community.

Activity 5: Field investigation

Learners visit a local registered company and interview a manager or business owner about the company's ownership, management and sources of finance.

STRAND 1.0: BUSINESS AND ITS ENVIRONMENT

SUB-STRAND 1.2: METHODS OF PRICE DETERMINATION

1. DEMAND AND SUPPLY IN A MARKET

Definition

Demand is the quantity of a good or **service that** consumers are willing and able to buy at a given price and time.

Supply is the quantity of a good or service that **producers** are willing and able to offer for sale at a given price and time.



In a market, buyers (demand) and sellers (supply) interact to determine the price of a product.

Key points

- Demand increases when consumers' income rises, while supply increases when the price rises (other factors constant).
- The price is determined by the interaction of demand and supply.

2. FACTORS INFLUENCING DEMAND AND SUPPLY FOR A PRODUCT

A. Factors affecting demand

1. Price of the product – lower price increases demand.
2. Income of consumers – higher income increases demand for normal goods.
3. Tastes and preferences – change in fashion affects demand.
4. **Population size** – larger population increases demand.
5. **Prices of related goods** – substitutes and complements affect demand.
6. **Consumer expectations** – future price changes affect demand.
7. **Advertising and promotion** – increases awareness and demand.

B. Factors affecting supply

1. **Price of the product** – higher price increases supply.
2. **Cost of production** – higher costs reduce supply.
3. **Availability of raw materials** – affects production levels.
4. **Technology** – improves efficiency and increases supply.
5. **Number of producers** – more producers increase supply.
6. **Government policies** – taxes and subsidies affect supply.
7. **Weather and natural conditions** – affects agricultural supply.
8. **Expectations** – future prices affect current supply.

3. DEMAND AND SUPPLY SCHEDULE

A. Demand schedule (example: maize)

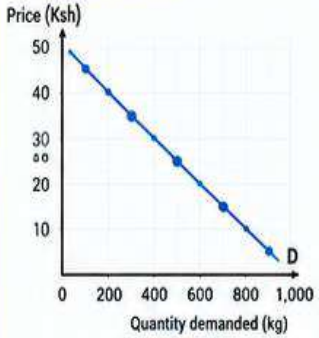
Price (Ksh)	Quantity demanded (kg)
50	500
45	600
40	700
35	800
30	900

B. Supply schedule (example: maize)

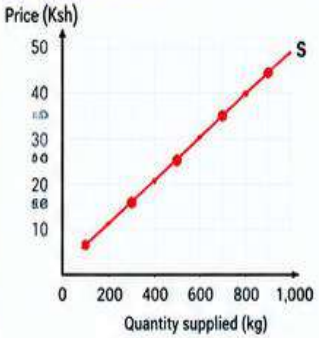
Price (Ksh)	Quantity supplied (kg)
50	1,000
45	900
40	800
35	700
30	600

4. DEMAND AND SUPPLY CURVES

A. Demand curve



B. Supply curve



The demand curve slopes downwards from left to right, while the supply curve slopes upwards from left to right.

5. MARKET EQUILIBRIUM FOR PRICE DETERMINATION

Market equilibrium is the point where **quantity demanded equals quantity supplied. It determines the market price and quantity.**

Example:

- From the demand and supply schedules, the equilibrium price of maize is Ksh 40.
- The quantity at equilibrium is 800 kg.



6. EFFECTS OF MOVEMENT ALONG AND SHIFT IN DEMAND AND SUPPLY CURVES

A. Movement along the curve (change in quantity)

- Caused by change in price of the product.
- Increases or decreases the quantity demanded or supplied.
- Movement is along the same curve.

A. Movement along demand curve



A. Movement along supply curve



B. Shift in the curve (change in demand or supply)

- Caused by factors other than price.
- Increases or decreases the entire curve.
- Shifts the curve to the right (increase) or left (decrease).

Shift in demand curve



Shift in supply curve



7. OTHER METHODS OF DETERMINING PRICE

1. **Cost-based pricing** – adds a mark-up to total cost.
2. **Competitive pricing** – based on rival firms' prices.
3. **Value-based pricing** – based on perceived value to customers.
4. **Pricing by objectives** – based on profit, market share, etc.
5. **Government control** – used for essential goods and services (e.g. maize, sugar, fuel).
6. **Auction pricing** – used in markets like Nairobi Securities Exchange for shares and bonds.

8. ROLES OF DEMAND AND SUPPLY

Role of demand

- Determines the maximum price consumers are willing to pay.
- Influences production decisions.
- Affects the level of consumption.
- Helps in price stability.
- C. [illegible] penalty.

Role of supply

- Determines the minimum price producers are willing to accept.
- Guides production levels.
- Ensures availability of goods and services.
- Contributes to market balance.

Price refers to the amount of money paid by a buyer to acquire a good or service from a seller.

It represents the monetary value attached to a product or service during an exchange.

Examples in the Kenyan business environment:

- A customer pays Ksh 20 for a tomato at a local market.
- A learner pays Ksh 50 for a notebook.
- A household pays Ksh 150 for a packet of maize flour.
- A passenger pays Ksh 100 for a matatu journey.
- A farmer sells a kilogram of beans at Ksh 120.

The actual prices depend on the location, quality, market conditions and prevailing costs.

1.2 Meaning of price determination

Price determination refers to the process through which the price of a good or service is established in a market.

It involves the interaction of buyers and sellers, as well as other market forces and pricing considerations.

In a competitive market, price is mainly determined by the interaction between demand and supply.

For example:

A farmer brings 100 bags of maize to a market in Nakuru. The price at which the maize is sold will depend partly on:

- The number of buyers willing and able to purchase the maize.
- The quantity of maize available for sale.
- The prevailing market price.
- The quality of the maize.
- The cost of transporting the maize.
- The availability of alternative suppliers.

1.3 Meaning of a market

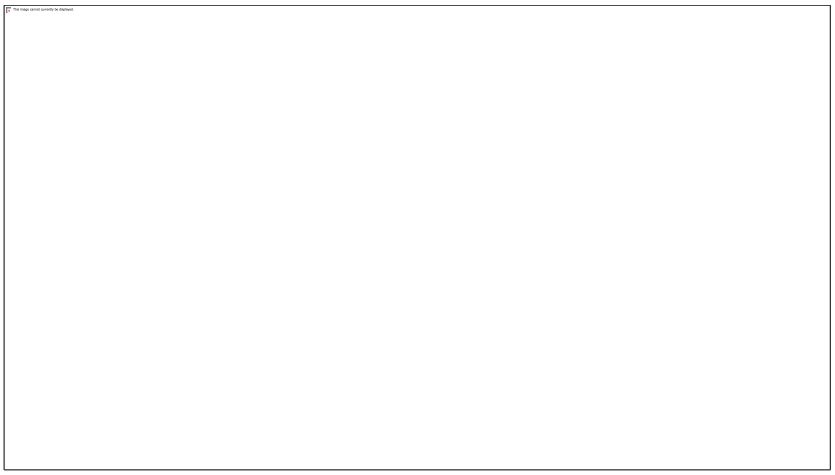
A market is any arrangement or situation through which buyers and sellers interact to exchange goods and services.

A market does not necessarily refer to a physical place. It may also operate through digital platforms or other communication systems.

Examples of markets in Kenya:

1. Wakulima Market in Nairobi.
2. Kongowea Market in Mombasa.
3. Nakuru Open-Air Market.
4. Gikomba Market in Nairobi.

5. Online marketplaces.
6. Nairobi Securities Exchange.
7. Livestock markets in Narok and Kajiado counties.





1.4 Main participants in a market

There are two major participants in the market.

A. Buyers (consumers)

Buyers are individuals or organisations that purchase goods and services to satisfy their needs and wants.

Examples include:

- Households buying food.
- Schools purchasing stationery.
- Farmers purchasing fertilisers.

- Construction companies purchasing cement.
- Hospitals purchasing medical equipment.

B. Sellers (producers and suppliers)

Sellers are individuals or organisations that offer goods and services for sale in the market.

Examples include:

- Farmers selling agricultural produce.
- Manufacturers selling processed goods.
- Retailers selling household products.
- Transport operators offering transport services.
- Wholesalers supplying goods to retailers.

1.5 Meaning of market forces

Market forces refer to the economic forces of demand and supply that influence the prices and quantities of goods and services exchanged in a market.

The two major market forces are:

1. Demand – represents the buying side of the market.
2. Supply – represents the selling side of the market.

The interaction of these two forces determines the equilibrium price and quantity in a competitive market.

2.0 DEMAND IN A MARKET

2.1 Meaning of demand

Demand refers to the quantity of a good or service that consumers are willing and able to buy at different prices over a given period of time, other factors remaining constant.

Demand involves three important conditions:

1. **Willingness to buy:** The consumer must be prepared to purchase the product.
2. **Ability to pay:** The consumer must have sufficient purchasing power.
3. **A given period of time:** Demand must be considered over a specified period, such as a day, week or month.

Example:

A household in Nakuru may be willing to purchase five kilograms of rice every week at Ksh 150 per kilogram.

However, if the household does not have sufficient money, its willingness alone does not constitute effective demand.

2.2 Effective demand

Effective demand refers to the desire for a product supported by the ability and willingness to pay for it at a particular price and time.

For example, a student may desire to purchase a smartphone costing Ksh 30,000. If the student has only Ksh 2,000 and cannot obtain the remaining amount, the desire does not constitute effective demand for that smartphone at that price.

2.3 Types of demand

1. Individual demand

This refers to the quantity of a commodity that one consumer is willing and able to purchase at different prices over a given period.

Example:

The quantity of bread purchased weekly by one household in Kilgoris.

2. Market demand

This refers to the total quantity of a commodity demanded by all consumers in a market at different prices over a given period.

Example:

The total quantity of maize flour purchased by all households in Nakuru town.

3. Joint demand

This occurs when two or more goods are demanded together because they are used jointly to satisfy a particular need.

Examples:

- A printer and printing ink.
- A vehicle and fuel.
- A phone and a charger.
- A cup and saucer.

4. Composite demand

This refers to the demand for a commodity that has several different uses.

Examples:

- Electricity used for lighting, cooking and operating machines.
- Water used for domestic, agricultural and industrial purposes.
- Timber used for furniture, roofing and construction.

5. Derived demand

This is demand for a product or factor of production that arises because of demand for another product.

Examples:

- Demand for construction workers arising from demand for houses.

- Demand for flour arising from demand for bread.
- Demand for teachers arising from demand for education services.

6. Competitive demand

This occurs when two or more goods can be used as substitutes for one another.

Examples:

- Tea and coffee.
- Butter and margarine.
- Bus transport and railway transport on routes where both are available.

2.4 The law of demand

The law of demand states that, other factors remaining constant, the quantity demanded of a commodity increases when its price decreases and decreases when its price increases.

This means that there is an inverse relationship between price and quantity demanded.

Explanation of the law of demand

- When the price of a product falls, more consumers can afford it.
- Existing consumers may increase the quantities they purchase.
- When the price rises, some consumers reduce their purchases.
- Other consumers may stop buying the product and look for substitutes.

Example:

If the price of one kilogram of sugar decreases from Ksh 200 to Ksh 160, consumers may purchase more sugar, assuming other factors remain unchanged.

Conversely, an increase in the price may reduce the quantity demanded.

Illustration of the law of demand

2468102468QuantityPrice

At price 5, quantity demanded is 5: movement along the demand curve

Price

Demand shift

As price decreases, quantity demanded increases along the same demand curve, other factors remaining constant.

2.5 Reasons why the demand curve slopes downwards

1. Income effect

When the price of a commodity decreases, the consumer's real purchasing power increases.

The consumer can purchase more goods with the same amount of money.

2. Substitution effect

When the price of a commodity rises, consumers may shift to cheaper substitutes.

For example, consumers may purchase more margarine when the price of butter increases.

3. Entry of new consumers

A decrease in price makes a commodity affordable to more people.

This increases the number of consumers willing and able to purchase it.

4. Multiple uses of a commodity

When the price of a commodity falls, consumers may use it for additional purposes.

For example, a reduction in electricity costs may encourage households to use electricity for more domestic activities.

5. Diminishing marginal utility

As a consumer purchases more units of a commodity, the additional satisfaction obtained from each extra unit tends to decrease.

Therefore, consumers may only be willing to purchase additional units at lower prices.

6. Limited purchasing power

When prices increase, consumers may reduce the quantity purchased because their available income cannot support the same level of consumption.

2.6 Factors influencing demand for a product

Factors influencing demand are conditions that cause the quantity demanded of a product to change.

They include:

1. Price of the commodity

The price of a product directly influences the quantity demanded, other factors remaining constant.

- A decrease in price generally increases quantity demanded.
- An increase in price generally reduces quantity demanded.

Example: A reduction in the price of cooking oil may encourage households to buy more.

2. Income of consumers

The amount of money consumers earn affects their ability to purchase goods and services.

For normal goods:

- An increase in income generally increases demand.
- A decrease in income generally reduces demand.

Example: When household incomes increase, families may purchase more meat, electronics and quality clothing.

Exception: Inferior goods

For some goods, an increase in income may reduce demand because consumers shift to higher-quality alternatives.

For example, some households may reduce purchases of low-cost substitutes when their incomes improve.

3. Tastes and preferences

Consumers have different likes, dislikes and preferences.

A product that becomes fashionable may experience increased demand.

Examples:

- Fashionable clothing.
- Popular smartphone brands.
- Certain food products.
- Sports equipment.

4. Population size

An increase in population generally increases market demand for goods and services.

For example, population growth in Nakuru increases demand for:

- Housing.
- Food.
- Water.
- Transport.
- Schools.
- Healthcare services.

5. Prices of substitute goods

Substitute goods are products that can be used in place of one another.

When the price of one substitute increases, demand for the other may increase.

Example:

If the price of tea increases significantly, some consumers may shift to coffee.

6. Prices of complementary goods

Complementary goods are products that are consumed or used together.

An increase in the price of one complementary good may reduce demand for the other.

Examples:

- Cars and fuel.
- Printers and ink.
- Phones and data bundles.
- Bread and spreads.

7. Consumer expectations

Expectations about future prices and income influence present demand.

For example:

- If consumers expect the price of cooking oil to increase, they may buy more before the increase.
- If consumers expect prices to fall, they may postpone purchases.

8. Advertising and sales promotion

Effective advertising creates product awareness and may persuade consumers to purchase a product.

Examples include:

- Television advertisements.
- Social media marketing.
- Discounts.
- Free product samples.
- Promotional campaigns.

9. Seasonal changes

Demand for certain products changes depending on the season or time of year.

Examples:

- Umbrellas during rainy seasons.
- School uniforms before schools reopen.
- Warm clothing during cold seasons.
- Christmas decorations during December.

10. Availability of credit facilities

When consumers can obtain goods on hire purchase or through credit arrangements, demand for expensive products may increase.

Examples:

- Motor vehicles.
- Household furniture.
- Electronic equipment.

11. Distribution of income

The way income is distributed within a population affects the types and quantities of goods demanded.

For example, a growing middle-income population may increase demand for better housing, education and healthcare.

12. Government policies

Government policies such as taxation, subsidies and social protection programmes may influence consumers' purchasing power and demand.

3.0 SUPPLY IN A MARKET

3.1 Meaning of supply

Supply refers to the quantity of a good or service that producers are willing and able to offer for sale at different prices over a given period of time.

Supply involves:

1. Availability of the product.
2. Willingness of producers to sell.
3. Ability to produce or obtain the product.
4. A given period of time.

Example:

A farmer in Narok County may be willing and able to supply 100 bags of maize to the market per month at Ksh 4,000 per bag.

The quantity supplied may increase when the market price rises, other factors remaining constant.

3.2 Types of supply

1. Individual supply

This refers to the quantity of a commodity that one producer is willing and able to offer for sale at different prices over a given period.

Example: The quantity of milk supplied by one dairy farmer every week.

2. Market supply

This refers to the total quantity of a commodity supplied by all producers in a market at different prices over a given period.

Example: The total quantity of milk supplied by all dairy farmers to a milk-processing company.

3. Joint supply

This occurs when two or more products are produced together from the same production process.

Examples:

- Meat and hides from livestock.
- Cotton lint and cottonseed.
- Wheat grain and wheat straw.
- Petroleum products obtained through refining crude oil.

4. Composite supply

This refers to the supply of a commodity from different sources.

Example:

Electricity supplied to the Kenyan market from hydroelectric, geothermal, wind and solar power sources.

3.3 The law of supply

The law of supply states that, other factors remaining constant, the quantity supplied of a commodity increases when its price increases and decreases when its price decreases.

This means that there is a direct relationship between price and quantity supplied.

Explanation of the law of supply

- Higher prices encourage producers to supply more because they may earn greater revenue.
- Producers may increase production to take advantage of higher market prices.
- Lower prices may discourage production.
- Some producers may reduce the quantities they offer for sale when prices fall.

Example:

When the market price of tomatoes increases from Ksh 50 to Ksh 100 per kilogram, farmers may increase the quantity of tomatoes supplied to the market, provided production conditions permit.



3.4 Reasons why the supply curve slopes upwards

1. Profit motivation

Higher prices may increase the revenue earned by producers, encouraging them to supply more.

2. Entry of new producers

Higher market prices may attract new producers into the market.

3. Increased production

Producers may expand production when the market price increases.

4. Use of additional resources

Higher prices may encourage producers to use additional resources such as labour, machinery and land.

5. Increased profitability of production

Producers may be willing to supply goods that were previously less profitable when prices increase.

3.5 Factors influencing supply for a product

1. Price of the commodity

The price of a product influences the quantity producers are willing to supply.

- Higher prices generally increase quantity supplied.
- Lower prices generally reduce quantity supplied.

2. Cost of production

Cost of production refers to the expenses incurred in producing goods or services.

Examples include:

- Wages.
- Fertilisers.
- Fuel.
- Electricity.
- Raw materials.
- Machinery maintenance.

When production costs increase, supply may decrease because production becomes more expensive.

3. Technology

Improved technology enables producers to increase output and reduce production costs.

For example, irrigation equipment enables farmers to produce vegetables even when rainfall is insufficient.

4. Government taxation

An increase in taxes on production may increase business costs and reduce supply.

A reduction in applicable taxes may lower production costs and encourage increased supply.

5. Government subsidies

A subsidy is financial assistance provided by the government to support producers or reduce production costs.

Subsidies may encourage production and increase supply.

Example:

Support to eligible agricultural producers through fertiliser subsidy programmes may reduce the cost of farm inputs.

6. Number of producers

An increase in the number of producers generally increases market supply.

For example, if more farmers start producing potatoes in a region, the total supply of potatoes may increase.

7. Weather and climatic conditions

Weather conditions influence agricultural production.

- Adequate rainfall may increase crop production.
- Drought may reduce agricultural output.
- Flooding may destroy crops.
- Favourable temperatures may improve yields.

This is particularly important in Kenya, where agricultural production depends partly on rainfall patterns.

8. Availability of raw materials

The availability of raw materials determines the ability of producers to manufacture goods.

For example, a shortage of milk may reduce the output of a dairy-processing company.

9. Prices of related goods in production

Producers may shift resources towards producing goods that offer higher returns.

For example, a farmer may allocate more land to beans instead of maize if beans become relatively more profitable to produce.

10. Government policies

Government regulations, licensing requirements, import restrictions and production policies may affect the quantities supplied.

11. Producers' expectations

If producers expect prices to rise in the future, they may store their products and reduce current supply.

If they expect future prices to fall, they may release more products into the market.

12. Natural disasters

Events such as floods, droughts, pests and diseases may reduce production and supply.

13. Transport and infrastructure

Good roads and transport facilities enable producers to deliver goods to markets more efficiently.

Poor infrastructure may increase costs and reduce the quantity supplied to particular markets.

14. Availability of labour

Adequate skilled and unskilled labour enables businesses to increase production.

Labour shortages may reduce output and supply.

4.0 DEMAND AND SUPPLY SCHEDULES

4.1 Meaning of a demand schedule

A demand schedule is a table showing the different quantities of a commodity consumers are willing and able to buy at different prices over a given period.

It shows the relationship between price and quantity demanded.

Example of a demand schedule for maize flour

The following is an illustrative weekly demand schedule for a particular market.

Price per packet (Ksh)	Quantity demanded (packets)
50	100
60	80
70	60
80	40
90	20

Explanation

1. At Ksh 50, consumers demand 100 packets.
2. At Ksh 60, consumers demand 80 packets.
3. At Ksh 70, consumers demand 60 packets.
4. At Ksh 80, consumers demand 40 packets.
5. At Ksh 90, consumers demand 20 packets.

The schedule shows that as price increases, quantity demanded decreases.

This illustrates the law of demand.

4.2 Meaning of a supply schedule

A supply schedule is a table showing the different quantities of a commodity producers are willing and able to offer for sale at different prices over a given period.

It shows the relationship between price and quantity supplied.

Example of a supply schedule for maize flour

The following is an illustrative weekly supply schedule.

Price per packet (Ksh)	Quantity supplied (packets)

50	20
60	40
70	60
80	80
90	100

Explanation

1. At Ksh 50, producers supply 20 packets.
2. At Ksh 60, producers supply 40 packets.
3. At Ksh 70, producers supply 60 packets.
4. At Ksh 80, producers supply 80 packets.
5. At Ksh 90, producers supply 100 packets.

The schedule shows that as price increases, quantity supplied increases.

This illustrates the law of supply.

4.3 Differences between demand and supply schedules

Demand schedule	**Supply schedule**
Shows quantities consumers are willing to buy	Shows quantities producers are willing to sell
Represents buyers	Represents sellers
Quantity demanded generally falls as price rises	Quantity supplied generally rises as price rises
Demonstrates the law of demand	Demonstrates the law of supply
Reflects consumer behaviour	Reflects producer behaviour

5.0 DEMAND AND SUPPLY CURVES

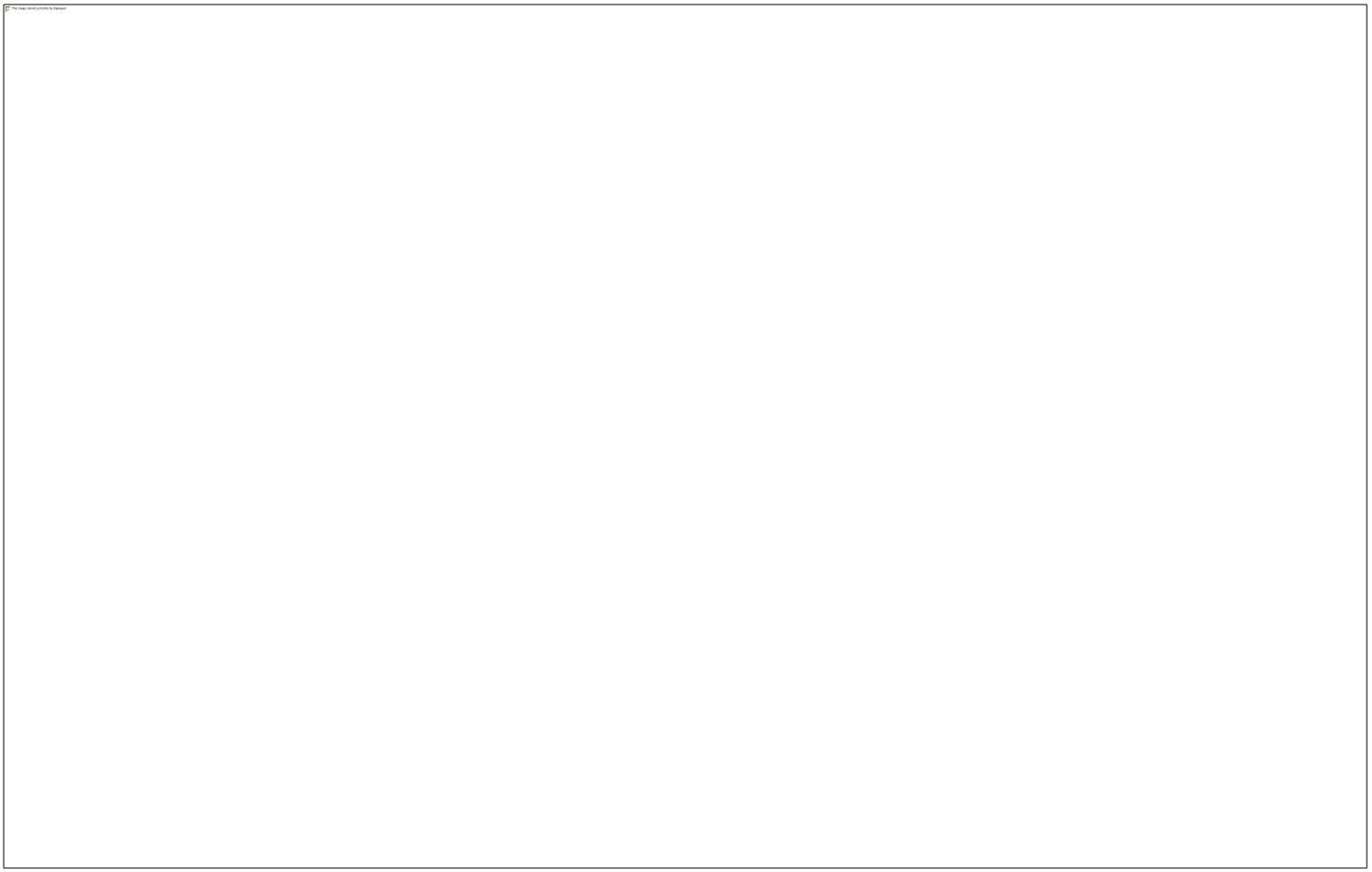
5.1 Meaning of a demand curve

A demand curve is a graphical representation of the relationship between the price of a commodity and the quantity demanded over a given period, other factors remaining constant.

It is normally drawn with:

- Price on the vertical axis (Y-axis).
- Quantity demanded on the horizontal axis (X-axis).

A normal demand curve slopes downwards from left to right.



How to draw a demand curve

Using the maize flour demand schedule:

Price (Ksh)	Quantity demanded
50	100
60	80
70	60
80	40
90	20

Steps:

1. Draw two perpendicular axes.
2. Label the vertical axis Price (Ksh).
3. Label the horizontal axis Quantity demanded.
4. Select an appropriate scale.
5. Plot each price and corresponding quantity demanded.
6. Join the points using a smooth curve or straight line where appropriate.
7. Label the resulting curve D.

5.2 Meaning of a supply curve

A supply curve is a graphical representation of the relationship between the price of a commodity and the quantity supplied over a given period, other factors remaining constant.

It is normally drawn with:

- Price on the vertical axis.
- Quantity supplied on the horizontal axis.

A normal supply curve slopes upwards from left to right.



How to draw a supply curve

Using the maize flour supply schedule:

1. Draw two perpendicular axes.
2. Label the vertical axis Price (Ksh).
3. Label the horizontal axis Quantity supplied.
4. Select a suitable scale.
5. Plot the price and corresponding quantity supplied.
6. Join the points.
7. Label the curve S.

5.3 Differences between demand and supply curves

Demand curve	**Supply curve**
Slopes downwards from left to right	Normally slopes upwards from left to right
Shows relationship between price and quantity demanded	Shows relationship between price and quantity supplied
Represents consumer behaviour	Represents producer behaviour
Price and quantity demanded move in opposite directions	Price and quantity supplied move in the same direction

Labelled D	Labelled S

6.0 MARKET EQUILIBRIUM AND PRICE DETERMINATION

6.1 Meaning of market equilibrium

Market equilibrium refers to a situation in which the quantity demanded of a commodity is equal to the quantity supplied at a particular price.

At this point:

- Buyers are willing and able to purchase the quantity supplied.
- Sellers are willing and able to supply the quantity demanded.
- There is no excess demand or excess supply at the equilibrium price.

6.2 Meaning of equilibrium price

Equilibrium price is the price at which the quantity demanded equals the quantity supplied in a market.

It is also referred to as the market-clearing price.

6.3 Meaning of equilibrium quantity

Equilibrium quantity refers to the quantity of a commodity bought and sold at the equilibrium price.

6.4 How market equilibrium is determined

Market equilibrium is determined by the interaction of demand and supply.

Consider the following illustrative market schedule for maize flour.

Price (Ksh)	Quantity demanded (packets)	Quantity supplied (packets)
50	100	20
60	80	40
70	60	60
80	40	80
90	20	100

Explanation

At Ksh 50:

- Quantity demanded = 100 packets.
- Quantity supplied = 20 packets.
- There is excess demand of 80 packets.

At Ksh 60:

- Quantity demanded = 80 packets.
- Quantity supplied = 40 packets.

- There is excess demand of 40 packets.

At Ksh 70:

- Quantity demanded = 60 packets.
- Quantity supplied = 60 packets.
- The market is in equilibrium.

At Ksh 80:

- Quantity demanded = 40 packets.
- Quantity supplied = 80 packets.
- There is excess supply of 40 packets.

At Ksh 90:

- Quantity demanded = 20 packets.
- Quantity supplied = 100 packets.
- There is excess supply of 80 packets.

Market equilibrium: interactive illustration

Demand

Supply

204060801002040608080QuantityPrice

An increase in demand causes price to increase and quantity to increase.

Demand shift

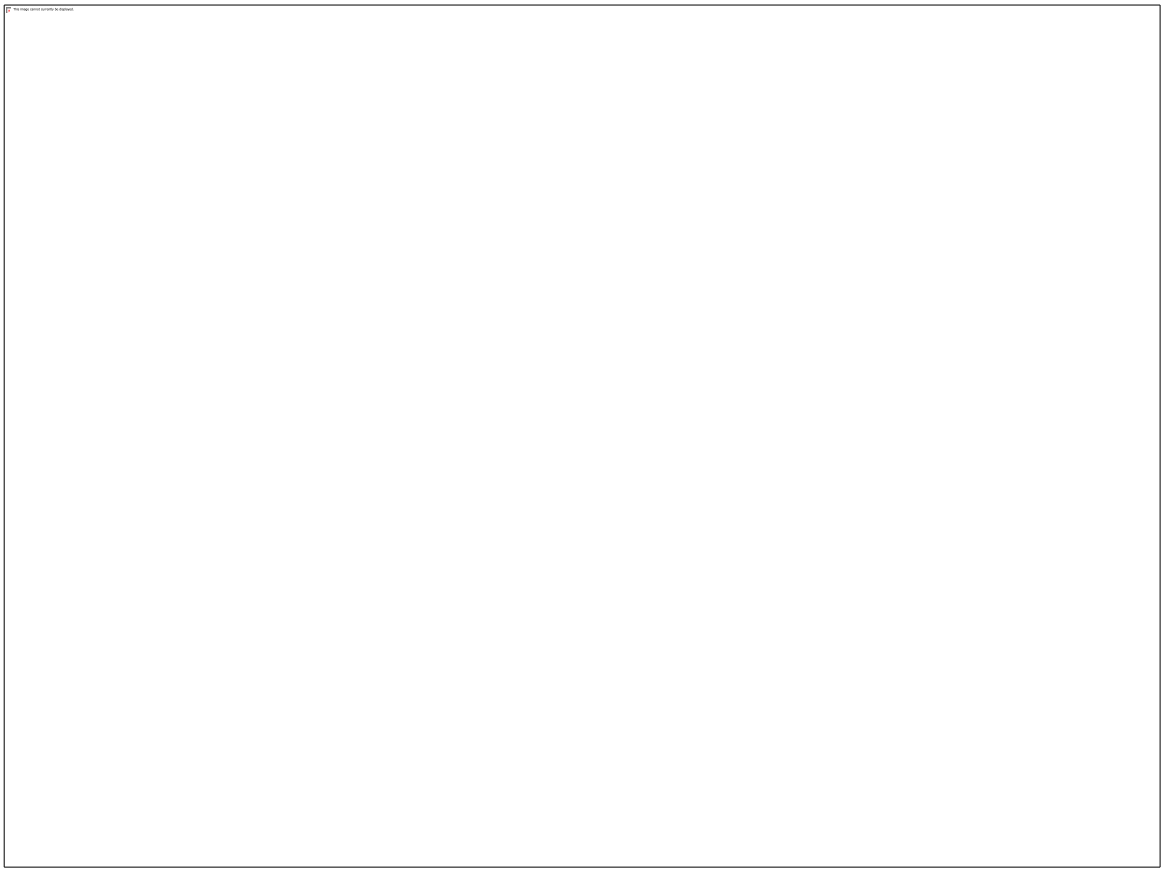
Supply shift

Demand and supply shift sliders move the market curves and update the equilibrium price and quantity.

Demand and supply interact to establish an equilibrium price and quantity. Shifts in either curve can change the equilibrium.

6.5 Graphical representation of market equilibrium

The equilibrium point is where the demand curve intersects the supply curve.



Interpretation of the equilibrium graph

1. The demand curve slopes downwards.
2. The supply curve slopes upwards.
3. The two curves intersect at point E.
4. Point E represents market equilibrium.
5. The corresponding price is the equilibrium price.
6. The corresponding quantity is the equilibrium quantity.

6.6 Market disequilibrium

Market disequilibrium refers to a situation in which quantity demanded is not equal to quantity supplied at a particular price.

It may occur through either excess demand or excess supply.

A. Excess demand (shortage)

Excess demand occurs when the quantity demanded is greater than the quantity supplied at a particular price.

It occurs when buyers want to purchase more goods than producers are willing and able to supply.

Example:

At Ksh 50:

- Quantity demanded = 100 packets.

- Quantity supplied = 20 packets.

Shortage:

100−20=80 packets100−20=80 packets



Causes of excess demand

1. Price being below the equilibrium level.
2. Increase in consumer incomes.
3. Rapid population growth.
4. Increased consumer preferences.
5. Reduction in market supply.
6. Increased demand due to seasonal changes.

Effects of excess demand

1. Creates shortages of goods and services.
2. May lead to upward pressure on prices.
3. Encourages producers to increase production.
4. May lead to rationing of available goods.
5. May encourage the entry of additional suppliers.
6. May cause consumers to seek alternative products.

B. Excess supply (surplus)

Excess supply occurs when the quantity supplied is greater than the quantity demanded at a particular price.

It happens when producers offer more goods for sale than consumers are willing and able to purchase.

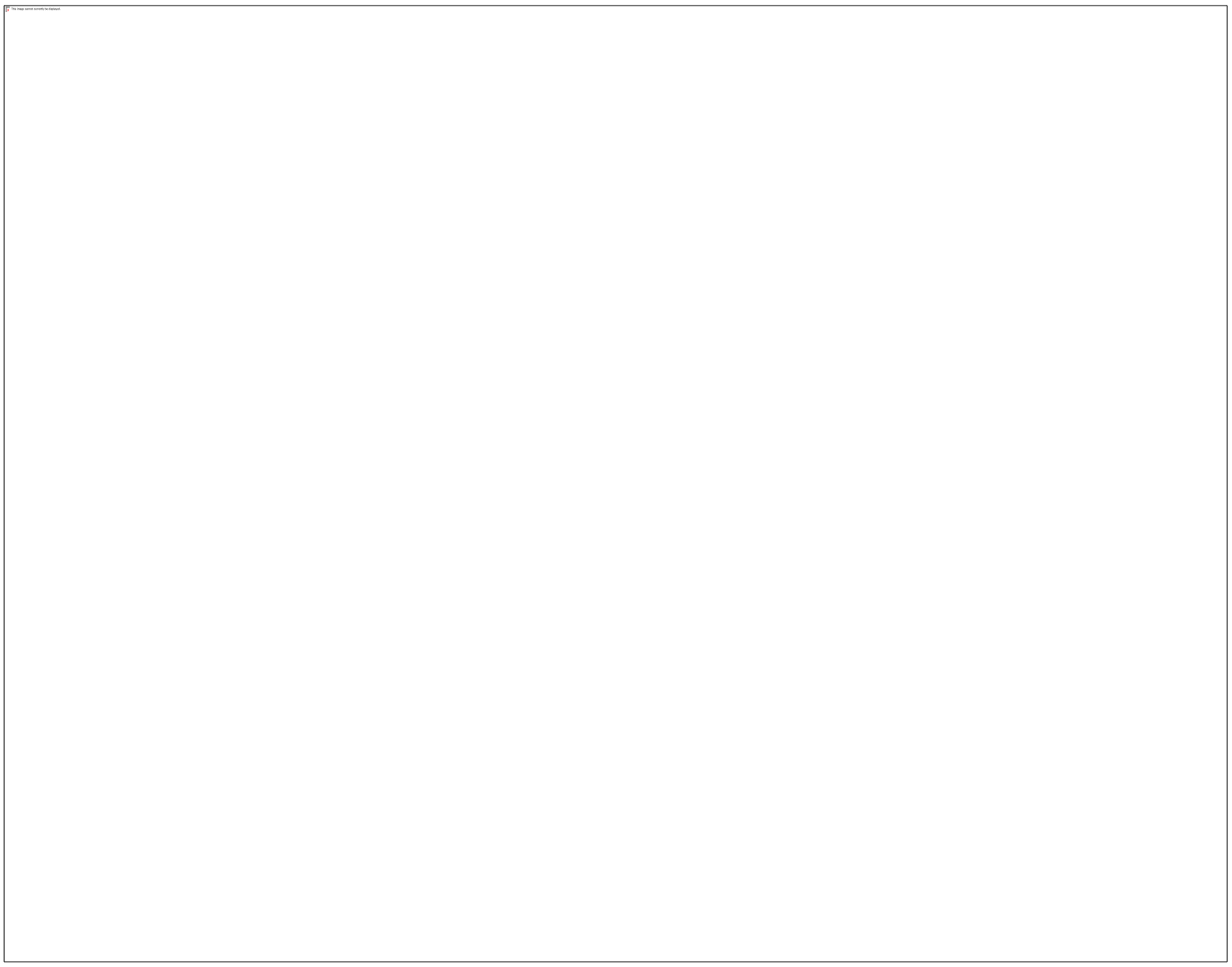
Example:

At Ksh 90:

- Quantity demanded = 20 packets.
- Quantity supplied = 100 packets.

Surplus:

100−20=80 packets100−20=80 packets



Causes of excess supply

1. Price being above equilibrium.
2. Increased production.
3. Reduced consumer incomes.
4. Decreased consumer preferences.
5. Entry of many producers into the market.

6. Reduced demand for the commodity.

Effects of excess supply

1. Unsold stock accumulates.
2. Producers may reduce prices.
3. Storage costs may increase.
4. Some products may become damaged or expire.
5. Producers may reduce production.
6. Some firms may leave the market.

6.7 Adjustment towards market equilibrium

In a competitive market, changes in prices and production decisions may help eliminate shortages and surpluses.

When there is excess demand:

- Buyers compete for limited goods.
- Prices may rise.
- Producers are encouraged to supply more.
- Consumers may reduce their purchases.
- The market moves towards equilibrium.

When there is excess supply:

- Sellers compete to attract customers.
- Prices may fall.
- Consumers may increase purchases.
- Producers may reduce production.
- The market moves towards equilibrium.

This adjustment assumes that prices can respond to market conditions and that there are no binding restrictions preventing adjustment.

7.0 MOVEMENT ALONG DEMAND AND SUPPLY CURVES

This section explains how changes in the price of a commodity affect the quantity demanded and quantity supplied.

It is important to distinguish between a movement along a curve and a shift of the entire curve.

7.1 Movement along a demand curve

Movement along a demand curve refers to a change in quantity demanded caused by a change in the price of the commodity, while other factors remain constant.

There are two types.

A. Extension of demand

Extension of demand refers to an increase in the quantity demanded of a commodity resulting from a decrease in its price.

Example:

When the price of a packet of maize flour falls from Ksh 100 to Ksh 80, consumers may increase their purchases from 40 to 60 packets.

This is represented by a movement downwards along the same demand curve.



Causes of extension of demand

1. Reduction in the price of the commodity.
2. Availability of price discounts.
3. Seasonal price reductions.
4. Promotional price offers.

Note that the fundamental cause of extension of demand is a decrease in the product's own price.

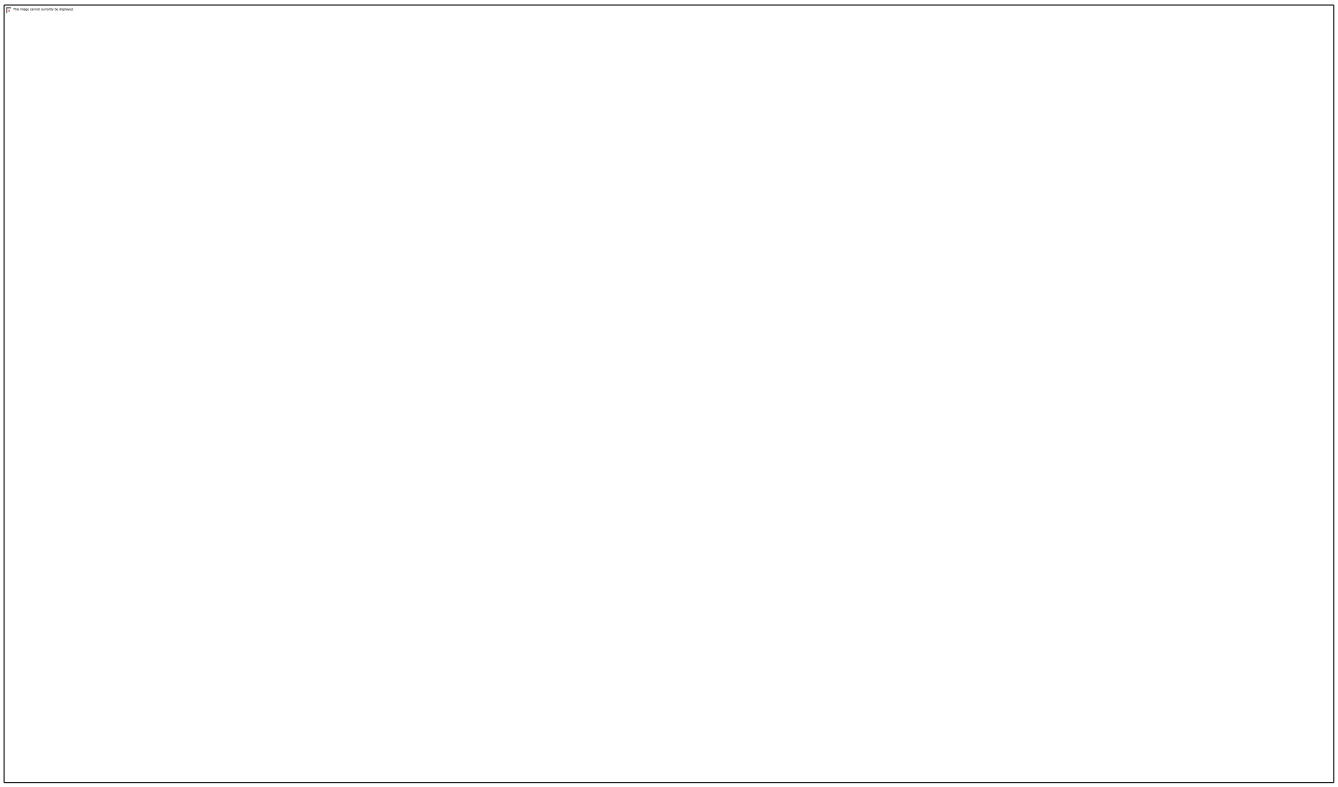
B. Contraction of demand

Contraction of demand refers to a decrease in the quantity demanded of a commodity resulting from an increase in its price.

Example:

When the price of a packet of maize flour increases from Ksh 80 to Ksh 100, consumers may reduce their purchases from 60 to 40 packets.

This is represented by an upward movement along the same demand curve.



Causes of contraction of demand

1. Increase in the price of the commodity.
2. Removal of temporary price discounts.
3. Increase in the selling price due to changing market conditions.

7.2 Movement along a supply curve

Movement along a supply curve refers to a change in quantity supplied caused by a change in the price of the commodity, while other factors remain constant.

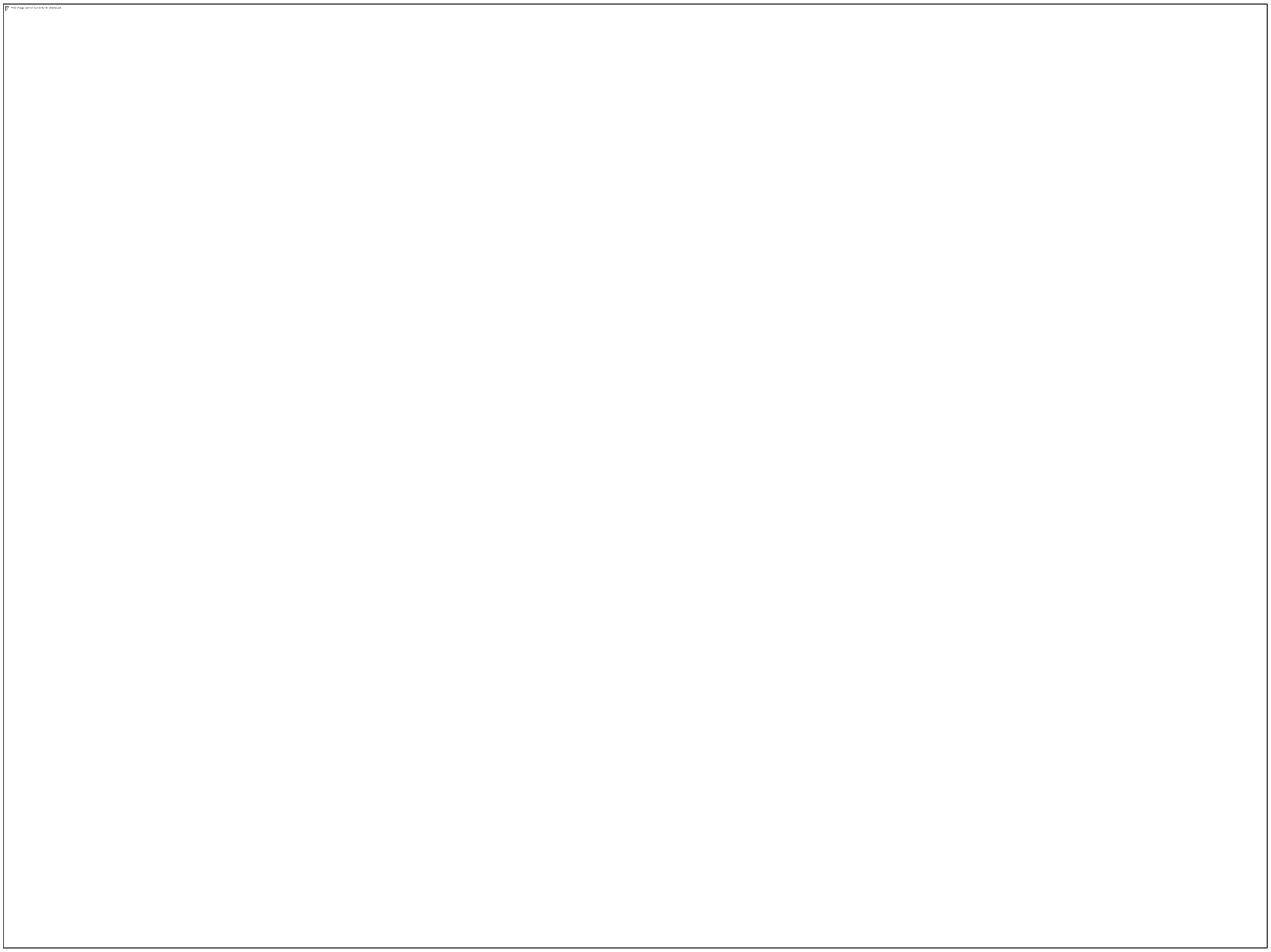
There are two types.

A. Extension of supply

Extension of supply refers to an increase in the quantity supplied resulting from an increase in the price of a commodity.

Example:

If the market price of tomatoes rises from Ksh 50 to Ksh 100 per kilogram, farmers may increase the quantity of tomatoes supplied.



Causes of extension of supply

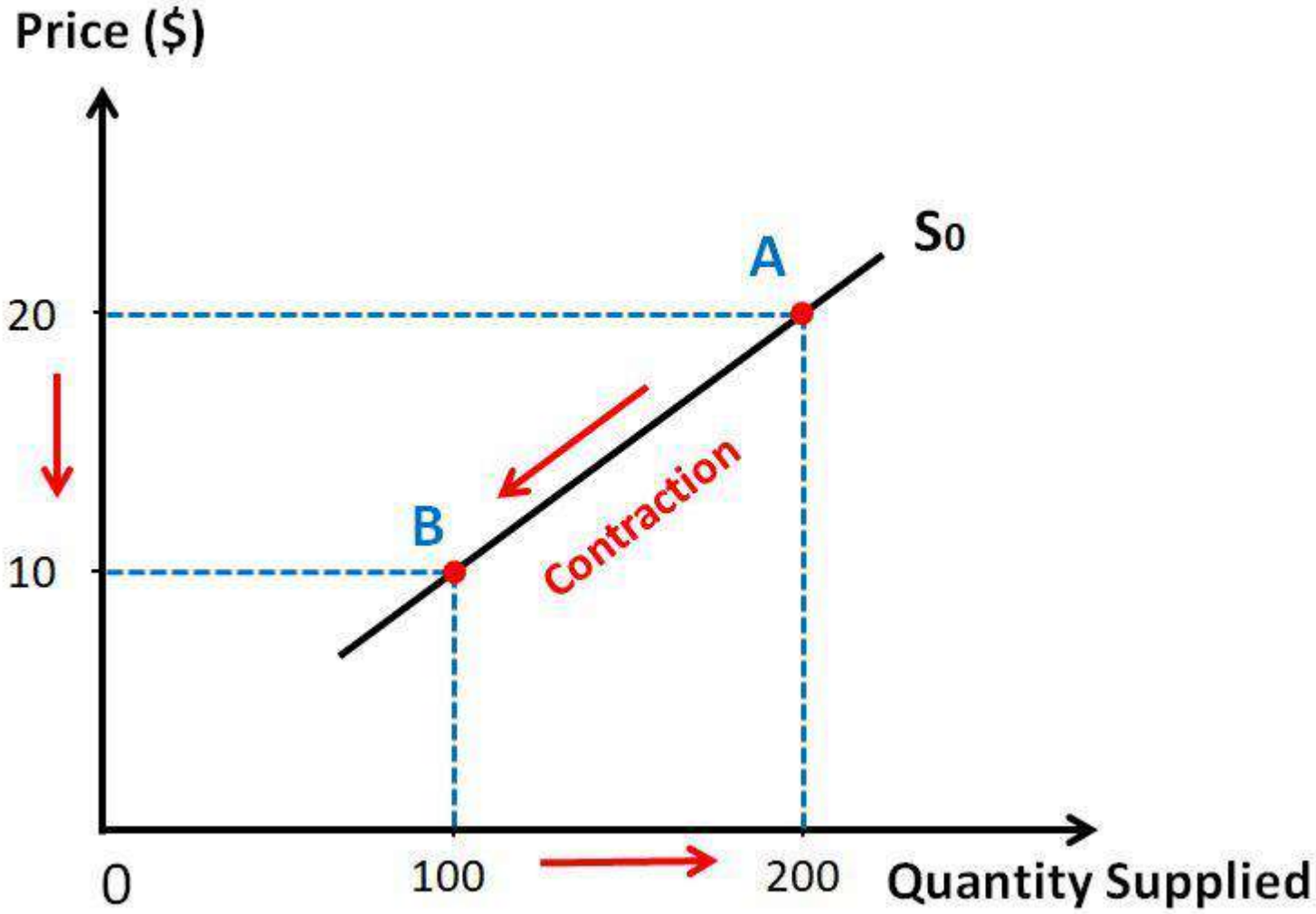
1. Increase in the price of the commodity.
2. Improved selling opportunities arising from higher market prices.
3. Greater incentive to supply more of the commodity.

B. Contraction of supply

Contraction of supply refers to a decrease in the quantity supplied resulting from a decrease in the price of a commodity.

Example:

When the market price of potatoes falls from Ksh 100 to Ksh 60 per kilogram, farmers may reduce the quantity supplied to the market.



Causes of contraction of supply

1. Decrease in the price of the commodity.
2. Reduced financial incentive to supply.
3. Reduced profitability at the lower market price.

7.3 Summary of movement along curves

Demand curve	**Meaning**
Extension of demand	Increase in quantity demanded due to a fall in price
Contraction of demand	Decrease in quantity demanded due to a rise in price

Supply curve	**Meaning**
Extension of supply	Increase in quantity supplied due to a rise in price
Contraction of supply	Decrease in quantity supplied due to a fall in price

8.0 SHIFTING OF DEMAND AND SUPPLY CURVES

8.1 Meaning of a shift in the demand curve

A shift in the demand curve refers to a change in demand caused by factors other than the price of the commodity itself.

A shift involves a change in the entire demand curve.

There are two types:

1. Increase in demand.
2. Decrease in demand.

A. Increase in demand

An increase in demand refers to a situation in which consumers are willing and able to purchase more of a commodity at every given price.

It is represented by a rightward shift of the entire demand curve.



Causes of an increase in demand

1. Increase in consumer income for normal goods.
2. Increase in population.
3. Favourable changes in consumer tastes.
4. Increase in the price of substitute goods.
5. Reduction in the price of complementary goods.
6. Effective advertising and promotion.
7. Expectations of future price increases.
8. Increased availability of credit facilities.

9. Seasonal changes that increase demand.
10. Government policies that improve consumers' purchasing power.

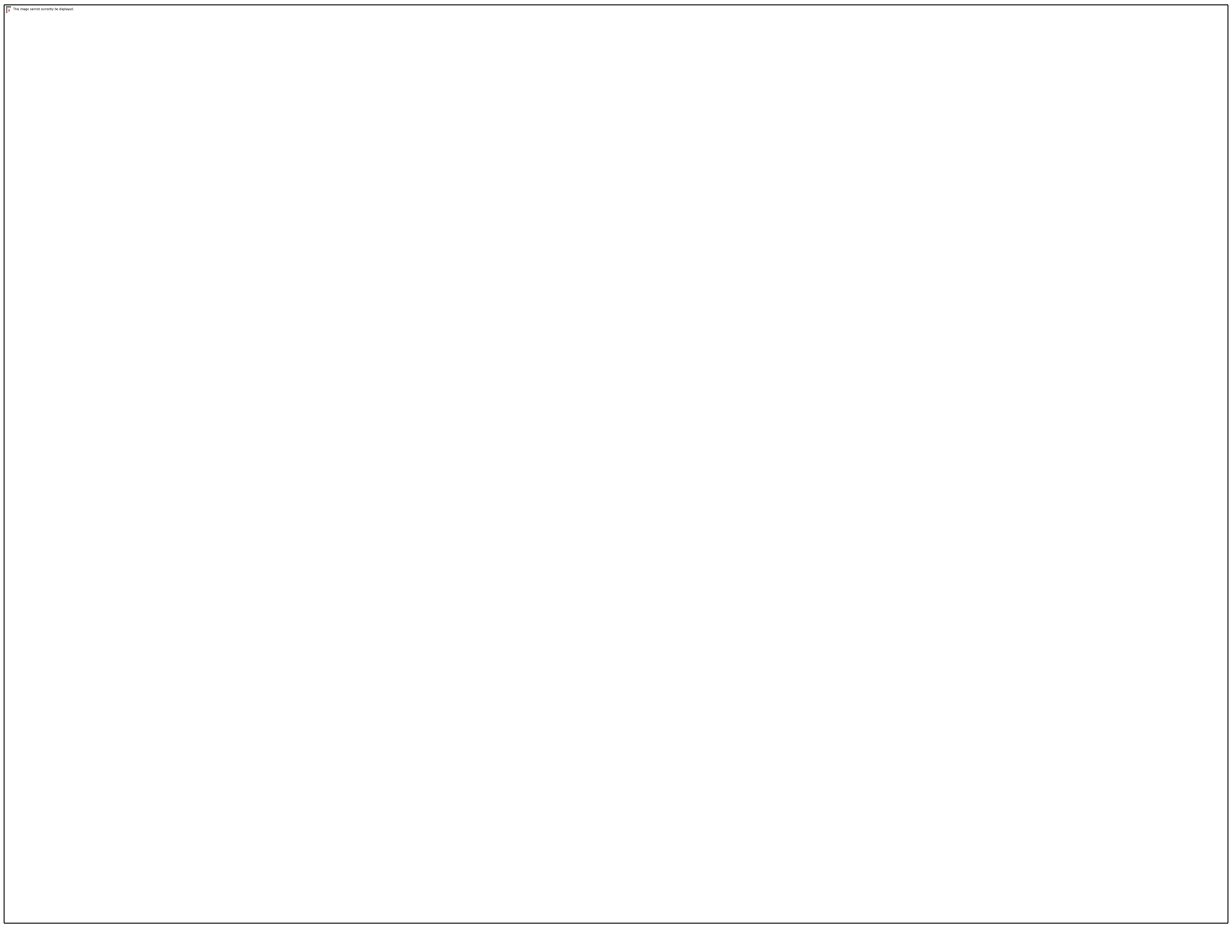
Example:

An increase in the population of Nakuru town may increase demand for houses, food, water and transport services at every given price.

B. Decrease in demand

A decrease in demand refers to a situation in which consumers are willing and able to purchase less of a commodity at every given price.

It is represented by a leftward shift of the entire demand curve.



Causes of a decrease in demand

1. Reduction in consumer income for normal goods.
2. Decrease in population.
3. Unfavourable changes in consumer preferences.
4. Reduction in the price of substitute goods.
5. Increase in the price of complementary goods.
6. Negative publicity about a product.
7. Expectations of future price reductions.
8. Reduced availability of credit facilities.
9. Seasonal changes that reduce demand.

10. Government policies that reduce disposable income.

Example:

If consumers become less interested in a particular smartphone model because a newer model is introduced, demand for the older model may decrease.

8.2 Meaning of a shift in the supply curve

A shift in the supply curve refers to a change in supply caused by factors other than the price of the commodity itself.

A shift changes the entire supply curve.

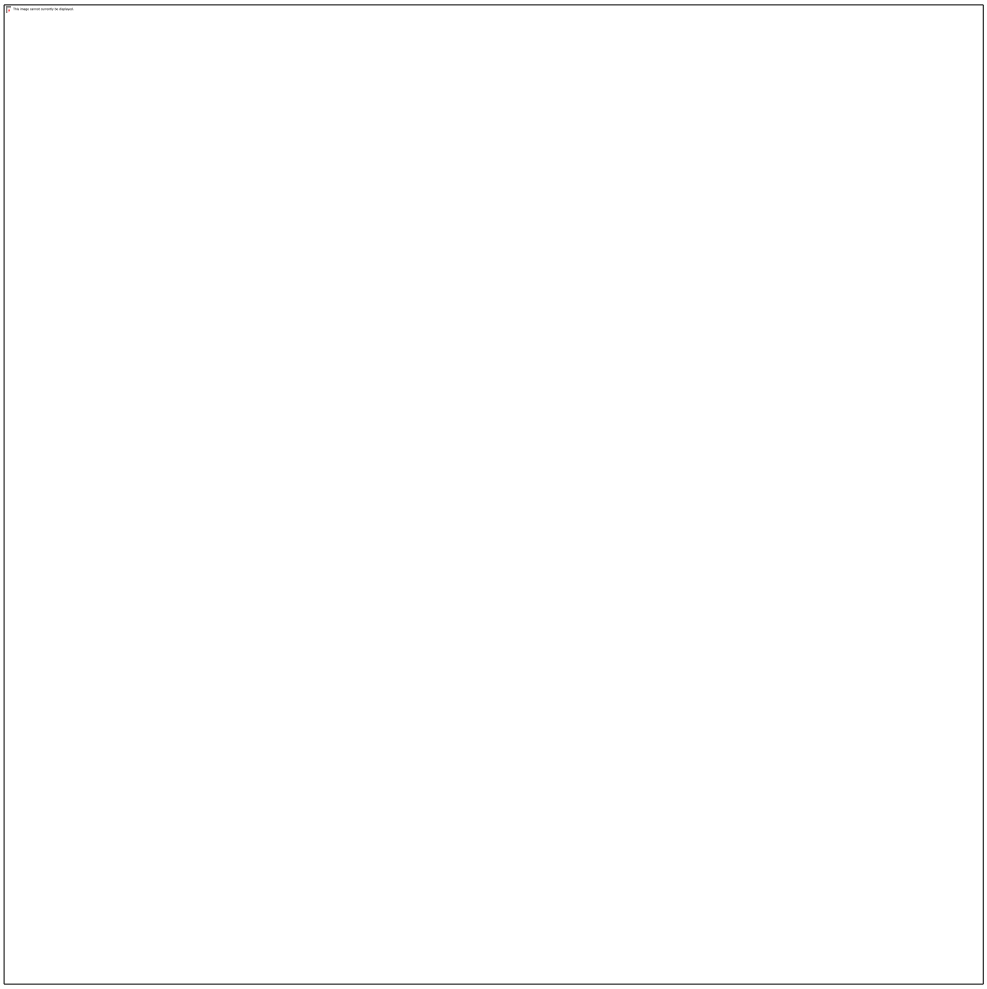
There are two types:

1. Increase in supply.
2. Decrease in supply.

A. Increase in supply

An increase in supply refers to a situation in which producers are willing and able to offer more of a commodity for sale at every given price.

It is represented by a rightward shift of the supply curve.



Causes of an increase in supply

1. Reduction in production costs.
2. Improved technology.

3. Increase in the number of producers.
4. Government subsidies.
5. Favourable weather conditions.
6. Improved transport and communication.
7. Availability of raw materials.
8. Improved production skills.
9. Reduction in production taxes.
10. Availability of affordable credit facilities.

Example:

When farmers adopt irrigation technology, they may increase vegetable production and supply more vegetables to the market throughout the year.

B. Decrease in supply

A decrease in supply refers to a situation in which producers are willing and able to offer less of a commodity for sale at every given price.

It is represented by a leftward shift of the supply curve.



Causes of a decrease in supply

1. Increase in production costs.
2. Increase in taxes on production.

3. Reduction in government subsidies.
4. Drought and unfavourable weather.
5. Floods and other natural disasters.
6. Shortage of raw materials.
7. Decrease in the number of producers.
8. Breakdown of machinery.
9. Poor transport infrastructure.
10. Pests and diseases affecting agricultural production.

Example:

A prolonged drought in a major maize-producing region may reduce maize production, shifting the market supply curve to the left.

8.3 Differences between movement along a curve and a shift in a curve

Movement along a curve	**Shift in a curve**
Caused by a change in the price of the commodity itself	Caused by a change in other factors
Quantity demanded or supplied changes	Demand or supply changes
Movement occurs on the same curve	The entire curve moves
Does not create a new demand or supply curve	Creates a new demand or supply curve
May involve extension or contraction	May involve an increase or decrease

Important examination distinction

Remember:

- A change in the price of a product causes movement along its demand or supply curve.
- A change in income, tastes, population, production costs, technology or other non-price factors causes a shift in the relevant curve.

8.4 Effects of shifts in demand and supply on market equilibrium

Changes in demand and supply influence equilibrium price and equilibrium quantity.

Change	Effect on equilibrium price	Effect on equilibrium quantity
Increase in demand	Increases	Increases
Decrease in demand	Decreases	Decreases
Increase in supply	Decreases	Increases
Decrease in supply	Increases	Decreases

These are the standard effects when the other curve remains unchanged.

1. Effect of an increase in demand

When demand increases while supply remains constant:

- More consumers want to purchase the product.
- Competition among buyers increases.
- The equilibrium price rises.
- The equilibrium quantity increases.

Example: An increase in demand for school uniforms before schools reopen may increase their market price and the quantity sold.

2. Effect of a decrease in demand

When demand decreases while supply remains constant:

- Fewer consumers want the product.
- Competition among buyers decreases.
- The equilibrium price falls.
- The equilibrium quantity decreases.

3. Effect of an increase in supply

When supply increases while demand remains constant:

- More goods become available.
- Competition among sellers may increase.
- The equilibrium price falls.
- The equilibrium quantity increases.

Example: A good harvest of tomatoes may increase supply and reduce their market price.

4. Effect of a decrease in supply

When supply decreases while demand remains constant:

- Fewer goods are available.

- Competition among buyers may increase.
- The equilibrium price rises.
- The equilibrium quantity decreases.

Example: Drought may reduce the supply of vegetables, resulting in higher market prices.

8.5 Effects when both demand and supply change

Sometimes demand and supply change at the same time.

The final effect on price and quantity depends on the relative magnitude of the changes.

Demand	Supply	Equilibrium price	Equilibrium quantity
Increases	Increases	Uncertain	Increases
Decreases	Decreases	Uncertain	Decreases
Increases	Decreases	Increases	Uncertain
Decreases	Increases	Decreases	Uncertain

For example, an increase in demand and an increase in supply may both increase the equilibrium quantity, but the equilibrium price will depend on which change is stronger.

9.0 OTHER METHODS OF DETERMINING PRICES IN THE MARKET

Although demand and supply are major determinants of prices in competitive markets, businesses may use other pricing methods when setting prices for their goods and services.

9.1 Meaning of alternative pricing methods

Alternative pricing methods refer to the different approaches businesses use to establish the selling prices of their products apart from relying solely on the interaction of demand and supply.

These methods may consider production costs, competitors' prices, customer value, business objectives and government regulations.

9.2 Methods of determining prices

1. Cost-plus pricing

Cost-plus pricing is a method in which a business calculates the total cost of producing or acquiring a product and adds a profit margin to determine the selling price.

Example:

A Kenyan manufacturer produces a school bag at a cost of Ksh 500.

The manufacturer decides to add a profit mark-up of Ksh 150.

Selling price:

500+150=Ksh 650500+150=*Ksh*650

Therefore, the selling price is Ksh 650.

Advantages

- Simple to calculate.
- Ensures production costs are considered.
- Helps businesses plan their profit margins.
- Useful where production costs are relatively stable.

Disadvantages

- May ignore customers' willingness to pay.
- May ignore competitors' prices.
- Does not guarantee that all products will be sold.
- Inaccurate cost calculations may result in inappropriate prices.

2. Competitive pricing

Competitive pricing refers to setting the price of a product by considering the prices charged by other businesses selling similar products.

A business may set its price:

- Below competitors' prices.
- At the same level as competitors' prices.
- Above competitors' prices where it offers additional value.

Example:

A supermarket in Nakuru may compare the prices of cooking oil charged by other supermarkets before deciding its selling price.

Advantages

- Helps a business remain competitive.
- Enables comparison with similar products.
- May attract customers.
- Helps businesses respond to market conditions.

Disadvantages

- May lead to price wars.
- May reduce profit margins.
- Competitors may have different production costs.
- May ignore the unique value of a product.

3. Value-based pricing

Value-based pricing refers to setting prices according to the value or benefits customers believe they receive from a product or service.

The price is influenced by customers' perceptions of quality, convenience, reliability and usefulness.

Example:

A private school in Kenya may charge higher fees because of specialised facilities, experienced teachers and additional learning services.

Advantages

- May generate higher profits.
- Encourages improvement in product quality.
- Recognises customers' willingness to pay.
- Helps businesses differentiate their products.

Disadvantages

- Customer perceptions may be difficult to measure.
- Different customers may value the product differently.
- Requires market research.
- May limit sales among price-sensitive consumers.

4. Penetration pricing

Penetration pricing refers to introducing a new product into the market at a relatively low price to attract customers and gain market share.

After establishing the product in the market, the business may gradually increase its price.

Example:

A new internet service provider may offer low introductory subscription prices to attract customers.

Advantages

- Attracts many customers.
- Helps a business enter a competitive market.
- Can increase market share.
- Encourages customers to try a new product.

Disadvantages

- May generate low initial profits.
- Customers may become accustomed to low prices.
- Competitors may respond by reducing their prices.
- It may be difficult to increase prices later.

5. Price skimming

Price skimming refers to introducing a new or innovative product at a relatively high price before gradually reducing the price over time.

It is often used where the product is new, distinctive or has limited competition.

Example:

A company may introduce a new smartphone at a high initial price and gradually reduce its price as newer models enter the market.

Advantages

- Helps recover research and development costs.
- May generate high initial profit margins.
- Targets customers willing to pay more for new products.
- Helps establish a premium product image.

Disadvantages

- May discourage price-sensitive consumers.
- Attracts competitors if profits are high.
- Sales may be limited initially.
- High prices may encourage consumers to purchase alternatives.

6. Psychological pricing

Psychological pricing refers to setting prices in a way intended to influence customers' perceptions and purchasing decisions.

Examples:

- Ksh 199 instead of Ksh 200.
- Ksh 999 instead of Ksh 1,000.
- Special promotional prices.

Advantages

- May encourage impulse purchases.
- Makes prices appear more attractive.
- Can improve sales.
- Useful in retail businesses.

Disadvantages

- Some customers may recognise the technique.
- It may create distrust if used deceptively.
- Does not necessarily reflect product value.

7. Auction pricing

Auction pricing refers to determining the selling price of a commodity through competitive bidding among interested buyers.

The product is sold according to the auction rules, often to the highest acceptable bidder.

Examples in Kenya:

- Livestock auctions.
- Auction sales of vehicles.
- Sale of agricultural produce through organised auctions.
- Sale of certain securities through auction arrangements.

Advantages

- Helps reveal buyers' willingness to pay.
- May generate competitive prices.
- Useful for unique or scarce products.
- Can facilitate transparent competitive bidding.

Disadvantages

- The final price may be unpredictable.
- Fewer interested buyers may result in low prices.
- Auction procedures may be costly.
- Some goods may fail to attract acceptable bids.

8. Bargaining or negotiated pricing

This is a pricing method in which buyers and sellers negotiate to agree on a mutually acceptable price.

It is common in some open-air markets and informal trading activities.

Example:

A buyer and seller at Wakulima Market may negotiate the price of a basket of tomatoes before completing the transaction.

Advantages

- Allows flexibility in pricing.
- May satisfy both parties.
- Encourages direct interaction.
- Allows consideration of product quality and quantity.

Disadvantages

- Time-consuming.
- May lead to disagreements.
- Different customers may pay different prices.
- Inexperienced buyers may be disadvantaged.

9. Government-controlled pricing

Government-controlled pricing refers to a situation in which the government regulates or influences the prices of certain goods and services.

It may involve:

- Maximum prices.
- Minimum prices.
- Price guidelines.
- Regulated tariffs.

Examples in Kenya:

Government and regulatory institutions may regulate or influence prices in selected sectors, including energy and certain essential services.

Advantages

- May protect consumers from excessive prices.
- May protect producers from very low prices.
- Can support affordability of essential services.
- May help stabilise selected markets.

Disadvantages

- May discourage production if prices are set too low.
- May create shortages when maximum prices are below equilibrium.
- May create surpluses when minimum prices are above equilibrium.
- May require costly government enforcement.

10. Price discrimination

Price discrimination refers to charging different prices to different customers or groups of customers for the same or similar product, where the differences are not fully explained by differences in cost.

Examples:

- Student discounts.
- Different transport fares for eligible customer categories.
- Different ticket prices for children and adults.
- Different rates for peak and off-peak services.

Advantages

- Enables businesses to serve different customer groups.
- May increase total revenue.
- May improve access for selected groups.
- Helps businesses manage demand.

Disadvantages

- May be viewed as unfair.
- Requires customer classification.
- May create dissatisfaction among customers.
- May be restricted by consumer protection and competition laws.

11. Tender pricing

Tender pricing refers to determining prices through a formal process in which suppliers submit quotations or bids to provide goods, services or works.

The buyer evaluates the bids according to specified requirements and awards the contract according to the applicable procurement procedures.

Examples:

- Supply of stationery to schools.
- Construction of classrooms.
- Supply of medical equipment to hospitals.
- Road construction projects.

Advantages

- Encourages competition among suppliers.
- Promotes transparency when properly conducted.
- Helps buyers compare prices.
- May result in cost savings.

Disadvantages

- Preparation of tenders may be expensive.
- The process may take time.
- Unqualified bidders may submit unrealistic prices.
- Poor evaluation may result in awarding contracts to unsuitable suppliers.

12. Dynamic pricing

Dynamic pricing refers to adjusting prices according to changes in demand, supply, time, market conditions or customer purchasing patterns.

Examples:

- Some transport services charge different prices during peak and off-peak periods.
- Hotel room rates may change depending on demand.

- Online services may adjust prices according to availability.

Advantages

- Enables businesses to respond to changing market conditions.
- Helps manage demand.
- May increase revenue during periods of high demand.
- Helps businesses use available resources efficiently.

Disadvantages

- Customers may consider changing prices unfair.
- Requires information systems.
- Prices may become unpredictable.
- May discourage customers who prefer stable prices.

9.3 Summary table of pricing methods

Method	Main basis of determining price
Cost-plus pricing	Production or acquisition cost plus mark-up
Competitive pricing	Competitors' prices
Value-based pricing	Perceived customer value
Penetration pricing	Low introductory price
Price skimming	High initial price
Psychological pricing	Customer perception
Auction pricing	Competitive bidding
Bargaining	Negotiation between buyer and seller
Government-controlled pricing	Government regulation
Price discrimination	Different customer groups or market conditions
Tender pricing	Competitive supplier bids
Dynamic pricing	Changing market conditions

10.0 ROLES OF DEMAND IN THE MARKET

Demand plays an important role in the functioning of markets and the allocation of resources.

1. Determines the quantity of goods purchased

Demand indicates the quantities consumers are willing and able to purchase at different prices.

This helps producers understand market requirements.

2. Influences market prices

Changes in demand affect equilibrium prices.

An increase in demand, other factors remaining constant, generally increases the equilibrium price.

3. Guides production decisions

Producers use information about demand to decide what goods and services to produce.

For example, increased demand for school uniforms may encourage manufacturers to increase production.

4. Guides resource allocation

Demand influences how land, labour, capital and entrepreneurship are allocated among different productive activities.

5. Encourages innovation

Changes in consumer demand may encourage businesses to develop new products and improve existing products.

6. Promotes competition

High demand for profitable products may attract additional businesses into the market.

7. Influences investment decisions

Businesses invest in products and services where they identify strong and sustainable demand.

8. Helps in market research

Information about demand enables businesses to identify customer needs, preferences and purchasing behaviour.

9. Influences employment opportunities

Increased demand may encourage businesses to expand production and employ additional workers.

10. Signals changes in consumer preferences

Changes in demand communicate the products consumers prefer.

This helps businesses adjust their production and marketing strategies.

11.0 ROLES OF SUPPLY IN THE MARKET

Supply is equally important in ensuring that goods and services are available to consumers.

1. Determines the availability of goods

Supply determines the quantity of products available for purchase in the market.

2. Influences market prices

An increase in supply, other factors remaining constant, generally reduces the equilibrium price.

A decrease in supply generally increases the equilibrium price.

3. Encourages production

Higher market prices may encourage producers to increase production.

4. Promotes efficient use of resources

Supply decisions influence how producers use available land, labour, capital and other resources.

5. Promotes competition among producers

An increase in the number of suppliers may encourage competition in the market.

6. Helps meet consumer needs

Adequate supply ensures that consumers can access the goods and services they require.

7. Promotes business expansion

Increased market opportunities may encourage businesses to expand their production capacity.

8. Encourages technological development

Producers adopt better technology to improve efficiency and increase output.

9. Promotes market stability

Adequate supply helps reduce shortages and extreme fluctuations in market availability.

10. Supports economic development

Supply enables businesses to distribute products, create employment and contribute to national production.

12.0 RELATIONSHIP BETWEEN DEMAND AND SUPPLY

Demand and supply work together to determine market prices and quantities.

The relationship can be summarised as follows:

Demand condition	Supply condition	General market outcome
Demand increases	Supply remains constant	Price and quantity rise
Demand decreases	Supply remains constant	Price and quantity fall
Supply increases	Demand remains constant	Price falls and quantity rises
Supply decreases	Demand remains constant	Price rises and quantity falls
Demand and supply increase	Both change	Quantity rises; price depends on the relative changes
Demand and supply decrease	Both change	Quantity falls; price depends on the relative changes

Illustration using the Kenyan agricultural market

Consider the market for potatoes in Nakuru County.

Situation 1: Good harvest

- Farmers harvest large quantities of potatoes.
- Market supply increases.
- More potatoes become available.
- The market price may decrease if demand remains unchanged.

Situation 2: Drought

- Potato production decreases.
- Market supply falls.
- Fewer potatoes become available.
- The market price may increase if demand remains unchanged.

Situation 3: Increased population

- More people require potatoes.
- Market demand increases.
- The equilibrium price and quantity may increase if supply remains unchanged.

Situation 4: Reduced consumer income

- Some consumers reduce their purchases of potatoes, assuming they are normal goods.
- Demand decreases.
- The equilibrium price and quantity may decrease if supply remains unchanged.



13.0 PRACTICAL APPLICATION OF DEMAND AND SUPPLY IN KENYA

Case study: Tomato market in Nakuru County

Tomato farmers from different parts of Nakuru County supply tomatoes to local markets. During the rainy season, favourable production conditions lead to increased tomato harvests. As a result, more tomatoes are brought to the market.

During periods of drought, tomato production decreases, leading to reduced market supply.

At the same time, demand for tomatoes may increase during periods when households, hotels and restaurants require more tomatoes.

Questions

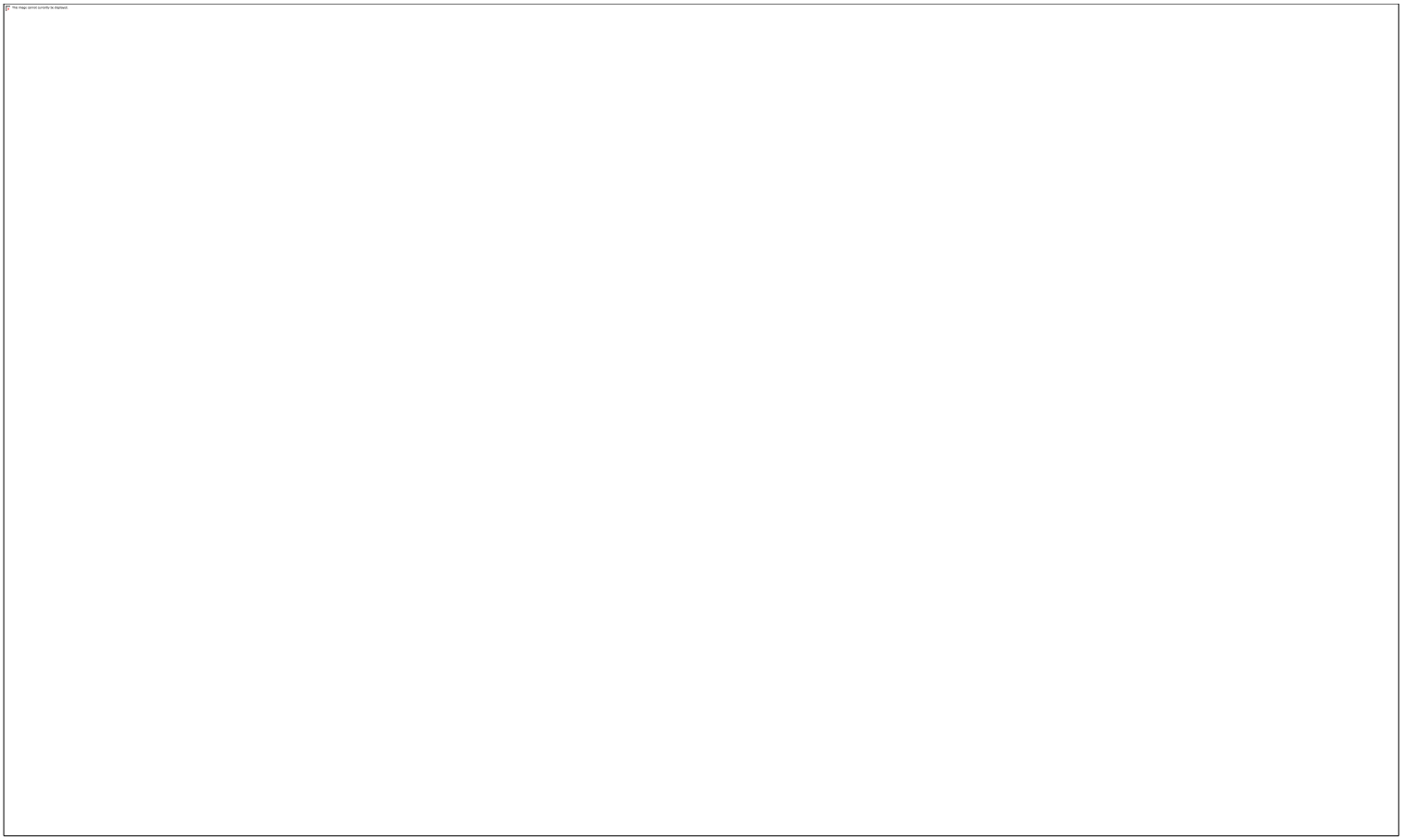
1. Identify the two major market forces involved in determining tomato prices.
2. Explain four factors that may influence demand for tomatoes.
3. Explain four factors that may influence the supply of tomatoes.
4. Explain how increased tomato production may affect market prices.
5. Describe how drought may influence the supply curve.
6. Distinguish between extension of demand and increase in demand.
7. Explain how the equilibrium price of tomatoes is determined.
8. State four alternative methods businesses may use to determine prices.

14.0 KEY TERMS AND DEFINITIONS

Term	Meaning
Demand	Quantity consumers are willing and able to buy at different prices over a given period
Supply	Quantity producers are willing and able to sell at different prices over a given period
Market	An arrangement through which buyers and sellers exchange goods and services
Price	Monetary value paid for a good or service
Price determination	Process through which the price of a product is established
Demand schedule	Table showing prices and corresponding quantities demanded
Supply schedule	Table showing prices and corresponding quantities supplied
Demand curve	Graphical representation of the relationship between price and quantity demanded
Supply curve	Graphical representation of the relationship between price and quantity supplied
Market equilibrium	Situation where quantity demanded equals quantity supplied
Equilibrium price	Price at which quantity demanded equals quantity supplied
Equilibrium quantity	Quantity bought and sold at equilibrium price
Excess demand	Situation where quantity demanded exceeds quantity supplied
Excess supply	Situation where quantity supplied exceeds quantity demanded
Extension of demand	Increase in quantity demanded due to a fall in price
Contraction of demand	Decrease in quantity demanded due to a rise in price
Extension of supply	Increase in quantity supplied due to a rise in price
Contraction of supply	Decrease in quantity supplied due to a fall in price
Increase in demand	Rightward shift of the entire demand curve
Decrease in demand	Leftward shift of the entire demand curve
Increase in supply	Rightward shift of the entire supply curve
Decrease in supply	Leftward shift of the entire supply curve
Cost-plus pricing	Setting price by adding a mark-up to production cost
Competitive pricing	Setting prices by considering competitors' prices
Value-based pricing	Setting prices according to perceived customer value
Penetration pricing	Introducing a product at a relatively low price

Price skimming	Introducing a product at a relatively high price
Auction pricing	Determining price through competitive bidding
Price discrimination	Charging different prices to different customer groups
Dynamic pricing	Adjusting prices according to changing market conditions

KEY SUMMARY



REVISION QUESTIONS

DEMAND AND SUPPLY

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. What is meant by demand in a market?

A. Quantity of goods produced by manufacturers.

B. Quantity of goods consumers are willing and able to buy at different prices.

C. Quantity of goods stored by wholesalers.

D. Quantity of goods transported to the market.

2. Which of the following is a major condition for effective demand?

A. Willingness without purchasing power.

B. Ability to produce goods.

C. Willingness and ability to pay.

D. Availability of storage facilities.

3. According to the law of demand, when the price of a commodity increases, the quantity demanded generally:

A. Increases.

B. Decreases.

C. Remains constant.

D. Becomes unlimited.

4. Which of the following is an example of complementary goods?

A. Tea and coffee.

B. Butter and margarine.

C. Motor vehicles and fuel.

D. Sugar and salt.

5. An increase in consumer income generally leads to increased demand for:

A. All inferior goods.

B. Normal goods.

C. Goods with no market value.

D. All free goods.

6. Which of the following is a factor influencing demand?

A. Production technology.

B. Cost of raw materials.

C. Consumer preferences.

D. Availability of machinery.

7. Supply refers to the quantity of a commodity that:

A. Consumers wish to purchase.

B. Producers are willing and able to offer for sale.

C. Consumers have already purchased.

D. Is stored in warehouses only.

8. According to the law of supply, an increase in price generally leads to:

A. A decrease in quantity supplied.

B. An increase in quantity supplied.

C. A decrease in production costs.

D. A reduction in market demand.

9. Which of the following may cause an increase in supply?

A. Increased production costs.

B. Drought.

C. Improved technology.

D. Shortage of raw materials.

10. Which of the following may cause a decrease in the supply of agricultural products?

A. Favourable rainfall.

B. Improved irrigation.

C. Severe drought.

D. Increased farm mechanisation.

11. A demand schedule is a table showing:

A. Production costs at different levels of output.

B. Prices and corresponding quantities demanded.

C. Profits earned by producers.

D. Wages paid to workers.

12. A normal demand curve slopes:

A. Upwards from left to right.

B. Downwards from left to right.

C. Vertically upwards.

D. Horizontally across the graph.

13. A normal supply curve slopes:

A. Downwards from left to right.

B. Upwards from left to right.

C. Vertically downwards.

D. Horizontally across the graph.

14. Market equilibrium occurs when:

A. Quantity demanded exceeds quantity supplied.

B. Quantity supplied exceeds quantity demanded.

C. Quantity demanded equals quantity supplied.

D. Production costs equal selling costs.

15. The price at which quantity demanded equals quantity supplied is called:

A. Market price ceiling.

B. Equilibrium price.

C. Maximum price.

D. Minimum price.

16. When quantity demanded exceeds quantity supplied, the market experiences:

A. Excess supply.

B. Surplus.

C. Excess demand.

D. Market saturation.

17. An increase in the price of a commodity causes:

A. An increase in demand.

B. A decrease in demand.

C. A contraction of demand.

D. A shift of the demand curve to the right.

18. A reduction in the price of a commodity causes:

A. Extension of demand.

B. Contraction of demand.

C. Decrease in demand.

D. Increase in supply.

19. An increase in consumer income for a normal good causes:

A. A leftward shift in the demand curve.

B. A rightward shift in the demand curve.

C. Movement down the same demand curve.

D. Contraction of supply.

20. An improvement in production technology causes:

A. A decrease in supply.

B. An increase in supply.

C. A contraction of demand.

D. A decrease in consumer income.

21. When the supply of a commodity increases while demand remains constant, the equilibrium price generally:

A. Increases.

B. Decreases.

C. Remains permanently unchanged.

D. Becomes zero.

22. When demand decreases while supply remains constant, the equilibrium quantity generally:

A. Increases.

B. Decreases.

C. Remains constant.

D. Becomes unlimited.

23. A business that adds a profit mark-up to the cost of production uses:

A. Competitive pricing.

B. Cost-plus pricing.

C. Auction pricing.

D. Penetration pricing.

24. Introducing a new product at a low price to attract customers is known as:

A. Price skimming.

B. Penetration pricing.

C. Psychological pricing.

D. Auction pricing.

25. A method of determining prices through competitive bidding is called:

A. Cost-plus pricing.

B. Value-based pricing.

C. Auction pricing.

D. Psychological pricing.

26. Setting prices according to competitors' prices is known as:

A. Competitive pricing.

B. Cost-plus pricing.

C. Auction pricing.

D. Price discrimination.

27. Charging Ksh 199 instead of Ksh 200 is an example of:

A. Auction pricing.

B. Psychological pricing.

C. Tender pricing.

D. Government pricing.

28. Which of the following is an effect of excess supply?

A. Shortage of goods.

B. Accumulation of unsold stock.

C. Increased competition among buyers for scarce goods.

D. Immediate elimination of production costs.

29. Which of the following is a major role of demand in the market?

A. Determining the availability of raw materials only.

B. Guiding producers on what consumers want.

C. Preventing all market competition.

D. Controlling the weather.

30. Which of the following best explains the relationship between demand and supply?

A. They operate independently in all markets.

B. They interact to influence market prices and quantities.

C. They are determined only by government regulations.

D. They always remain constant.

SECTION B: STRUCTURED AND SHORT-ANSWER QUESTIONS

Question 1: Demand in a market

a) Define the term demand. (2 marks)

b) Explain the law of demand. (4 marks)

c) Explain six factors that influence demand for a product. (12 marks)

d) Distinguish between individual demand and market demand. (4 marks)

e) State four types of demand. (4 marks)

Question 2: Supply in a market

a) Define the term supply. (2 marks)

b) Explain the law of supply. (4 marks)

c) Explain six factors influencing the supply of agricultural products in Kenya. (12 marks)

d) Distinguish between individual supply and market supply. (4 marks)

e) Identify four types of supply. (4 marks)

Question 3: Demand and supply schedules

The following table shows the demand and supply schedules for a commodity in a particular market.

Price (Ksh)	Quantity demanded (units)	Quantity supplied (units)
10	100	20
20	80	40
30	60	60
40	40	80
50	20	100

a) Define a demand schedule. (2 marks)

b) Define a supply schedule. (2 marks)

c) Identify the equilibrium price. (2 marks)

d) Determine the equilibrium quantity. (2 marks)

e) Calculate the excess demand at Ksh 10. (2 marks)

f) Calculate the excess supply at Ksh 50. (2 marks)

g) Draw a demand and supply graph using the information provided. (8 marks)

Question 4: Market equilibrium

a) Define market equilibrium. (2 marks)

b) Explain how the equilibrium price is determined through the interaction of demand and supply. (6 marks)

c) Differentiate between excess demand and excess supply. (4 marks)

d) Explain four effects of excess demand in a market. (8 marks)

e) Explain four effects of excess supply in a market. (8 marks)

Question 5: Demand and supply curves

a) Define a demand curve. (2 marks)

b) Define a supply curve. (2 marks)

c) Explain four reasons why the demand curve slopes downwards from left to right. (8 marks)

d) Explain four reasons why the supply curve slopes upwards from left to right. (8 marks)

e) State four differences between demand and supply curves. (8 marks)

Question 6: Movement along demand and supply curves

a) Explain the meaning of extension of demand. (2 marks)

b) Explain the meaning of contraction of demand. (2 marks)

c) Distinguish between extension of supply and contraction of supply. (4 marks)

d) Explain four causes of movement along a demand curve. (4 marks)

e) Explain four causes of movement along a supply curve. (4 marks)

f) Distinguish between movement along a demand curve and a shift in the demand curve. (4 marks)

Question 7: Shifts in demand and supply curves

a) Define an increase in demand. (2 marks)

b) Define a decrease in demand. (2 marks)

c) Explain five factors that may cause an increase in demand. (10 marks)

d) Explain five factors that may cause a decrease in supply. (10 marks)

e) Explain the effects of an increase in supply on equilibrium price and quantity. (4 marks)

f) Explain the effects of a decrease in demand on equilibrium price and quantity. (4 marks)

Question 8: Other methods of determining prices

a) Explain the meaning of price determination. (2 marks)

b) Explain eight alternative methods of determining prices in the market. (16 marks)

c) Explain four advantages of cost-plus pricing. (4 marks)

d) State four disadvantages of competitive pricing. (4 marks)

e) Differentiate between penetration pricing and price skimming. (4 marks)

Question 9: Roles of demand and supply

a) Explain six roles of demand in the market. (12 marks)

b) Explain six roles of supply in the market. (12 marks)

c) Explain four ways in which demand and supply promote economic development in Kenya. (8 marks)

Question 10: Application and analysis

A farmer in Nakuru County produces tomatoes for sale. During a period of favourable weather, the farmer harvests more tomatoes than usual. At the same time, several farmers from neighbouring areas also bring tomatoes to the market.

a) Identify the market force that has increased. (2 marks)

b) Explain four factors that may influence the demand for tomatoes. (8 marks)

c) Explain four factors that may influence the supply of tomatoes. (8 marks)

d) Explain how an increase in supply may affect the equilibrium price and quantity of tomatoes. (4 marks)

e) Explain four alternative pricing methods that tomato traders may use. (8 marks)

PROJECT ACTIVITIES



Activity 1: Market survey

Task: Learners visit a local market and investigate the prices of selected commodities.

Suggested commodities:

- Tomatoes.
- Potatoes.
- Onions.
- Maize flour.
- Beans.
- Rice.

Learners should:

1. Record the prices of the selected commodities.
2. Interview sellers about factors influencing their prices.
3. Interview buyers about factors influencing their purchases.
4. Compare prices charged by different sellers.
5. Explain the relationship between demand and supply.
6. Present their findings to the class.

Activity 2: Drawing demand and supply curves

Learners work in groups to develop hypothetical demand and supply schedules.

They should:

1. Select a commodity.
2. Prepare a demand schedule.
3. Prepare a supply schedule.
4. Draw the demand curve.
5. Draw the supply curve.
6. Identify the equilibrium point.
7. Explain what happens when demand or supply changes.

Activity 3: Business pricing simulation

Learners simulate the activities of buyers and sellers in a market.

Some learners act as sellers while others act as buyers.

They negotiate prices and record:

- Initial selling prices.
- Buyers' offers.
- Final agreed prices.
- Quantities sold.
- Factors influencing the final prices.

Activity 4: Agricultural market investigation

Learners investigate how rainfall affects the supply and prices of agricultural products in their communities.

They should identify:

- Agricultural products commonly produced.
- Seasonal changes in supply.
- Effects of drought.
- Effects of favourable rainfall.
- Changes in market prices.

Activity 5: Business enterprise project

Learners develop a simple business proposal for selling a selected product.

They should determine:

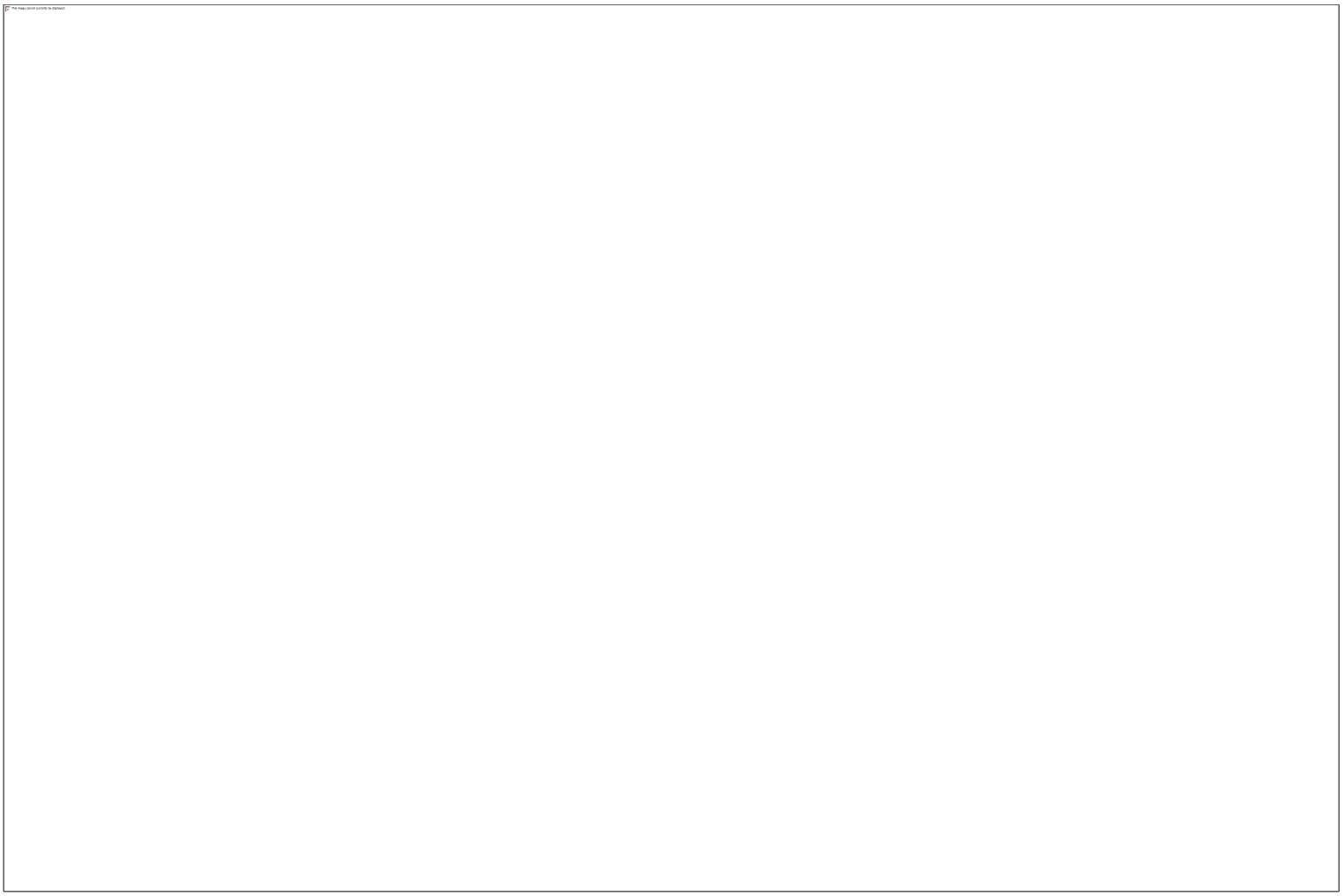
- Cost of production.
- Proposed selling price.

- Expected demand.
- Available supply.
- Competitors' prices.
- Appropriate pricing method.
- Expected profit.

STRAND 1.0: BUSINESS AND ITS ENVIRONMENT

SUB-STRAND 1.3: ENTREPRENEURSHIP





1.0 INTRODUCTION TO ENTREPRENEURSHIP

Entrepreneurship is an important aspect of business development and economic growth. It enables individuals to identify business opportunities, organise resources, establish enterprises and take calculated risks in order to provide goods and services.

In Kenya, entrepreneurship contributes significantly to employment creation, poverty reduction, innovation, improved living standards and national economic development.

Examples of entrepreneurial activities in Kenya include:

- Operating retail shops and supermarkets.

- Establishing agricultural enterprises.
- Running hotels and restaurants.
- Developing mobile applications and digital services.
- Operating transport businesses.
- Manufacturing products.
- Providing educational and professional services.
- Establishing online businesses.

1.1 Meaning of entrepreneurship

Entrepreneurship refers to the process of identifying business opportunities, mobilising resources, taking calculated risks and establishing or developing an enterprise to provide goods or services and earn profits or achieve other business objectives.

An individual who undertakes entrepreneurial activities is called an entrepreneur.

Example:

A young person in Kilgoris identifies an opportunity to supply school revision books to local schools. The individual researches the market, prepares business capital, sources books, markets the products and establishes a business.

This is an example of entrepreneurship.

1.2 Meaning of an entrepreneur

An entrepreneur is an individual who identifies business opportunities, organises resources, takes calculated risks and establishes or manages an enterprise with the aim of achieving business objectives.

An entrepreneur may establish a new business or introduce improvements into an existing business.

Examples of entrepreneurs in Kenya:

- A farmer who establishes a commercial poultry enterprise.
- A teacher who establishes a private learning centre.
- A young person who develops an online shopping platform.
- A businessperson who opens a wholesale shop.
- A manufacturer who establishes a furniture-making workshop.

1.3 Meaning of an enterprise

An enterprise refers to a business undertaking established to produce, distribute or provide goods and services to customers.

An enterprise may be small, medium-sized or large.

Examples in the Kenyan context:

1. Retail enterprise – a shop selling household goods.
2. Agricultural enterprise – a commercial dairy farm.

3. Manufacturing enterprise – a factory producing school uniforms.
4. Service enterprise – a hairdressing salon.
5. Digital enterprise – an online educational materials business.
6. Transport enterprise – a company providing passenger transport.



2.0 IMPORTANCE OF ENTREPRENEURSHIP

Entrepreneurship is important to individuals, businesses, communities and the entire economy.

It contributes to the development of the country by encouraging people to establish productive economic activities.

2.1 Importance of entrepreneurship to individuals

1. Creates self-employment opportunities

Entrepreneurship enables individuals to establish their own businesses and earn an income instead of depending entirely on formal employment.

For example, a graduate may establish a graphic design business and earn income by designing posters, logos and advertisements.

2. Promotes personal independence

Entrepreneurs make their own business decisions concerning production, marketing, investment and management.

This enables them to become economically independent.

3. Generates income and wealth

Successful businesses generate income for their owners through the sale of goods and services.

Entrepreneurs may accumulate wealth through business expansion, investment and savings.

4. Encourages creativity and innovation

Entrepreneurship enables individuals to develop new ideas, products and methods of providing services.

For example, a Kenyan entrepreneur may develop a digital platform for ordering farm produce.

5. Improves living standards

Income earned from entrepreneurial activities enables individuals to meet their needs, including food, clothing, shelter, education and healthcare.

6. Develops management skills

Entrepreneurs acquire important skills such as:

- Financial management.
- Communication.
- Leadership.
- Marketing.
- Decision-making.
- Problem-solving.
- Resource management.

7. Provides opportunities for personal development

Running a business exposes individuals to new experiences, challenges and responsibilities.

This improves their confidence, competence and ability to solve problems.

8. Encourages risk-taking

Entrepreneurship teaches individuals to identify, assess and manage business risks before making investment decisions.

9. Provides opportunities for wealth creation

Individuals may expand successful enterprises into large businesses, increasing their financial resources and investment opportunities.

10. Promotes job satisfaction

Entrepreneurs may experience satisfaction from developing their own ideas, serving customers and achieving business goals.

2.2 Importance of entrepreneurship to businesses

1. **Promotes business growth:** Entrepreneurs identify new markets and opportunities for expansion.

2. **Encourages innovation:** Businesses introduce improved products and production methods.

3. **Improves competitiveness:** Enterprises develop better products, prices and customer services.

4. **Promotes efficient resource utilisation:** Entrepreneurs organise land, labour, capital and technology effectively.

5. **Encourages diversification:** Businesses introduce new products and services to reduce dependence on one source of income.

6. **Improves customer satisfaction:** Entrepreneurs identify customer needs and develop appropriate solutions.

7. **Encourages investment:** Successful enterprises attract investors and additional capital.

8. **Improves productivity:** Adoption of modern technology and better management practices increases output.

2.3 Importance of entrepreneurship to the Kenyan economy



1. Creates employment opportunities

Entrepreneurship creates employment for people with different academic qualifications, technical skills and professional backgrounds.

For example, a manufacturing enterprise may employ machine operators, accountants, drivers, cleaners and sales representatives.

2. Promotes economic growth

Entrepreneurial businesses produce goods and services, increasing the level of economic activity in the country.

3. Reduces poverty

Entrepreneurship enables individuals and households to earn income through productive activities.

This helps reduce poverty and improve household welfare.

4. Promotes innovation and technological development

Entrepreneurs introduce new technologies, products and production methods.

For example, Kenyan digital entrepreneurs have developed services that support mobile payments, online trading and digital communication.

5. Encourages utilisation of local resources

Entrepreneurs identify locally available resources and use them to produce goods and services.

Examples include:

- Milk processing in dairy-producing areas.
- Honey processing in arid and semi-arid regions.
- Furniture production using timber.
- Fruit processing in agricultural regions.
- Soap manufacturing using available raw materials.

6. Promotes rural development

Entrepreneurship encourages the establishment of businesses in rural areas.

This improves access to goods, services and employment opportunities outside major towns.

7. Increases government revenue

Businesses contribute to government revenue through applicable taxes, licences, fees and other statutory payments.

The government uses revenue to finance public services and infrastructure.

8. Promotes exports and foreign exchange earnings

Entrepreneurs establish businesses that produce goods and services for international markets.

Examples include:

- Horticultural products.
- Tea.
- Coffee.
- Flowers.
- Manufactured products.
- Tourism and hospitality services.

Exports generate foreign exchange for the country.

9. Promotes competition

Entrepreneurship encourages more businesses to enter the market.

Competition may encourage enterprises to improve quality, reduce costs and provide better customer service.

10. Promotes industrialisation

Entrepreneurs establish manufacturing and processing enterprises that add value to raw materials.

For example, processing raw milk into yoghurt, cheese and butter increases its commercial value.

11. Improves standards of living

Entrepreneurship increases access to goods, services, employment and income-generating opportunities.

12. Promotes balanced regional development

Entrepreneurs establish businesses in different counties, reducing excessive concentration of economic activities in major cities.

13. Encourages investment

Successful entrepreneurial activities attract local and foreign investors who provide capital for business expansion.

14. Promotes development of infrastructure

The growth of businesses may encourage investment in roads, electricity, water supply, communication networks and storage facilities.

15. Encourages economic diversification

Entrepreneurship promotes the development of different economic sectors, including agriculture, manufacturing, tourism, transport, education and technology.

3.0 ENTREPRENEURIAL CULTURE

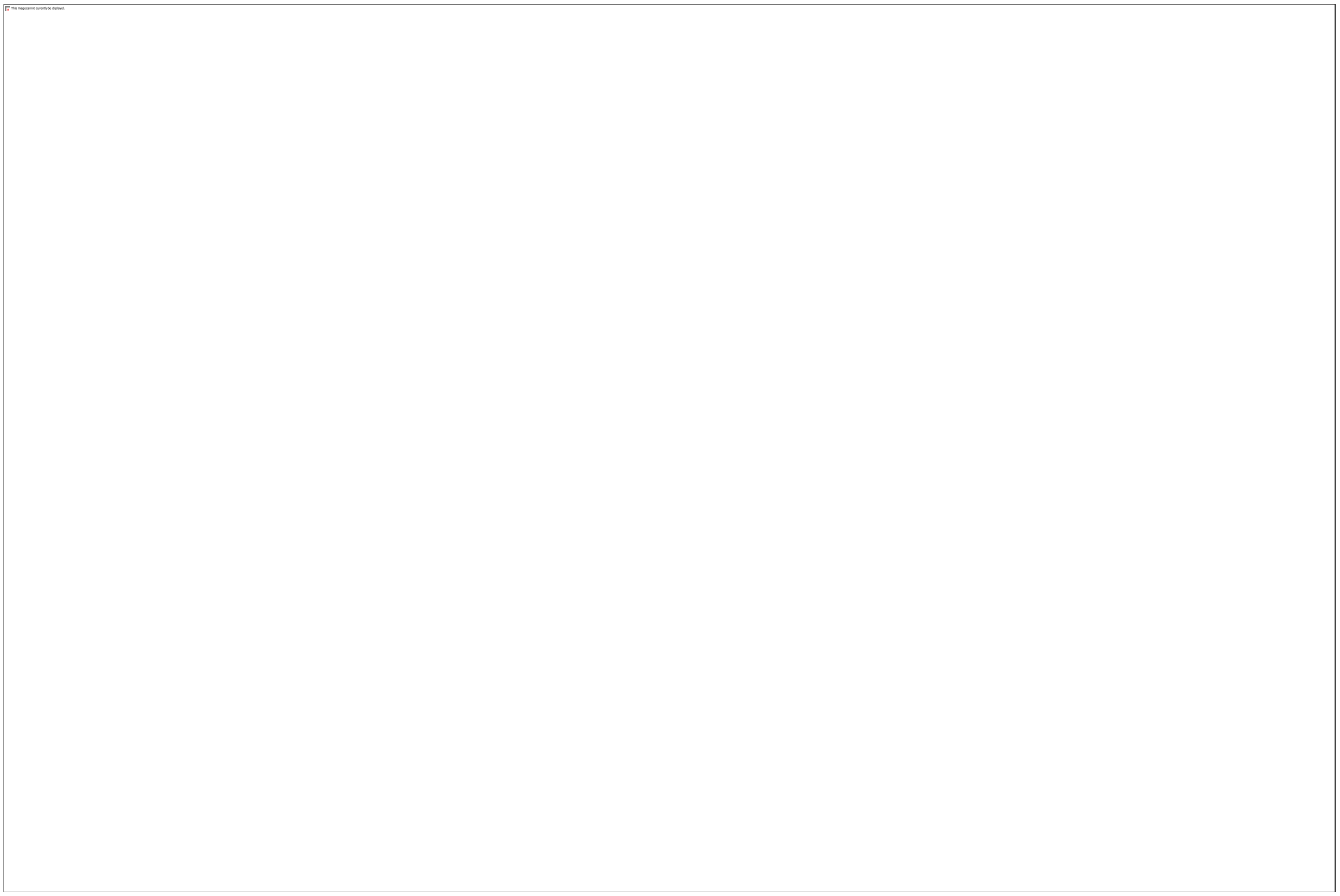
3.1 Meaning of entrepreneurial culture

Entrepreneurial culture refers to the shared attitudes, values, beliefs and behaviours within a society or organisation that encourage individuals to identify opportunities, develop business ideas, innovate, take calculated risks and establish enterprises.

It involves developing a positive attitude towards entrepreneurship as a means of improving livelihoods and promoting economic development.

Example:

A community that encourages young people to establish businesses, supports local innovators, appreciates successful entrepreneurs and provides mentorship promotes an entrepreneurial culture.



3.2 Characteristics of an entrepreneurial culture

1. Creativity

An entrepreneurial culture encourages individuals to develop original ideas and find new ways of solving problems.

2. Innovation

People are encouraged to introduce new products, services, technologies and methods of doing business.

3. Positive attitude towards business

Members of society appreciate entrepreneurship as a respectable means of earning a living and contributing to national development.

4. Willingness to take calculated risks

Individuals are encouraged to assess possible losses and benefits before making business decisions.

5. Self-reliance

People are encouraged to use their abilities and available resources to create economic opportunities.

6. Hard work and commitment

Entrepreneurial culture promotes dedication, persistence and commitment towards achieving business objectives.

7. Opportunity recognition

Individuals are encouraged to identify unmet customer needs and convert them into business opportunities.

8. Adaptability

Entrepreneurs are willing to adjust their business strategies according to changes in technology, customer preferences and market conditions.

9. Continuous learning

Entrepreneurial culture encourages individuals to acquire new knowledge and skills to improve business performance.

10. Ethical business practices

It promotes honesty, fairness, accountability and responsible treatment of customers, employees and suppliers.

11. Resilience

Individuals develop the ability to recover from business challenges and continue pursuing their objectives.

12. Collaboration

Entrepreneurs are encouraged to work together, share knowledge and form business partnerships.

3.3 Importance of entrepreneurial culture in business

Entrepreneurial culture is important because it creates an environment that encourages business establishment, innovation and growth.

1. Encourages business establishment

A positive entrepreneurial culture motivates individuals to start enterprises instead of relying entirely on formal employment.

2. Promotes innovation

It encourages employees and business owners to develop new products and improve existing services.

3. Encourages identification of opportunities

Individuals become more aware of business opportunities within their communities.

4. Promotes risk management

It encourages entrepreneurs to assess risks and prepare appropriate strategies before investing.

5. Improves business performance

A culture of creativity, teamwork and commitment may improve productivity and organisational efficiency.

6. Encourages business expansion

Entrepreneurs become more willing to explore new markets and introduce additional products.

7. Promotes competition

A society that supports entrepreneurship encourages the establishment of new enterprises, increasing market competition.

8. Encourages technological adoption

Entrepreneurs become more willing to adopt modern technologies to improve efficiency.

9. Promotes financial discipline

Entrepreneurial culture encourages proper budgeting, saving, investment and financial management.

10. Encourages problem-solving

Business owners and employees develop the ability to identify challenges and find practical solutions.

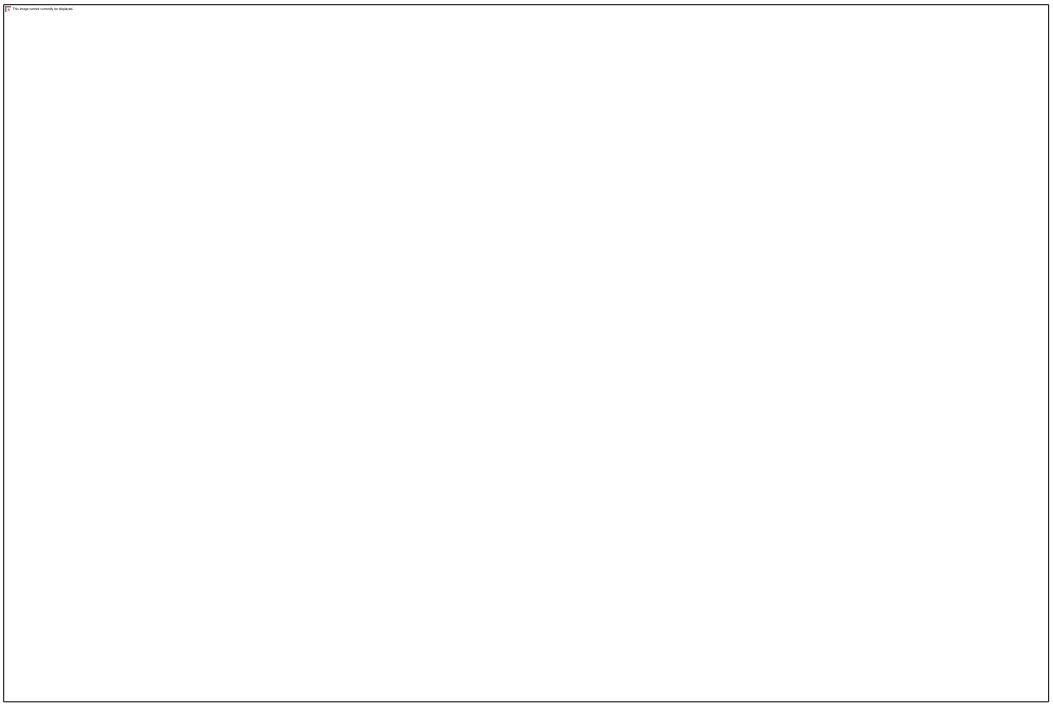
11. Promotes ethical behaviour

It encourages responsible business practices, honesty and respect for customers.

12. Encourages mentorship

Experienced entrepreneurs share their knowledge and experiences with upcoming business owners.

3.4 Ways of promoting entrepreneurial culture in Kenya



1. **Entrepreneurship education:** Schools and colleges should provide learners with business knowledge and practical entrepreneurial skills.

2. **Business mentorship:** Experienced businesspeople should guide upcoming entrepreneurs.

3. **Access to finance:** Financial institutions should provide suitable credit facilities to viable start-ups.

4. **Business incubation:** Business development centres should support new enterprises with training, workspace and professional guidance.

5. **Government support:** Government institutions should establish favourable policies for business development.

6. **Entrepreneurship competitions:** Schools and organisations should organise business idea competitions to identify and support innovators.

7. **Public awareness:** Communities should be educated about the importance of entrepreneurship.

8. **Role modelling:** Successful entrepreneurs should share their experiences to motivate upcoming businesspeople.

9. **Technology adoption:** Individuals should be encouraged to use digital platforms and modern technologies in business.

10. **Support for local products:** Consumers should be encouraged to purchase quality products made by Kenyan enterprises.

11. **Formation of business networks:** Entrepreneurs should establish networks for sharing ideas, information and business opportunities.

12. **Encouraging innovation in schools:** Learners should participate in practical projects that develop creativity and problem-solving skills.

4.0 FACTORS INFLUENCING ENTERPRISE GROWTH IN KENYA

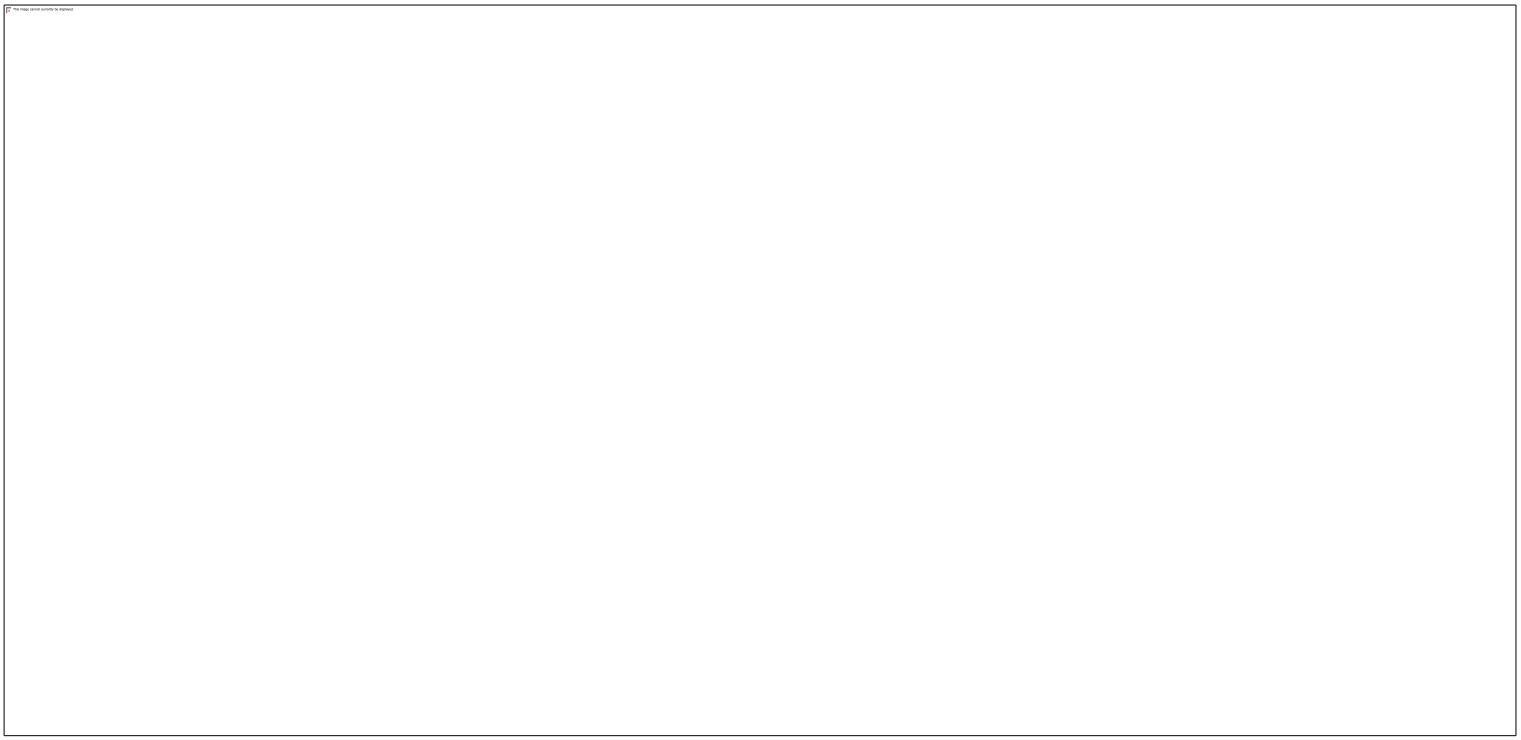
4.1 Meaning of enterprise growth

Enterprise growth refers to the expansion and development of a business in terms of sales, profits, capital, production capacity, market share, workforce and geographical coverage.

An enterprise is considered to have grown when it increases its ability to produce, sell and serve more customers while improving its business performance.

Example:

A small retail shop in Kilgoris that expands into a wholesale business, opens additional branches and employs more workers has experienced enterprise growth.



4.2 Factors that promote enterprise growth in Kenya

1. Availability of capital

Capital refers to the financial resources required to establish, operate and expand a business.

Adequate capital enables an enterprise to:

- Purchase machinery and equipment.
- Buy raw materials.
- Pay employees.
- Open additional branches.
- Finance marketing activities.
- Adopt modern technology.

For example, a Kenyan bakery with sufficient capital can purchase commercial baking equipment and increase production.

2. Availability of skilled labour

Skilled employees possess the knowledge and abilities required to perform specific business activities.

Skilled labour promotes growth through:

- Improved productivity.
- Better customer service.
- Reduced operational errors.
- Efficient use of equipment.
- Improved product quality.

3. Availability of market

A market refers to the arrangement through which buyers and sellers interact to exchange goods and services.

A large and reliable market enables businesses to sell more products and increase revenue.

For example, a company supplying learning materials to schools in different counties may experience growth due to an expanded customer base.

4. Effective management

Good management involves planning, organising, directing, coordinating and controlling business resources.

Effective management promotes:

- Proper resource allocation.
- Financial discipline.
- Efficient decision-making.
- Employee motivation.
- Achievement of business objectives.

5. Adoption of technology

Modern technology improves business operations and enables enterprises to produce goods and services more efficiently.

Examples include:

- Computers.
- Accounting software.
- Mobile payment systems.
- E-commerce platforms.
- Digital marketing tools.
- Automated production equipment.

6. Government policies

Government policies influence the environment within which enterprises operate.

Supportive policies may promote growth through:

- Business registration services.
- Infrastructure development.
- Access to training.
- Appropriate taxation policies.
- Trade facilitation.
- Protection of property rights.

Unfavourable policies or excessive regulatory burdens may limit business expansion.

7. Political stability

Political stability creates a favourable environment for business operations and investment.

It encourages:

- Long-term investment.
- Business confidence.
- Stable markets.
- Predictable business operations.
- Growth of local and foreign enterprises.

8. Good infrastructure

Infrastructure refers to the basic facilities and systems required for economic activities.

Important infrastructure includes:

- Roads.
- Electricity.
- Water supply.
- Internet connectivity.
- Railways.
- Airports.
- Storage facilities.

Good infrastructure reduces operating costs and improves access to markets.

9. Availability of raw materials

Businesses require raw materials to produce goods.

Reliable availability of quality raw materials enables enterprises to maintain continuous production.

For example, a dairy processing company requires a reliable supply of fresh milk from farmers.

10. Competition

Competition refers to rivalry among businesses offering similar or substitute products.

Healthy competition encourages enterprises to:

- Improve product quality.
- Reduce production costs.
- Improve customer service.
- Develop new products.
- Adopt better technologies.

However, intense competition may reduce sales and profit margins, especially for poorly established businesses.

11. Access to credit facilities

Credit facilities are financial resources borrowed from financial institutions or other lenders.

Access to affordable credit enables enterprises to:

- Purchase equipment.
- Expand production.
- Increase stock.
- Improve business premises.
- Finance expansion projects.

Examples of sources include commercial banks, microfinance institutions and regulated digital credit providers.

12. Entrepreneurial skills

Entrepreneurial skills enable business owners to identify opportunities, organise resources and make appropriate decisions.

Important skills include:

- Leadership.
- Communication.
- Negotiation.
- Financial management.
- Marketing.
- Planning.
- Problem-solving.

13. Marketing strategies

Effective marketing helps enterprises attract customers and increase sales.

Marketing strategies include:

- Advertising.
- Personal selling.
- Sales promotion.
- Public relations.
- Social media marketing.
- Online selling.

14. Customer satisfaction

Customers are more likely to remain loyal to businesses that provide quality products and reliable services.

Customer satisfaction promotes repeat purchases and positive recommendations.

15. Innovation and product development

Businesses that introduce improved products and services may attract new customers and increase their market share.

16. Economic conditions

Economic conditions influence purchasing power, production costs and business investment.

Important economic factors include:

- Inflation.
- Interest rates.
- Exchange rates.
- Employment levels.
- Consumer income.
- Economic growth.

For example, high inflation may increase the cost of raw materials and reduce consumers' purchasing power.

17. Business networking

Business networking involves establishing relationships with suppliers, customers, investors and other entrepreneurs.

It enables enterprises to access:

- Market information.
- New customers.
- Business partnerships.
- Investment opportunities.
- Professional advice.

18. Access to information

Reliable business information enables entrepreneurs to understand market trends, customer needs, competitors and regulatory requirements.

19. Security

A secure business environment protects employees, customers, stock, equipment and other business assets.

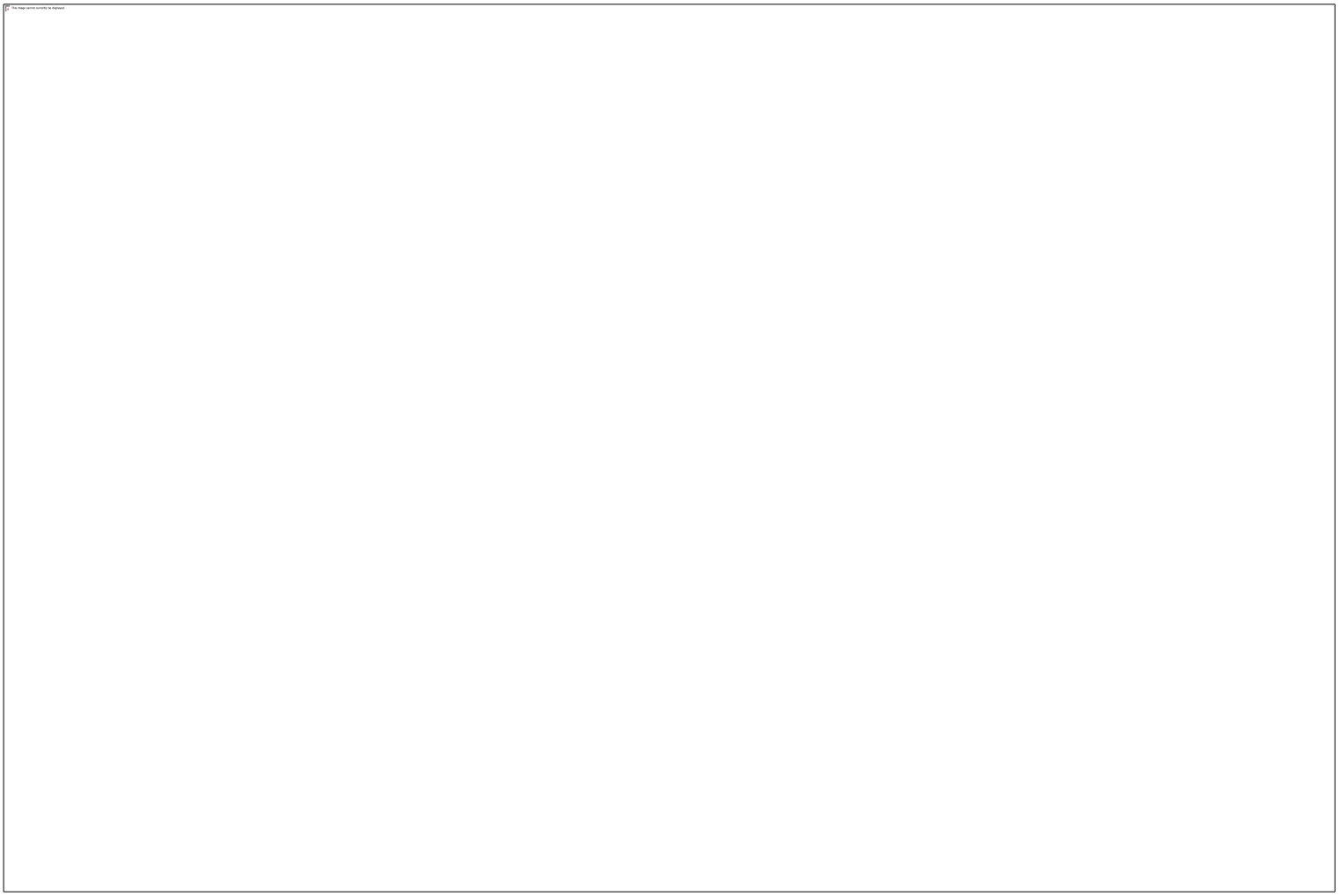
Insecurity may increase operating costs and discourage investment.

20. Business location

A suitable business location provides access to customers, suppliers, transport and other essential services.

For example, a wholesale shop located near a busy trading centre may attract more customers than one located in an inaccessible area.

4.3 Factors that hinder enterprise growth in Kenya



1. Inadequate capital

Insufficient funds limit the ability of enterprises to purchase stock, pay employees and expand operations.

2. High cost of borrowing

High interest rates and additional borrowing costs may discourage enterprises from accessing credit.

3. Poor infrastructure

Poor roads, unreliable electricity and inadequate internet connectivity increase operating costs.

4. High taxation and regulatory costs

High or complex compliance costs may reduce the funds available for business expansion.

5. Intense competition

Strong competitors may attract customers and reduce the market share of smaller enterprises.

6. Inadequate managerial skills

Poor planning, weak leadership and ineffective financial management may lead to business failure.

7. Insecurity

Theft, vandalism and other security challenges may result in financial losses.

8. Unfavourable economic conditions

Inflation, reduced consumer purchasing power and high production costs may reduce business profitability.

9. Shortage of skilled labour

Enterprises may experience reduced productivity when they lack qualified and experienced workers.

10. Unreliable supply of raw materials

Shortages of raw materials may interrupt production and delay customer orders.

11. Poor marketing strategies

Businesses that fail to promote their products may experience low sales and limited market expansion.

12. Technological challenges

Lack of appropriate technology may reduce efficiency and make businesses less competitive.

13. Unfavourable weather conditions

Droughts, floods and other climate-related challenges may affect agricultural enterprises and businesses that depend on agricultural raw materials.

14. Poor financial management

Misuse of funds, failure to maintain records and excessive borrowing may weaken business performance.

15. Unfavourable government policies

Unpredictable regulations and administrative difficulties may discourage business investment.

4.4 Measures for promoting enterprise growth in Kenya

1. Providing affordable credit facilities.
2. Improving roads, electricity and communication networks.
3. Promoting entrepreneurship education.
4. Encouraging technological innovation.
5. Improving access to local and international markets.
6. Providing business advisory services.
7. Promoting fair competition.
8. Simplifying appropriate business registration procedures.
9. Improving security.

10. Supporting research and product development.
11. Encouraging business partnerships.
12. Promoting financial literacy.
13. Supporting small and medium-sized enterprises.
14. Improving access to reliable market information.
15. Encouraging value addition to locally available resources.

5.0 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

5.1 Meaning of economic development

Economic development refers to the process through which a country improves the economic and social well-being of its people through increased production, employment, income, infrastructure, technology and improved standards of living.

Economic development goes beyond an increase in national output because it also involves improvements in people's quality of life.

5.2 Role of entrepreneurship in economic development



1. Employment creation

Entrepreneurship establishes businesses that create employment opportunities for skilled and unskilled workers.

2. Poverty reduction

Businesses provide income-generating opportunities that enable individuals and families to meet their basic needs.

3. Income generation

Entrepreneurial activities generate income for business owners, employees, suppliers and other participants in the production process.

4. Increased national output

Enterprises produce goods and services that contribute to the country's Gross Domestic Product (GDP).

5. Industrial development

Entrepreneurs establish manufacturing and processing industries that promote industrialisation.

6. Improvement of technology

Entrepreneurship encourages the development and adoption of modern technologies that improve productivity.

7. Increased government revenue

Businesses pay applicable taxes and statutory charges, contributing to government revenue.

8. Development of rural areas

Entrepreneurial activities promote investment and employment in rural communities.

9. Reduction of regional inequalities

Establishing enterprises in different regions helps distribute economic opportunities across the country.

10. Promotion of exports

Entrepreneurs establish businesses that produce goods and services for foreign markets, earning foreign exchange.

11. Reduction of imports

Local enterprises manufacture products that may substitute some imported goods, reducing dependence on foreign products where local production is competitive.

12. Improvement of living standards

Employment and income generated through entrepreneurship improve access to education, healthcare, housing and other essential services.

13. Promotion of competition

Entrepreneurship encourages the establishment of new businesses, improving product quality and customer service.

14. Utilisation of local resources

Entrepreneurs transform locally available materials into useful goods and services.

15. Development of human capital

Entrepreneurial businesses provide opportunities for training, skills development and professional experience.

16. Promotion of innovation

Entrepreneurs develop solutions to social and economic challenges through new products, services and business models.

17. Promotion of financial inclusion

Entrepreneurial activities encourage individuals to access financial services such as savings, credit, insurance and digital payments.

18. Encouragement of investment

Successful enterprises attract local and foreign investment, increasing the productive capacity of the economy.

19. Development of supporting industries

Entrepreneurship creates demand for transport, packaging, storage, communication, banking and other supporting services.

20. Promotion of sustainable development

Entrepreneurs can develop environmentally responsible businesses that conserve resources and reduce pollution.

6.0 INTELLECTUAL PROPERTY RIGHTS IN BUSINESS



6.1 Meaning of intellectual property

Intellectual property refers to creations of the human mind that have commercial, artistic, scientific or industrial value.

These creations may include:

- Inventions.
- Literary works.
- Artistic works.
- Business names and brands.
- Product designs.
- Computer software.

- Industrial innovations.

Examples:

1. A textbook author's original learning materials.
2. A company's registered brand name and logo.
3. A newly invented agricultural machine.
4. An original computer application.
5. An innovative product design.

6.2 Meaning of intellectual property rights (IPR)

Intellectual Property Rights refer to legal rights granted to creators, inventors and owners of intellectual property to protect their creations and control certain uses of those creations.

These rights help prevent unauthorised copying, reproduction, use or commercial exploitation of protected intellectual property.

In Kenya, intellectual property is protected through different laws and institutions, depending on the type of intellectual property involved.

6.3 Types of intellectual property rights

1. Copyright

Copyright is a legal protection granted to creators of original literary, artistic, musical and other eligible creative works.

It protects the expression of an idea rather than the general idea itself.

Examples:

- Textbooks.
- Novels.
- Poems.
- Photographs.
- Drawings.
- Music compositions.
- Films.
- Computer software.
- Educational notes.

Example in Kenya:

A Kenyan textbook developer who writes original Grade 11 Business Studies notes owns copyright in the original expression of the material.

Other publishers should not reproduce substantial protected content without appropriate permission or another lawful basis.

Rights protected under copyright include:

1. Reproduction of the work.
2. Distribution of copies.
3. Communication of the work to the public.
4. Adaptation of the work, where applicable.
5. Control over other restricted uses under copyright law.

Kenyan institution: Kenya Copyright Board (KECOBO).

2. Trademarks

A trademark is a distinctive sign used to identify and distinguish the goods or services of one business from those of other businesses.

It may consist of:

- Words.
- Names.
- Logos.
- Symbols.
- Letters.
- Numbers.
- Distinctive combinations of elements.

Examples:

- A registered company logo.
- A distinctive product brand.
- A business name used as a trademark.
- A distinctive packaging mark.

Importance of trademarks:

1. Identify products and services.
2. Differentiate businesses from competitors.
3. Protect brand identity.
4. Promote customer loyalty.
5. Prevent certain unauthorised uses of similar marks.
6. Support business reputation.

Kenyan institution: Kenya Industrial Property Institute (KIPI).

3. Patents

A patent is a legal right granted for an invention that meets the applicable legal requirements, including novelty, inventive step and industrial applicability.

It gives the patent holder the right to prevent others from commercially exploiting the patented invention without authorisation during the protection period.

Examples:

- A new agricultural irrigation machine.
- An innovative food-processing machine.
- A new technical manufacturing process.
- An improved industrial device.

Importance of patents:

1. Protect inventions from unauthorised commercial exploitation.
2. Encourage technological innovation.
3. Reward inventors for their creativity.
4. Promote research and development.
5. Support technology transfer and licensing.

Kenyan institution: Kenya Industrial Property Institute (KIPI).

4. Industrial designs

An industrial design protects the ornamental or aesthetic appearance of a product, subject to legal requirements.

It may relate to:

- Shape.
- Pattern.
- Configuration.
- Ornamentation.
- Lines and colours.

Examples:

- The distinctive shape of a water bottle.
- The appearance of a furniture product.
- A unique design of a household appliance.
- The ornamental appearance of product packaging.

Importance of industrial design protection:

1. Protects unique product appearances.
2. Encourages creativity in product development.
3. Differentiates products in the market.
4. Promotes investment in design.
5. Improves commercial competitiveness.

5. Trade secrets

Trade secrets refer to confidential business information that provides a business with a competitive advantage because it is not generally known or readily accessible.

The information must be subject to reasonable steps to maintain its secrecy.

Examples:

- Secret recipes.
- Manufacturing formulas.
- Confidential customer lists.
- Marketing strategies.
- Special production processes.
- Confidential pricing information.

Importance of trade secrets:

1. Protect confidential business information.
2. Maintain competitive advantage.
3. Protect valuable production knowledge.
4. Encourage business innovation.
5. Prevent unfair acquisition or disclosure of protected confidential information.

6. Geographical indications

A geographical indication identifies a product as originating from a particular geographical area where a quality, reputation or other characteristic is essentially attributable to its geographical origin.

Examples of geographical indication-related products and Kenyan contexts:

- Products associated with a recognised geographical origin.
- Regionally distinctive agricultural products.
- Specialised local food products.

A geographical indication can help protect the reputation of products associated with particular locations.

Importance:

1. Protects geographical product identity.
2. Promotes regional products.
3. Supports local producers.
4. Improves market recognition.
5. Encourages preservation of traditional production methods.

6.4 Summary of types of intellectual property

Type	What it protects	Example
Copyright	Original creative expression	Textbooks and photographs
Trademark	Distinctive business signs	Company logo
Patent	Qualifying inventions	New machinery
Industrial design	Product appearance	Unique bottle design
Trade secret	Confidential business information	Secret recipe
Geographical indication	Geographical product identity	Regionally distinctive product

7.0 IMPORTANCE OF INTELLECTUAL PROPERTY RIGHTS TO BUSINESS GROWTH

Intellectual property rights are important because they protect business creativity, inventions, brands and other valuable intangible assets.

7.1 Importance of intellectual property rights

1. Protect business innovations

IPR protects qualifying inventions and original creations from certain unauthorised uses.

This encourages entrepreneurs to develop new products and services.

2. Prevents unauthorised copying

Copyright, trademarks, patents and other forms of protection help businesses prevent unlawful exploitation of their protected intellectual property.

For example, a publisher can take appropriate legal action against the unauthorised reproduction of protected textbooks.

3. Promotes business identity

Trademarks enable businesses to establish distinctive identities through names, logos and other signs.

4. Builds customer confidence

Recognisable brands help customers identify products and distinguish genuine products from imitations.

5. Encourages investment

Investors may be more willing to support businesses with valuable and properly protected intellectual property assets.

6. Generates additional income

Businesses may earn income by licensing or commercially exploiting their intellectual property.

For example, a software developer may license software to other companies.

7. Promotes innovation

Legal protection encourages inventors, writers and entrepreneurs to invest time and resources in developing new ideas and products.

8. Creates competitive advantage

Protected intellectual property can help a business distinguish itself from competitors.

9. Promotes business expansion

Businesses may use their intellectual property to enter new markets through licensing, franchising and other commercial arrangements.

10. Protects business reputation

Trademark protection helps businesses safeguard the identity and reputation associated with their brands.

11. Encourages research and development

IPR provides an incentive for businesses to invest in research, product development and technological improvement.

12. Increases business value

Intellectual property can be a valuable intangible asset that contributes to the overall value of an enterprise.

13. Promotes fair competition

Intellectual property laws help discourage certain forms of counterfeiting, infringement and unfair commercial exploitation.

14. Supports technology transfer

Licensing and other lawful arrangements allow businesses to share and commercially apply protected technologies.

15. Encourages creativity

Copyright protection encourages authors, artists, designers and other creators to produce original works.

16. Facilitates franchising

Businesses with recognised brands and protected business systems may expand through franchising arrangements.

17. Protects confidential information

Appropriate protection of trade secrets helps businesses maintain valuable confidential information.

18. Promotes economic development

IPR supports innovation, investment, creative industries, manufacturing and technology-based businesses.



7.2 Consequences of failure to protect intellectual property

1. Unauthorised copying of business products.
2. Loss of income through infringement.
3. Damage to business reputation.
4. Loss of competitive advantage.
5. Misuse of business logos and trademarks.
6. Reduced motivation to innovate.
7. Loss of confidential business information.
8. Difficulty establishing ownership of certain intellectual property.
9. Increased business disputes.
10. Reduced investor confidence.

8.0 INTELLECTUAL PROPERTY PROTECTION IN KENYA

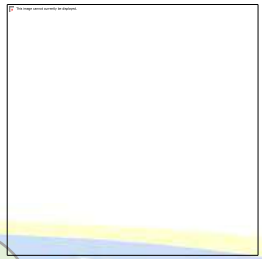
Kenya has institutions responsible for administering and supporting different aspects of intellectual property protection.

8.1 Kenya Copyright Board (KECOBO)

KECOBO is responsible for administering copyright and related rights in Kenya.

Its roles include:

1. Administering copyright and related rights.
2. Supporting copyright registration services.
3. Promoting awareness of copyright protection.



4. Supporting enforcement of copyright law.
5. Maintaining relevant copyright records.
6. Supporting the development of the creative industries.

8.2 Kenya Industrial Property Institute (KIPI)

Kenya Industrial Property Institute

KIPI administers industrial property matters in Kenya.

Its responsibilities include:

1. Registration and administration of trademarks.
2. Administration of patent applications.
3. Administration of industrial design applications.
4. Promotion of industrial property awareness.
5. Encouraging innovation and technological development.
6. Supporting inventors and business enterprises.
7. Providing information on industrial property rights.

8.3 Kenya Plant Health Inspectorate Service (KEPHIS)

Kenya Plant Health Inspectorate Service.

KEPHIS has responsibilities relating to plant variety protection and other plant health regulatory functions.

Its role in plant breeders' rights includes:

- Receiving and processing relevant applications.
- Supporting protection of qualifying new plant varieties.
- Promoting quality and protection in the seed sector.
- Supporting plant variety development.

8.4 Practical steps for protecting intellectual property in Kenya

1. Identify the intellectual property owned by the business.
2. Determine the appropriate type of protection.
3. Conduct the necessary searches to establish whether similar rights already exist.
4. Prepare the required application or documentation.
5. Apply through the relevant institution where registration is required.
6. Maintain relevant ownership and creation records.
7. Use confidentiality agreements where appropriate.
8. Monitor the market for possible infringement.
9. Take appropriate legal action where rights are infringed.

10. Renew or maintain registered rights where required.

Important: Not all intellectual property rights arise through registration. Copyright protection, for example, generally arises automatically when an eligible original work is created and fixed in a material form. Registration can nevertheless assist with evidence and administration.

9.0 ENTREPRENEURSHIP AND INTELLECTUAL PROPERTY: PRACTICAL KENYAN BUSINESS CASE STUDY

Case study: A Kenyan educational publishing enterprise

A young Kenyan entrepreneur establishes an educational publishing business that develops and sells learning materials for schools.

The entrepreneur creates original textbooks, revision booklets, assessment papers and digital learning resources.

The business develops a distinctive company logo and brand name and uses computers and publishing software to prepare learning materials.

As the business grows, other individuals begin reproducing and distributing its materials without permission.

The entrepreneur decides to protect the business's intellectual property.

Intellectual property rights applicable to the enterprise

Business asset	Appropriate protection
Original textbooks	Copyright
Original revision materials	Copyright
Company logo	Trademark
Distinctive business brand	Trademark
Original software code	Copyright
Confidential customer database	Trade secret/confidentiality protection
Unique qualifying technical invention	Patent

Lessons from the case study

1. Original educational materials are valuable business assets.
2. Copyright helps protect original written and artistic content.
3. Trademarks help establish a distinctive business identity.
4. Intellectual property protection can support business expansion.
5. Licensing can generate additional income.
6. Businesses should maintain evidence of ownership.
7. Entrepreneurs should respect the intellectual property rights of others.

10.0 DIFFERENCES BETWEEN ENTREPRENEURSHIP AND EMPLOYMENT

Entrepreneurship	Employment

Involves establishing or developing an enterprise	Involves working for an employer
Entrepreneur takes business risks	Employee generally does not bear the employer's overall business risk
Income may come from business profits	Income generally comes from wages or salary
Entrepreneur makes major business decisions	Employee works within assigned responsibilities
May involve employing other people	Employee provides labour to an employer
Income may fluctuate	Salary may be relatively predictable
Entrepreneur mobilises business resources	Employee uses resources provided by the employer
Business ownership may belong to entrepreneur	Business ownership generally belongs to employer or shareholders

REVISION QUESTIONS

SUB-STRAND 1.3

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. What is entrepreneurship?

A. The process of consuming goods and services.

B. The process of identifying opportunities and establishing enterprises.

C. The process of distributing government revenue.

D. The process of employing workers only.

2. An individual who identifies a business opportunity and organises resources to establish an enterprise is called a/an:

A. Consumer. B. Employee.

C. Entrepreneur. D. Wholesaler.

3. Which of the following is an example of entrepreneurship in Kenya?

A. Purchasing goods for personal consumption.

B. Establishing a commercial poultry farm.

C. Attending a business meeting as a visitor.

D. Receiving a personal gift.

4. Which of the following is an importance of entrepreneurship to individuals?

A. Increasing personal dependence.

B. Creating self-employment opportunities.

C. Preventing innovation.

D. Discouraging investment.

5. Entrepreneurship contributes to government revenue through:

A. Avoidance of taxation.

B. Payment of applicable taxes.

C. Reduction of production.

D. Elimination of trade.

6. Which of the following best describes entrepreneurial culture?

A. A culture that discourages business ownership.

B. Shared values and attitudes that encourage entrepreneurship.

C. A culture that discourages innovation.

D. A culture that promotes dependence.

7. Which of the following is a characteristic of an entrepreneurial culture?

A. Fear of change.

B. Lack of creativity.

C. Innovation and calculated risk-taking.

D. Resistance to learning.

8. Which of the following promotes entrepreneurial culture in Kenya?

A. Discouraging business education.

B. Limiting access to business information.

C. Providing entrepreneurship training and mentorship.

D. Preventing business networking.

9. Enterprise growth refers to:

A. Reduction in business activities.

B. Expansion of business operations and performance.

C. Closure of business branches.

D. Reduction in customer numbers.

10. Which of the following promotes enterprise growth?

A. Inadequate capital.

B. Poor management.

C. Availability of skilled labour.

D. Poor infrastructure.

11. Which of the following is likely to hinder enterprise growth?

A. Effective management.

B. Access to affordable finance.

C. Inadequate capital.

D. Good infrastructure.

12. A business that adopts modern accounting software is benefiting from:

A. Technological development.

B. Political instability.

C. Inadequate management.

D. Poor infrastructure.

13. Which of the following contributes to rural development through entrepreneurship?

A. Closure of rural enterprises.

B. Establishment of businesses in rural areas.

C. Reduction of agricultural production.

D. Limitation of market access.

14. Entrepreneurship promotes industrialisation through:

A. Establishment of manufacturing enterprises.

B. Reduction of production activities.

C. Closure of processing industries.

D. Discouragement of investment.

15. Which of the following is an example of intellectual property?

A. A public road.

B. An original textbook.

C. A water tank.

D. A delivery vehicle.

16. The legal protection granted to original literary and artistic works is called:

A. Patent.

B. Copyright.

C. Trademark.

D. Industrial licence.

17. Which institution administers copyright matters in Kenya?

A. KIPI.

B. KECOBO.

C. KRA.

D. KNBS.

18. A distinctive sign used to identify the goods or services of a business is called:

A. Patent.

B. Trademark.

C. Trade secret.

D. Copyright.

19. Which institution is responsible for administering trademarks and patents in Kenya?

A. KECOBO.

B. KIPI.

C. KRA.

D. NSSF.

20. A legal right granted for a qualifying invention is called:

A. Copyright.

B. Patent.

C. Trademark.

D. Business permit.

21. A confidential recipe used by a food-processing company is an example of:

A. Trade secret.

B. Copyright registration.

C. Public information.

D. Geographical indication.

22. Which of the following is an example of an industrial design?

A. A business loan.

B. The distinctive ornamental appearance of a product.

C. A worker's salary.

D. A company's electricity bill.

23. One major importance of intellectual property rights is to:

A. Encourage unauthorised copying.

B. Protect business innovations and creations.

C. Eliminate business competition.

D. Prevent technological development.

24. A textbook author who allows another publisher to use protected material under agreed conditions is engaging in:

A. Licensing.

B. Tax evasion.

C. Price discrimination.

D. Unfair competition.

25. Which of the following is an economic contribution of entrepreneurship?

A. Increasing unemployment.

B. Reducing national production.

C. Creating employment opportunities.

D. Discouraging investment.

26. A business that sells its products in international markets contributes to the economy through:

A. Reducing exports.

B. Earning foreign exchange.

C. Increasing unemployment.

D. Reducing production.

27. Which of the following is a measure of promoting enterprise growth?

A. Discouraging technological adoption.

B. Providing business training.

C. Restricting market information.

D. Limiting access to finance.

28. A business that introduces a new method of producing goods demonstrates:

A. Innovation.

B. Business closure.

C. Economic decline.

D. Market failure.

29. Which intellectual property right is most directly associated with protecting a company's distinctive logo?

A. Patent.

B. Copyright only.

C. Trademark.

D. Trade secret.

30. Which of the following best explains the importance of entrepreneurial culture?

A. It discourages people from identifying opportunities.

B. It encourages innovation and enterprise development.

C. It promotes business failure.

D. It prevents individuals from taking calculated risks.

SECTION B: STRUCTURED QUESTIONS

Question 1: Introduction to entrepreneurship

a) Define entrepreneurship. (2 marks)

b) Explain the meaning of an entrepreneur. (2 marks)

c) Explain six characteristics of a successful entrepreneur. (12 marks)

d) Distinguish between an entrepreneur and an employee. (4 marks)

Question 2: Importance of entrepreneurship

a) Explain eight importance of entrepreneurship to individuals. (16 marks)

b) Explain eight ways entrepreneurship contributes to the Kenyan economy. (16 marks)

c) State four examples of entrepreneurial activities in Kenya. (4 marks)

Question 3: Entrepreneurial culture

a) Define entrepreneurial culture. (2 marks)

b) Explain eight characteristics of an entrepreneurial culture. (16 marks)

c) Explain six ways of promoting entrepreneurial culture in Kenya. (12 marks)

d) State four importance of entrepreneurial culture to business enterprises. (4 marks)

Question 4: Enterprise growth

a) Define enterprise growth. (2 marks)

b) Explain ten factors that promote enterprise growth in Kenya. (20 marks)

c) Explain six factors that hinder enterprise growth in Kenya. (12 marks)

d) State four measures that can be adopted to promote enterprise growth. (4 marks)

Question 5: Entrepreneurship and economic development

a) Define economic development. (2 marks)

b) Explain ten roles of entrepreneurship in economic development. (20 marks)

c) Explain four ways entrepreneurship promotes rural development in Kenya. (8 marks)

Question 6: Intellectual property rights

a) Define intellectual property. (2 marks)

b) Explain the meaning of intellectual property rights. (2 marks)

c) Explain six types of intellectual property rights. (18 marks)

d) Identify two institutions involved in intellectual property protection in Kenya. (4 marks)

e) State four examples of intellectual property in a business enterprise. (4 marks)

Question 7: Importance of intellectual property rights

a) Explain ten importance of intellectual property rights to business growth. (20 marks)

b) Explain six consequences of failure to protect intellectual property. (12 marks)

c) State four ways through which a business can protect its intellectual property. (4 marks)

Question 8: Application of intellectual property rights

A Kenyan entrepreneur establishes a publishing enterprise that produces textbooks, revision booklets and digital learning materials. The enterprise develops its own logo and brand name. Later, another business begins reproducing and selling the entrepreneur's textbooks without permission.

a) Identify the type of intellectual property that protects the original textbooks. (2 marks)

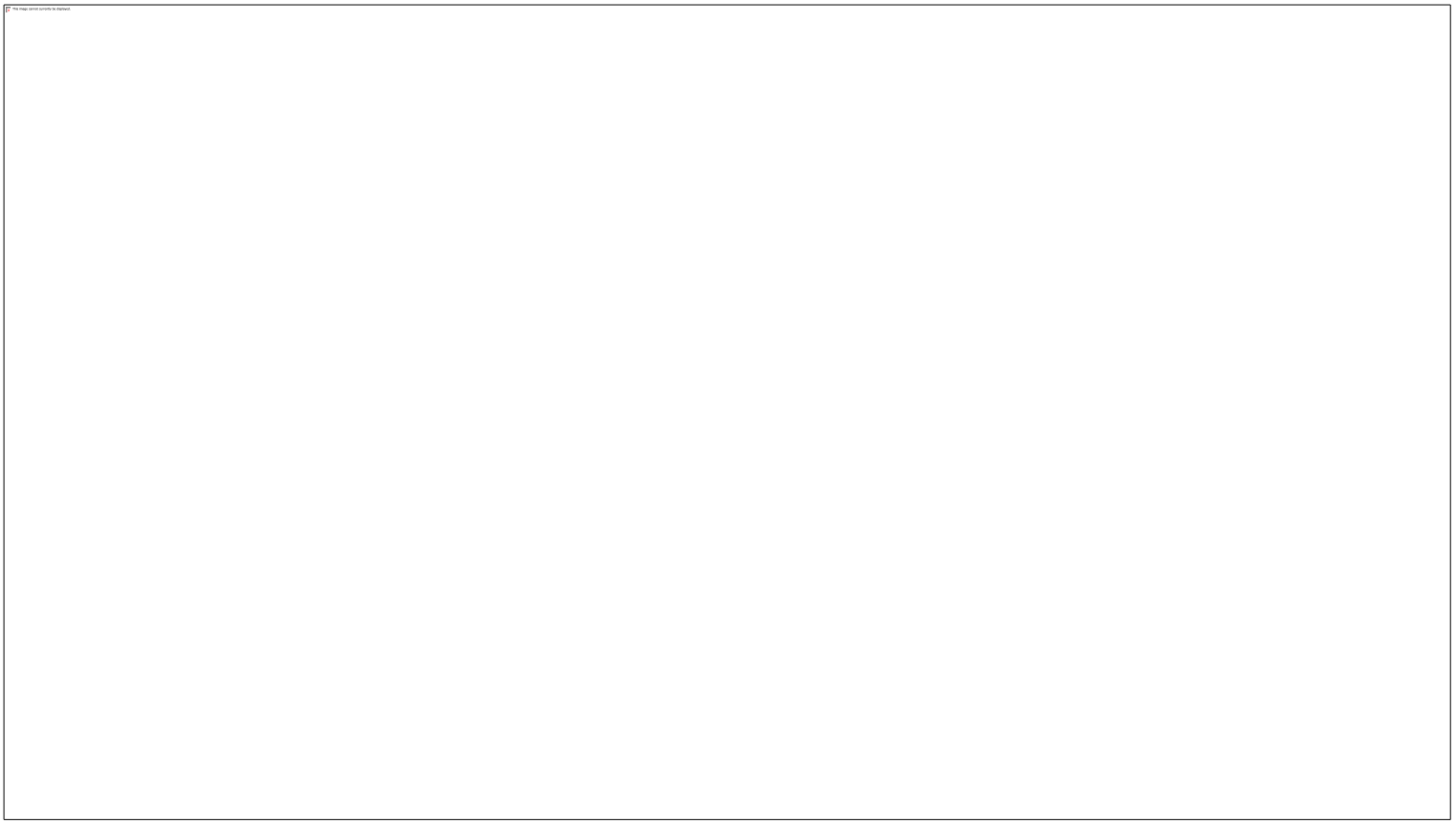
b) Identify the intellectual property right that may protect the company's distinctive logo. (2 marks)

c) Explain five importance of protecting the enterprise's intellectual property. (10 marks)

d) Identify the relevant Kenyan institution responsible for administering copyright matters. (2 marks)

e) Explain four measures the entrepreneur can take to protect the enterprise's intellectual property. (8 marks)

PROJECT-BASED LEARNING ACTIVITIES



Activity 1: Identifying business opportunities

Learners work in groups to identify business opportunities within their local communities.

They should:

1. Identify problems experienced by community members.
2. Identify goods and services that are in high demand.
3. Suggest possible business solutions.
4. Identify resources required to establish the proposed enterprises.
5. Present their ideas to the class.

Expected outcome: Learners develop opportunity identification, creativity and problem-solving skills.

Activity 2: Developing a simple business idea

Learners select one business idea and prepare a simple business proposal.

The proposal should include:

- Business name.
- Products or services.
- Target customers.
- Required capital.
- Sources of finance.
- Marketing strategies.

- Expected challenges.
- Proposed solutions.

Activity 3: Intellectual property identification

Learners investigate different businesses in their locality and identify their intellectual property assets.

They should identify:

1. Business names.
2. Company logos.
3. Product brands.
4. Original creative works.
5. Product designs.
6. Possible confidential business information.

Learners present their findings and explain how intellectual property protection supports business growth.

Activity 4: Entrepreneurial role models

Learners identify successful entrepreneurs in Kenya and research their contributions.

They should investigate:

- Business opportunities identified.
- Resources mobilised.
- Challenges encountered.
- Innovations introduced.
- Contributions to employment.
- Contributions to economic development.

Activity 5: School-based enterprise project

Learners establish a small school-based enterprise under appropriate school supervision.

Possible projects include:

- Selling stationery.
- Growing vegetables.
- Producing handmade products.
- Making reusable shopping bags.
- Developing digital posters.
- Selling seedlings.

Learners maintain simple business records and present their experiences.

15.0 KEY TERMINOLOGY

Term	Definition
Entrepreneurship	Process of identifying opportunities and establishing enterprises
Entrepreneur	Individual who organises resources and takes calculated risks to establish an enterprise
Enterprise	A business undertaking that produces or provides goods and services
Entrepreneurial culture	Shared values and attitudes that encourage entrepreneurship
Innovation	Introduction of new or improved products, processes or services
Creativity	Ability to develop original ideas
Enterprise growth	Expansion and development of a business
Economic development	Improvement in the economic and social well-being of a country
Intellectual property	Creations of the human mind
Intellectual property rights	Legal rights protecting eligible intellectual creations
Copyright	Legal protection for eligible original creative works
Trademark	Distinctive sign identifying goods or services
Patent	Legal right protecting a qualifying invention
Industrial design	Protection of the ornamental appearance of a product
Trade secret	Confidential business information with commercial value
Licensing	Permission granted to another party to use intellectual property under agreed conditions
Business incubation	Support provided to new enterprises to help them develop
Business innovation	Introduction of new ideas and improvements in business operations

STRAND 1.0: BUSINESS AND ITS ENVIRONMENT

SUB-STRAND 1.4: PROCUREMENT

1.4.1 Introduction to Procurement

Procurement is an important activity in every organisation because it ensures that the goods and services required for its daily operations are obtained at the right time, in the right quantity, at the right quality and at a reasonable cost.

Organisations such as schools, hospitals, government departments, manufacturing companies, supermarkets and non-governmental organisations require different goods and services to operate effectively. These may include stationery, furniture, computers, raw materials, transport, cleaning services, security services and construction services.

Effective procurement enables an organisation to use its financial resources responsibly, maintain quality standards and achieve its objectives.

1. Meaning of Procurement

Procurement refers to the process of identifying an organisation's needs, sourcing suppliers, obtaining quotations, evaluating offers, selecting suppliers, purchasing goods or services and ensuring that the goods or services are delivered according to the agreed requirements.

In simple terms, procurement is the process through which an organisation obtains the goods and services it needs to operate.

Examples of procurement in Kenyan organisations:

1. A school purchasing textbooks, exercise books, desks and computers.
2. A hospital acquiring medical equipment, medicines and cleaning services.
3. A construction company purchasing cement, timber, roofing materials and steel.
4. A supermarket purchasing food products from wholesalers and manufacturers.
5. A county government contracting a company to construct roads.
6. A hotel obtaining food supplies, furniture and laundry services.

2. Important Terms Used in Procurement

a) Purchasing

Purchasing refers to the actual process of buying goods and services required by an organisation.

It involves activities such as placing orders, negotiating prices, making payments and receiving purchased items.

b) Supplier

A supplier is an individual, business or organisation that provides goods or services to another organisation.

Examples include:

- A stationery shop supplying exercise books to a school.
- A cement manufacturer supplying cement to a construction company.
- A cleaning company providing cleaning services to an office.

c) Tender

A tender is a formal invitation issued by an organisation requesting interested suppliers or contractors to submit competitive offers for supplying specified goods, services or works.

d) Quotation

A quotation is a written statement provided by a supplier showing the prices, quantities, specifications and terms under which goods or services can be supplied.

e) Purchase order

A purchase order is an official document issued by a buyer to a supplier requesting the supply of specified goods or services under agreed conditions.

f) Procurement officer

A procurement officer is an employee responsible for coordinating the acquisition of goods, services and works on behalf of an organisation.

g) Contract

A contract is a legally binding agreement between two or more parties that establishes their rights and obligations.

h) Requisition

A requisition is a formal request made by a department or employee asking the organisation to purchase particular goods or services.

i) Inventory

Inventory refers to the stock of goods and materials held by an organisation for use in its operations or for sale.

j) Delivery note

A delivery note is a document provided by a supplier showing the goods delivered to an organisation, including their descriptions and quantities.

1.4.2 Importance of Procurement in an Organisation

Procurement plays an important role in ensuring that an organisation obtains the resources it needs to achieve its objectives.

The following are the main reasons why procurement is important:

1. Ensures availability of goods and services

- Procurement ensures that the goods and services required by an organisation are available when needed.
- It prevents interruptions in daily operations caused by shortages.
- For example, a school procures teaching materials and stationery to ensure that learning activities continue smoothly.

2. Promotes cost savings

- Procurement enables an organisation to obtain goods and services at competitive prices.
- Comparing quotations from different suppliers helps an organisation identify affordable offers.
- It also reduces unnecessary expenditure and wastage of resources.

- For example, a hospital may compare prices from different suppliers before purchasing medical equipment.

3. Ensures quality of goods and services

- Procurement enables an organisation to specify the quality standards expected from suppliers.
- It helps prevent the purchase of substandard, defective or unsuitable goods.
- Quality supplies improve organisational performance and customer satisfaction.
- For example, a construction company should procure building materials that meet the required quality and safety standards.

4. Promotes efficient use of organisational resources

- Procurement helps an organisation plan how its money and other resources will be used.
- It reduces unnecessary purchases and duplication of orders.
- This ensures that available resources are directed towards important organisational activities.

5. Supports timely delivery

- Effective procurement involves planning purchases and agreeing on delivery schedules.
- This ensures that goods and services are delivered when required.
- It prevents delays in production and service delivery.
- For example, a bakery needs flour and other ingredients delivered regularly to maintain production.

6. Promotes transparency and accountability

- Procurement procedures provide records showing how purchasing decisions are made.
- They help an organisation monitor expenditure and identify those responsible for procurement decisions.
- Proper documentation reduces the possibility of misuse of funds.

7. Encourages competition among suppliers

- Inviting different suppliers to submit quotations or tenders promotes competition.
- Competition may result in better prices, improved quality and better service.
- It also gives an organisation a wider choice of suppliers.

8. Reduces the risk of fraud and corruption

- Proper procurement procedures establish controls over purchasing activities.
- They reduce opportunities for bribery, favouritism, inflated prices and unauthorised purchases.
- For example, requiring independent evaluation of quotations can reduce unfair supplier selection.

9. Improves organisational productivity

- Procurement ensures that employees have the materials, equipment and services required to perform their duties.
- Availability of appropriate resources improves efficiency and reduces delays.
- For example, providing computers and reliable internet services enables employees to complete office work more efficiently.

10. Supports organisational growth and expansion

- Procurement enables an organisation to acquire additional equipment, machinery, raw materials and services needed for expansion.
- It supports increased production and improved service delivery.
- For example, a manufacturing enterprise may procure additional machinery to increase its production capacity.

11. Strengthens relationships with suppliers

- Fair treatment, timely payments and clear communication encourage good relationships with suppliers.
- Reliable suppliers may provide better services, favourable terms and consistent supplies.
- Strong supplier relationships contribute to business continuity.

12. Promotes compliance with laws and regulations

- Procurement helps organisations follow applicable laws, regulations, policies and contractual requirements.
- It ensures that goods and services are acquired through acceptable procedures.
- In Kenya, public entities must follow the applicable public procurement and asset disposal legal framework.

13. Supports customer satisfaction

- Procurement ensures that an organisation obtains quality materials and services required to satisfy its customers.
- Reliable supplies help organisations deliver products and services on time.
- For example, a supermarket that procures fresh and quality food products is more likely to satisfy its customers.

14. Promotes innovation and technological development

- Procurement enables organisations to acquire modern technology, machinery and improved services.
- This helps organisations adopt better working methods.
- For example, a school may procure digital learning devices to support technology-based teaching and learning.

1.4.3 Methods of Procurement Used in an Organisation

Different organisations use different procurement methods depending on the nature of the goods or services required, the value of the purchase, urgency, availability of suppliers and applicable procurement regulations.

A procurement method refers to the approach used by an organisation to identify and select a supplier for goods, services or works.

The main procurement methods include:

1. Open Tendering

Open tendering is a procurement method in which an organisation publicly advertises its requirements and invites all interested and qualified suppliers to submit tenders.

Features of open tendering:

- The opportunity is advertised publicly.
- All interested and qualified suppliers are allowed to participate.
- Suppliers submit their bids within a specified period.
- Bids are evaluated using predetermined criteria.
- The successful supplier is selected according to the applicable evaluation requirements.

Advantages of open tendering:

1. Promotes competition among suppliers.
2. Encourages transparency in procurement.
3. Provides an organisation with a wide choice of suppliers.
4. May result in competitive prices.
5. Reduces opportunities for favouritism when properly managed.
6. Gives qualified suppliers equal opportunities to compete.

Disadvantages of open tendering:

1. It may take a long time to complete.
2. Advertising and evaluating tenders may be expensive.
3. It may attract many applications, increasing administrative work.
4. It requires competent personnel to evaluate bids.
5. It may not be suitable for urgent purchases.

Example: A county government publicly advertises a tender for the construction of a health centre and invites qualified construction companies to submit bids.

2. Restricted Tendering

Restricted tendering is a procurement method in which an organisation invites only selected suppliers who meet specified qualifications to submit tenders.

Features:

- Only selected suppliers are invited.

- Suppliers are usually chosen based on their qualifications, experience or ability.
- The organisation evaluates the submitted tenders.
- It is used where specialised suppliers may be limited or where the applicable rules permit it.

Advantages:

1. Saves time compared with an open process.
2. Allows an organisation to deal with suppliers who have relevant experience.
3. Reduces the number of bids to be evaluated.
4. May be suitable for specialised goods and services.

Disadvantages:

1. It may reduce competition.
2. Qualified suppliers may be excluded if selection is poorly conducted.
3. It can create opportunities for favouritism.
4. It may result in higher prices if there are few competing suppliers.

Example: A hospital invites a limited number of qualified companies to tender for the maintenance of specialised medical equipment, where the method is legally permitted.

3. Request for Quotations (RFQ)

Request for quotations is a procurement method in which an organisation invites suppliers to provide written prices and terms for supplying specified goods or services.

Features:

- The organisation identifies the goods or services required.
- It requests quotations from suitable suppliers.
- Suppliers provide prices and other relevant details.
- The organisation compares the quotations.
- The supplier is selected according to the applicable requirements.

Advantages:

1. It is relatively quick and simple.
2. It enables comparison of prices from different suppliers.
3. It reduces administrative work for suitable purchases.
4. It helps organisations identify competitive offers.

Disadvantages:

1. It may not be suitable for complex projects.
2. Some suppliers may provide incomplete or inaccurate information.
3. It may encourage an organisation to focus only on price while ignoring quality.
4. It may not provide enough competition where few suppliers are available.

Example: A school requests quotations from three stationery suppliers before purchasing exercise books and pens.

4. Direct Procurement

Direct procurement is a procurement method in which an organisation obtains goods, services or works directly from a particular supplier without conducting a competitive tendering process.

It should only be used where the applicable legal conditions permit it, such as certain cases involving exclusive rights, compatibility or other justified circumstances.

Features:

- The organisation deals directly with a particular supplier.
- There may be no competition from other suppliers.
- The choice must be supported by valid reasons.
- The procurement must comply with applicable laws and internal controls.

Advantages:

1. It may save time in legally justified circumstances.
2. It can be useful where only one supplier can provide the required product.
3. It may help maintain compatibility with existing equipment or systems.
4. It can simplify procurement in specific circumstances.

Disadvantages:

1. It may result in higher prices due to limited competition.
2. It can create opportunities for corruption and favouritism.
3. It may limit the organisation's choice.
4. It requires careful justification and documentation.

Example: An organisation purchases a specialised replacement component directly from the authorised manufacturer where the component is available only from that manufacturer.

5. Request for Proposals (RFP)

A request for proposals is a procurement method in which an organisation invites suppliers or service providers to submit detailed proposals explaining how they intend to meet a particular organisational need.

The proposals may include technical approaches, experience, work plans, costs and expected results.

Features:

- The organisation describes the problem or service required.
- Interested providers submit detailed proposals.
- Proposals are evaluated using technical and financial criteria.
- The organisation selects the proposal that best meets its requirements.

Advantages:

1. Encourages innovative solutions.
2. Allows comparison of different technical approaches.
3. Helps identify experienced service providers.
4. Is suitable for complex services and consultancy assignments.

Disadvantages:

1. Preparing proposals may be expensive for suppliers.
2. Evaluation can take a long time.
3. Requires skilled personnel to assess proposals.
4. The process may be complicated.

Example: A company invites proposals from ICT firms to develop a new computerised stock management system.

6. Framework Agreements

A framework agreement is an arrangement between an organisation and one or more suppliers establishing the terms under which specified goods or services may be supplied over a particular period.

Features:

- The organisation identifies frequently required goods or services.
- Suppliers are selected through an appropriate procurement process.
- The parties agree on terms and conditions.
- Orders are made when the goods or services are required, according to the agreement.

Advantages:

1. Reduces repeated procurement work.
2. Saves time when purchasing regularly needed goods.
3. May provide more predictable prices and supply arrangements.
4. Encourages long-term relationships with reliable suppliers.

Disadvantages:

1. The organisation may become too dependent on selected suppliers.
2. Market prices may change during the agreement period.
3. Poorly negotiated terms may disadvantage the organisation.
4. It may reduce flexibility if organisational needs change.

Example: A school enters into a framework agreement with a stationery supplier for regular delivery of exercise books, printing paper and pens during the school year.

7. Electronic Procurement (E-Procurement)

Electronic procurement refers to the use of digital systems and internet-based platforms to carry out procurement activities.

Features:

- Procurement activities are conducted using digital systems.
- Suppliers may receive tender notices electronically.
- Quotations and bids may be submitted through online platforms.
- Purchase orders and procurement records can be stored electronically.
- Electronic systems may support supplier evaluation and payment processes.

Advantages:

1. Saves time and reduces paperwork.
2. Improves access to procurement information.
3. Makes it easier to maintain procurement records.
4. Can improve transparency and accountability.
5. Reduces some administrative costs.
6. Enables organisations to communicate with suppliers more efficiently.

Disadvantages:

1. Requires reliable internet connectivity.
2. May expose the organisation to cybercrime and data breaches.
3. Requires trained personnel.
4. System failures may interrupt procurement activities.
5. Some suppliers may lack the necessary digital skills or equipment.

Example: A Kenyan public entity uses the applicable government electronic procurement platform to conduct procurement activities.

8. Emergency Procurement

Emergency procurement refers to the acquisition of urgently needed goods, services or works in response to an unexpected situation that requires immediate action.

It must be conducted within the conditions and safeguards established by applicable procurement laws.

Examples:

- Procuring emergency medical supplies during an outbreak.
- Obtaining materials to repair a damaged water supply system.
- Acquiring emergency relief food after floods.
- Engaging urgent repair services after a fire.

Advantages:

1. Enables quick response to emergencies.
2. Helps prevent further damage or loss.
3. Supports continuity of essential services.
4. Ensures that urgent needs are addressed.

Disadvantages:

1. Limited time may reduce competition.
2. Goods may be obtained at higher prices.
3. It may increase the risk of poor purchasing decisions.
4. It requires strong documentation and accountability to prevent abuse.

Summary of Procurement Methods

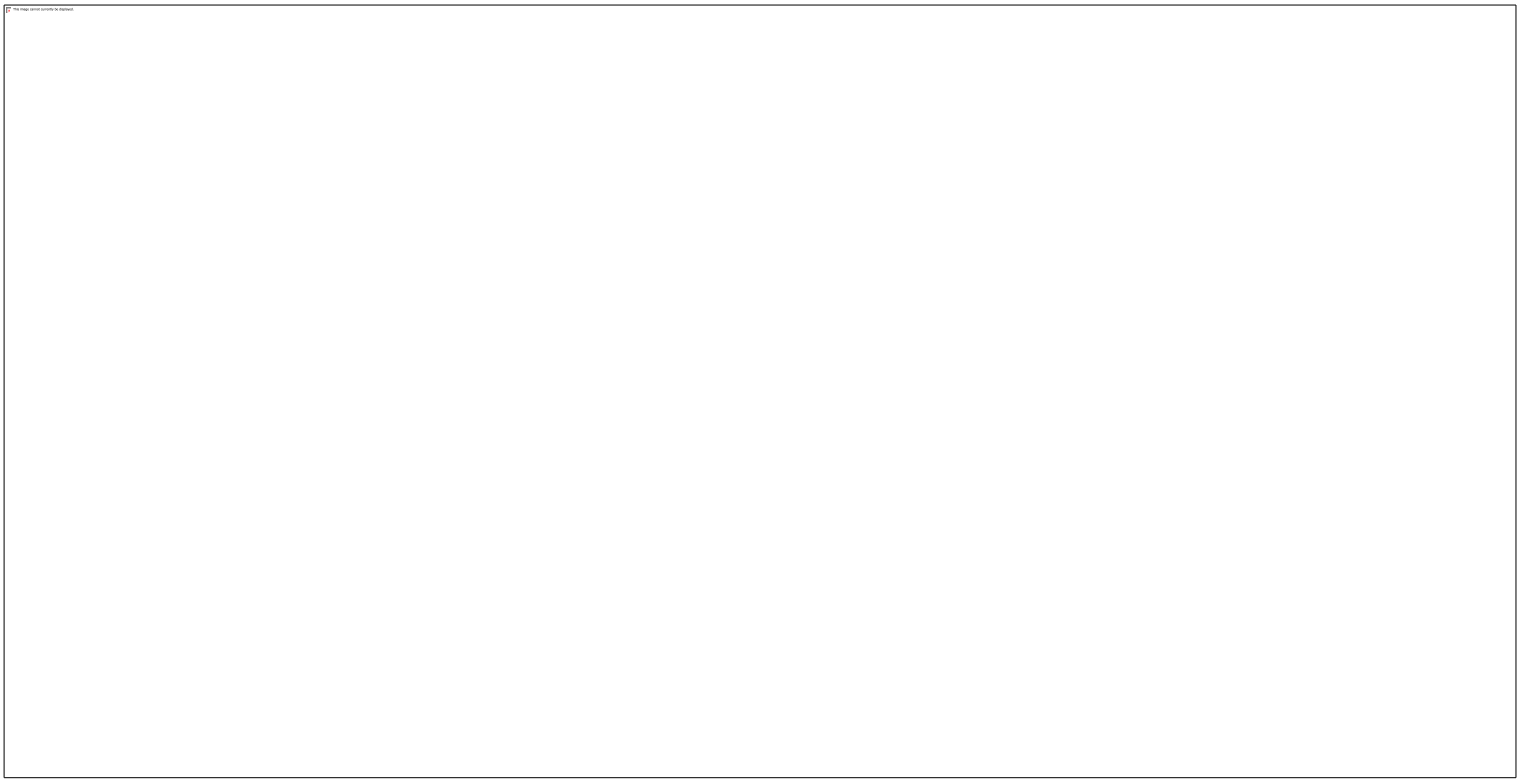
Procurement method	Meaning
Open tendering	Public invitation to all interested and qualified suppliers.
Restricted tendering	Invitation to selected qualified suppliers.
Request for quotations	Inviting suppliers to submit prices for specified requirements.
Direct procurement	Purchasing directly from a particular supplier where legally justified.
Request for proposals	Inviting detailed technical and financial proposals.
Framework agreement	Establishing supply terms for repeated purchases over a period.
E-procurement	Using electronic systems to conduct procurement activities.
Emergency procurement	Obtaining urgently needed supplies in an emergency under applicable rules.

Important: The suitability and legality of each procurement method depend on the nature and value of the purchase and the applicable procurement laws and regulations. The methods should not be selected merely for convenience.

1.4.4 Process of Procuring Goods and Services in an Organisation

The procurement process refers to the systematic steps followed by an organisation when acquiring goods, services or works.

A proper procurement process ensures that the organisation obtains the right goods or services, from the right supplier, at the right time, at an appropriate cost and in accordance with its requirements.



Steps in the Procurement Process

Step 1: Identification of Organisational Needs

- The organisation identifies the goods or services it requires to carry out its activities.
- Departments assess their needs and identify shortages or requirements.
- The organisation determines what should be purchased and why it is needed.

Example: A school identifies that it requires 30 computers for its computer laboratory.

Step 2: Preparation of a Purchase Requisition

- The department requiring goods or services prepares a formal purchase requisition.
- The requisition describes the items required, quantities and reasons for the purchase.
- It is submitted to the authorised officer for consideration and approval.

Example: The ICT department prepares a requisition requesting 30 desktop computers.

Step 3: Specification of Requirements

- The organisation prepares clear descriptions of the goods or services required.
- Specifications may include size, quantity, quality, performance, technical features and delivery requirements.
- Clear specifications help suppliers understand what the organisation needs.

Example: The school specifies the required computer processor, memory, storage capacity, warranty and operating requirements.

Step 4: Preparation and Approval of the Procurement Plan and Budget

- The organisation determines the estimated cost of the purchase.
- It confirms that funds are available.

- The purchase is included in the appropriate procurement plan and budget where required.
- Approval is obtained from the relevant authority before proceeding.

Importance: This prevents unauthorised spending and helps ensure that procurement activities are financially manageable.

Step 5: Identification of Potential Suppliers

- The organisation identifies suppliers who can provide the required goods or services.
- It may use supplier records, market research, advertisements and other appropriate sources.
- The organisation considers supplier experience, capacity, reputation and reliability.

Example: The school identifies ICT suppliers capable of supplying computers that meet its specifications.

Step 6: Selection of an Appropriate Procurement Method

- The organisation chooses a suitable procurement method.
- The choice depends on the value, nature and urgency of the purchase, availability of suppliers and applicable legal requirements.
- The method should promote fairness, competition and value for money.

Example: The school may use a request for quotations or another legally appropriate competitive method for purchasing computers.

Step 7: Invitation of Suppliers to Submit Offers

- The organisation invites suppliers to submit quotations, tenders or proposals.
- The invitation provides details of the required goods or services.
- It specifies submission deadlines and other relevant conditions.
- Suppliers are given adequate information to prepare their offers.

Step 8: Receipt and Opening of Bids or Quotations

- The organisation receives submissions from interested suppliers.
- The submissions are recorded and handled according to established procedures.
- Where formal tendering is used, bids are opened in accordance with the applicable rules.
- Confidentiality and fairness must be maintained.

Step 9: Evaluation of Suppliers' Offers

- The organisation examines the submitted offers.
- It assesses whether suppliers meet the required specifications and conditions.
- Evaluation may consider price, quality, technical capacity, experience, delivery time and compliance requirements.
- The organisation should use the evaluation criteria established for the procurement.

Example: The school compares the prices, specifications, warranties and delivery periods offered by different computer suppliers.

Step 10: Selection and Approval of the Successful Supplier

- The organisation identifies the supplier whose offer best meets the stated requirements under the applicable evaluation criteria.
- The evaluation results are reviewed and approved by the authorised personnel.
- The supplier is notified of the outcome in accordance with the relevant procedures.

Important: The cheapest supplier is not automatically the best supplier. Quality, compliance, delivery capability and value for money must also be considered.

Step 11: Awarding and Signing of the Contract

- The organisation formally awards the contract to the successful supplier.
- Where necessary, a written contract is prepared and signed.
- The contract states the goods or services to be supplied, prices, delivery dates, payment conditions and responsibilities of each party.

Step 12: Issuing a Purchase Order

- The organisation prepares and issues an official purchase order where required.
- The purchase order confirms the items or services to be supplied.
- It provides details such as quantities, prices, delivery location and agreed conditions.

Step 13: Delivery of Goods or Provision of Services

- The supplier delivers the goods or provides the agreed services.
- Delivery must follow the specifications and contractual conditions.
- The organisation ensures that the goods or services are delivered to the correct location and within the agreed period.

Step 14: Inspection and Verification of Goods or Services

- The organisation checks the delivered goods or completed services.
- It verifies the quantity, quality, condition and specifications.
- Defective, damaged or incorrect goods should be reported and handled according to the contract.
- A goods received note or inspection report may be prepared.

Example: The school's ICT department checks whether all 30 computers have been delivered and whether they meet the agreed specifications.

Step 15: Receipt and Verification of the Supplier's Invoice

- The supplier submits an invoice requesting payment.
- The organisation checks the invoice against the purchase order, contract and delivery records.
- It confirms that the amount charged is correct.

- Any discrepancies are investigated before payment is authorised.

Step 16: Payment to the Supplier

- Payment is made after confirming that the supplier has fulfilled the agreed requirements.
- Payments are processed according to the contract and the organisation's financial procedures.
- Proper payment records are maintained.

Step 17: Record Keeping and Procurement Documentation

- The organisation keeps documents relating to the procurement process.
- Records may include requisitions, quotations, tenders, evaluation reports, contracts, purchase orders, delivery notes, invoices and payment records.
- These records support accountability, auditing and future reference.

Step 18: Contract Monitoring and Supplier Performance Evaluation

- The organisation assesses whether the supplier fulfilled the contractual obligations.
- It considers quality, delivery time, reliability, communication and compliance with agreed terms.
- Poor performance is documented and addressed.
- The organisation uses the findings to improve future procurement decisions.

Summary of the Procurement Process

Procurement process flow

1. Identify organisational needs.
2. Prepare a purchase requisition.
3. Specify the required goods or services.
4. Prepare and approve the procurement plan and budget.
5. Identify potential suppliers.
6. Select the appropriate procurement method.
7. Invite suppliers to submit offers.
8. Receive and open bids or quotations.
9. Evaluate suppliers' offers.
10. Select and approve the successful supplier.
11. Award the contract and issue a purchase order.
12. Receive the goods or services.
13. Inspect and verify the delivery.
14. Verify the invoice and make payment.
15. Maintain records and evaluate supplier performance.

1.4.5 Legal Issues When Procuring Goods and Services

Legal issues in procurement refer to the laws, regulations, rules and contractual obligations that organisations must observe when purchasing goods, services and works.

In Kenya, procurement activities must comply with the relevant laws and regulations. Public procurement is particularly governed by the Constitution of Kenya, 2010, the Public Procurement and Asset Disposal Act, 2015, and applicable regulations and amendments.

The following are important legal issues in procurement:

1. Compliance with Procurement Laws and Regulations

- Organisations must follow the procurement laws and regulations that apply to them.
- Public entities must observe the applicable public procurement requirements.
- Failure to comply may lead to cancellation of procurement proceedings, legal disputes or other penalties.

2. Fair Competition

- Procurement should provide fair opportunities to eligible suppliers.
- Organisations should avoid unfair practices that prevent qualified suppliers from participating.
- Competition helps promote reasonable prices and quality supplies.

3. Transparency in Procurement

- Procurement decisions should be made openly and according to established procedures.
- Relevant information should be handled and disclosed as required by law.
- Transparency helps prevent secret arrangements and unfair supplier selection.

4. Equal Treatment of Suppliers

- Suppliers should be treated fairly and consistently.
- Organisations should not discriminate unfairly against suppliers.
- All participating suppliers should be assessed using the stated evaluation criteria.

5. Proper Use of Public Funds

- Public organisations must use public funds responsibly.
- Purchases should be necessary, properly approved and supported by appropriate documentation.
- Public funds should not be used for personal benefit.

6. Contractual Obligations

- Organisations and suppliers must honour the terms of their contracts.
- The parties should fulfil their responsibilities concerning quality, quantity, price and delivery.
- Breach of contract may result in legal action or other remedies.

7. Prevention of Corruption and Bribery

- Procurement officers and suppliers must not engage in bribery, fraud or other corrupt practices.
- Offering or accepting bribes to influence procurement decisions is unlawful.
- Organisations should establish controls to prevent corruption.

8. Conflict of Interest

- Procurement officers must avoid situations in which personal interests interfere with official responsibilities.
- A person should not improperly influence the selection of a supplier in whom they have a personal or financial interest.
- Any relevant conflict should be declared and handled according to the applicable rules.

9. Protection of Confidential Information

- Organisations must protect confidential supplier information and sensitive procurement records.
- Information should not be disclosed to unauthorised persons.
- Confidential information should not be used to give one supplier an unfair advantage.

10. Labour and Employment Requirements

- Organisations should ensure that suppliers comply with applicable labour laws.
- Suppliers should observe relevant requirements on wages, workplace safety and employee welfare.
- Procurement contracts should not encourage unlawful labour practices.

11. Environmental and Safety Requirements

- Goods and services procured should comply with applicable environmental, health and safety requirements.
- Organisations should consider the environmental impact of the goods or services they purchase.
- For example, a construction organisation should procure materials and services that meet relevant building and safety standards.

12. Intellectual Property Rights

- Organisations must respect copyright, patents, trademarks and other intellectual property rights when procuring goods and services.
- They should avoid purchasing counterfeit or unlawfully copied products.
- For example, a school should procure properly licensed software rather than unauthorised copies.

13. Tax Compliance

- Suppliers may be required to meet applicable tax compliance requirements.
- Organisations should follow the relevant tax and financial procedures when making purchases and payments.
- Proper tax documentation should be maintained where required.

14. Proper Record Keeping

- Organisations must maintain accurate procurement records.
- Records provide evidence of purchasing decisions, approvals, contracts, deliveries and payments.
- They may be required during audits, investigations or legal proceedings.

1.4.6 Ethical Issues When Procuring Goods and Services

Ethical issues refer to the moral principles and standards of behaviour that guide individuals and organisations when carrying out procurement activities.

Ethical procurement involves making honest, fair, responsible and professional purchasing decisions.

An organisation should ensure that its procurement personnel and suppliers behave responsibly throughout the procurement process.

1. Honesty and Integrity

- Procurement officers should be truthful when dealing with suppliers.
- They should not provide false information or manipulate procurement documents.
- Honest behaviour promotes trust and credibility.

2. Avoidance of Bribery

- Procurement officers should not demand or accept money, gifts or favours in exchange for awarding contracts.
- Suppliers should not offer inducements to influence purchasing decisions.
- Avoiding bribery promotes fairness and responsible use of organisational resources.

3. Avoidance of Favouritism

- Suppliers should be selected based on their ability to meet the organisation's requirements.
- Procurement officers should not favour relatives, friends or business associates unfairly.
- Fair selection improves confidence in the procurement process.

4. Accountability

- Procurement officers should take responsibility for their purchasing decisions.
- They should be able to explain why a supplier was selected and how organisational funds were used.
- Accountability discourages misuse of resources.

5. Transparency

- Procurement decisions should follow clear and known procedures.
- Relevant information should be shared with suppliers as required.
- Transparency discourages secret dealings and unfair practices.

6. Fair Treatment of Suppliers

- All suppliers should be treated respectfully and fairly.
- Procurement officers should avoid discrimination and unfair exclusion.
- Fair treatment promotes healthy business relationships.

7. Confidentiality

- Procurement officers should not reveal sensitive information to unauthorised people.
- They should not share one supplier's confidential quotation with another supplier to influence prices.
- Confidentiality protects the integrity of the procurement process.

8. Professionalism

- Procurement officers should perform their duties competently and responsibly.
- They should follow professional standards and organisational policies.
- Professional behaviour improves procurement efficiency.

9. Responsible Use of Resources

- Organisations should avoid unnecessary purchases and wastage.
- Procurement decisions should promote value for money.
- Officers should not use organisational funds for personal benefit.

10. Environmental Responsibility

- Organisations should consider the environmental effects of the goods and services they purchase.
- They should favour suitable products and services that reduce unnecessary pollution and waste.
- For example, an organisation may choose recyclable packaging where appropriate.

11. Respect for Human Rights

- Organisations should avoid suppliers who engage in exploitation, child labour or other unacceptable labour practices.
- Suppliers should be encouraged to observe fair labour practices.
- Ethical procurement supports human dignity and responsible business conduct.

12. Avoidance of Personal Interest

- Procurement officers should not allow personal relationships or financial interests to influence their decisions.
- They should declare potential conflicts of interest.

- This protects the organisation from biased purchasing decisions.

13. Quality and Safety

- Organisations should not knowingly procure dangerous, counterfeit or substandard goods.
- They should ensure that products and services meet the required quality and safety standards.
- This protects employees, customers and the public.

14. Fair and Timely Payment

- Organisations should honour agreed payment terms.
- Suppliers should not be deliberately delayed in payment without a valid reason.
- Timely payment strengthens trust and promotes good business relationships.

1.4.7 Differences Between Legal and Ethical Issues in Procurement

Legal and ethical issues are closely related, but they are not exactly the same.

Legal issues	Ethical issues
Concern compliance with laws and regulations.	Concern moral principles and acceptable behaviour.
They are established through laws, regulations and legal requirements.	They are guided by values, professional standards and moral responsibilities.
Failure to comply may result in legal penalties.	Failure to act ethically may result in loss of trust, reputation and disciplinary action.
They establish what an organisation is legally required to do.	They guide what an organisation ought to do responsibly and fairly.
Example: Following the legally required procurement method.	Example: Refusing a gift intended to influence a purchasing decision.

Relationship between legal and ethical procurement

- Both promote fairness, transparency and accountability.
- Both help prevent corruption and misuse of resources.
- Both protect the interests of organisations, suppliers and customers.
- Ethical conduct may go beyond the minimum requirements of the law.

1.4.8 Importance of Procuring Goods and Services in an Organisation

Procuring goods and services is important because it enables an organisation to obtain the resources necessary for its operations, production and service delivery.

The importance includes:

1. Supporting Daily Operations

- Organisations need goods and services to carry out their everyday activities.
- Procurement ensures that these resources are available.
- For example, an office procures computers, paper, furniture and internet services to support its operations.

2. Maintaining Continuity of Production

- Manufacturing organisations require raw materials, machinery and maintenance services.
- Procurement ensures that these resources are available when required.
- This reduces interruptions in production.

3. Improving Service Delivery

- Organisations such as schools, hospitals and government departments require appropriate supplies to provide quality services.
- Procurement ensures that employees have the resources necessary to serve customers and the public effectively.

4. Increasing Profitability

- Businesses can reduce operating costs through proper procurement.
- Purchasing quality goods at competitive prices may improve profit margins.
- Effective procurement also reduces losses caused by defective goods and delays.

5. Supporting Business Expansion

- Organisations procure additional machinery, equipment, furniture and technology when expanding.
- This enables them to increase their capacity and serve more customers.

6. Improving the Quality of Products and Services

- Procuring quality raw materials and services contributes to better final products.
- It improves customer confidence and organisational reputation.
- For example, a bakery that procures quality flour and ingredients is more likely to produce quality bread.

7. Reducing Operational Risks

- Proper procurement helps organisations identify reliable suppliers.
- It reduces risks associated with shortages, poor-quality goods and unreliable service providers.
- Organisations can also identify alternative suppliers to reduce dependence on a single source.

8. Promoting Effective Planning

- Procurement requires organisations to identify their needs in advance.
- It encourages proper budgeting, scheduling and resource allocation.
- This improves organisational management.

9. Supporting Technological Advancement

- Organisations procure modern equipment, software and digital services to improve their operations.

- Technology can improve communication, record keeping, production and service delivery.

10. Creating Employment Opportunities

- Procurement creates demand for goods and services supplied by different businesses.
- Suppliers may employ additional workers to meet demand.
- Transporters, manufacturers, distributors and service providers may benefit from procurement activities.

11. Promoting Growth of Local Enterprises

- Organisations may purchase goods and services from local businesses.
- This creates markets for local producers, traders and service providers.
- It supports entrepreneurship and economic development in Kenya.

12. Improving Supplier Relationships

- Regular and fair procurement promotes strong relationships with suppliers.
- Reliable suppliers may offer consistent quality and dependable delivery.
- Good relationships support long-term organisational success.

13. Ensuring Value for Money

- Procurement helps organisations balance cost, quality, suitability and reliability.
- It ensures that the organisation receives appropriate benefits from the money spent.
- Value for money does not necessarily mean purchasing the cheapest product.

14. Promoting Organisational Competitiveness

- Procurement enables businesses to obtain modern equipment, quality materials and efficient services.
- These resources may help businesses improve their products, reduce costs and respond to customer needs.
- This strengthens their ability to compete in the market.

15. Supporting National Economic Development

- Procurement creates demand for goods and services produced by different sectors of the economy.
- It encourages investment, trade and industrial development.
- Public procurement can also support economic development when conducted lawfully and responsibly.

1.4.9 Challenges Faced During Procurement in Organisations

Organisations may encounter various challenges when purchasing goods and services.

1. Limited Financial Resources

- An organisation may lack sufficient funds to purchase all the goods and services it requires.
- This may lead to delays or reduced quantities of purchases.
- Proper budgeting and prioritisation can help address this challenge.

2. Corruption and Bribery

- Some procurement officers or suppliers may engage in corrupt practices.
- This may lead to inflated prices, unfair supplier selection and loss of organisational funds.
- Strong internal controls and accountability measures help reduce corruption.

3. Delayed Delivery

- Suppliers may fail to deliver goods within the agreed period.
- This can interrupt production and service delivery.
- Organisations should assess supplier reliability and monitor delivery schedules.

4. Poor Quality Goods

- Some suppliers may deliver goods that do not meet the required specifications.
- This may result in additional costs, repairs or replacement.
- Proper inspection and quality verification are necessary.

5. Unreliable Suppliers

- Some suppliers may lack the capacity to provide the required goods or services.
- They may also experience financial or operational difficulties.
- Organisations should evaluate supplier experience, capacity and performance.

6. Price Fluctuations

- Prices of goods and services may change due to inflation, transport costs, exchange rates and market conditions.
- This can make procurement more expensive than planned.
- Organisations should conduct market research and prepare realistic budgets.

7. Lengthy Procurement Procedures

- Some procurement procedures involve many stages and approvals.
- This may delay the acquisition of essential goods and services.
- Proper planning and efficient administration can reduce unnecessary delays.

8. Inadequate Procurement Skills

- Some organisations may lack trained procurement personnel.
- This can lead to poor supplier selection, weak negotiations and mistakes in documentation.
- Training and professional development can improve procurement performance.

9. Inaccurate Specifications

- Poorly prepared specifications may cause suppliers to provide unsuitable goods or services.
- This can lead to disputes and additional expenditure.
- Organisations should prepare clear and accurate specifications.

10. Transport and Logistics Problems

- Poor roads, vehicle breakdowns and other transport challenges may delay deliveries.
- This is particularly important when procuring goods from distant suppliers.
- Organisations should consider transport arrangements when planning procurement.

11. Cybersecurity Risks in E-Procurement

- Online procurement systems may be exposed to hacking, data theft and system manipulation.
- This may compromise confidential information and procurement records.
- Organisations should use secure systems and appropriate access controls.

12. Changes in Organisational Needs

- The needs of an organisation may change after procurement planning.
- This may make some purchases unnecessary or unsuitable.
- Organisations should review their requirements and maintain appropriate flexibility within procurement rules.

1.4.10 Measures to Improve Procurement in an Organisation

Organisations can improve procurement performance through the following measures:

1. **Proper procurement planning:** Identify requirements early and prepare realistic procurement plans.
2. **Adequate budgeting:** Allocate sufficient funds for essential goods and services.
3. **Use of qualified personnel:** Employ trained and competent procurement officers.
4. **Fair supplier selection:** Use clear and objective supplier evaluation criteria.
5. **Supplier evaluation:** Assess suppliers' experience, quality, capacity and reliability.
6. **Transparency:** Maintain open and well-documented procurement procedures.
7. **Internal controls:** Establish approval systems and separation of duties.
8. **Regular inspection:** Check goods and services before accepting them.
9. **Use of technology:** Adopt secure electronic procurement systems where appropriate.
10. **Record keeping:** Maintain accurate procurement and financial records.
11. **Contract monitoring:** Monitor supplier performance and delivery schedules.
12. **Ethical conduct:** Promote honesty, fairness, accountability and integrity.
13. **Market research:** Compare prices, quality and availability before purchasing.

14. **Compliance with laws:** Follow applicable procurement laws, regulations and organisational policies.
15. **Performance evaluation:** Review procurement activities to identify areas that need improvement.

1.4.11 Practical Application: Procurement in a Kenyan School

Case study: Procurement of learning resources at a school

Mang'u School identifies a need to purchase textbooks, exercise books, computers, laboratory equipment and classroom furniture.

The school management asks the relevant departments to identify their needs and prepare purchase requisitions. The procurement personnel consolidate the requirements, check the available budget and prepare specifications.

The school then identifies an appropriate procurement method and invites eligible suppliers to submit offers. The submitted offers are evaluated based on the stated requirements, including quality, price, delivery time and supplier capacity.

After the successful supplier is selected and the necessary approvals are obtained, the school places an order. The supplier delivers the goods, which are inspected and verified before payment is processed.

The school keeps the relevant procurement documents for accountability and future reference.

Learning points from the case study:

1. Procurement begins with identifying organisational needs.
2. Purchase requisitions help departments communicate their requirements.
3. Proper specifications guide suppliers on what to supply.
4. Budgeting ensures that purchases are financially manageable.
5. Fair supplier evaluation promotes value for money.
6. Inspection ensures that delivered goods meet the required standards.
7. Proper documentation promotes accountability.
8. Ethical procurement protects organisational resources.

1.4.12 Competency-Based Learning Activities

Learners should participate in practical activities that help them understand how procurement is conducted in real organisations.

Activity 1: Preparing a Purchase Requisition

In groups, learners identify goods required by their classroom or school.

They prepare a sample purchase requisition showing:

- Name of the organisation.
- Department making the request.
- Description of the goods required.

- Quantity required.
- Reason for the purchase.
- Date of the request.
- Name and signature of the requesting officer.
- Approval section.

Activity 2: Comparing Suppliers' Quotations

Learners are provided with sample quotations from three suppliers for the purchase of school stationery.

They compare:

- Prices.
- Quality.
- Quantity.
- Delivery period.
- Payment conditions.
- Supplier reliability.

They recommend the most suitable supplier and explain their reasons.

Activity 3: Role-Playing a Procurement Process

Learners assume different roles, including:

- Procurement officer.
- Supplier.
- Finance officer.
- Departmental head.
- Inspection officer.
- Organisation manager.

They demonstrate the steps involved in purchasing goods for an organisation.

Activity 4: Identifying Ethical Issues

Learners discuss a situation in which a supplier offers a procurement officer money to influence the awarding of a contract.

They explain:

- The ethical issue involved.
- Why the behaviour is unacceptable.
- The possible consequences.
- The correct action the procurement officer should take.

Activity 5: Exploring Procurement in the Community

Learners visit or interview an appropriate local organisation, such as a shop, school, hospital or manufacturing enterprise, to find out how it obtains goods and services.

They report on:

- Goods and services purchased.
- Procurement methods used.
- Supplier selection.
- Procurement challenges.
- Measures used to promote accountability.

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Answer all questions. Choose the correct answer from the alternatives provided.

1. What is procurement?

A. The process of selling goods to customers.

B. The process of obtaining goods and services required by an organisation.

C. The process of advertising organisational products.

D. The process of recruiting employees.

2. Which one of the following best describes a supplier?

A. A person who buys goods for personal use.

B. A person who supervises employees.

C. An individual or organisation that provides goods or services.

D. A person who prepares financial statements.

3. The main purpose of procurement in an organisation is to:

A. Increase unnecessary expenditure.

B. Ensure availability of required goods and services.

C. Reduce the number of employees.

D. Eliminate competition among businesses.

4. Which procurement method involves publicly inviting interested suppliers to submit tenders?

A. Direct procurement.

B. Open tendering.

C. Emergency procurement.

D. Restricted tendering.

5. An organisation invites selected qualified suppliers to submit tenders. Which method is being used?

A. Open tendering.

B. Restricted tendering.

C. Electronic procurement.

D. Direct procurement.

6. Which document is used by a department to formally request the purchase of goods?

A. Delivery note. B. Invoice.

C. Purchase requisition. D. Receipt.

7. A written statement showing the prices and terms under which a supplier offers goods is called a:

A. Quotation.

B. Delivery note.

C. Purchase requisition.

D. Goods received note.

8. Which of the following is an advantage of open tendering?

A. It eliminates all procurement costs.

B. It restricts competition to one supplier.

C. It promotes competition among suppliers.

D. It guarantees the lowest price in every situation.

9. Direct procurement involves:

A. Publicly advertising every purchase.

B. Purchasing directly from a particular supplier where legally justified.

C. Inviting all suppliers to submit tenders.

D. Buying goods without identifying organisational needs.

10. Which procurement method involves the use of digital platforms and electronic systems?

A. Restricted tendering.

B. Open tendering.

C. Electronic procurement.

D. Emergency procurement.

11. Which of the following should be done first in the procurement process?

A. Paying the supplier.

B. Inspecting delivered goods.

C. Identifying organisational needs.

D. Issuing a delivery note.

12. The main purpose of preparing specifications is to:

A. Describe clearly the goods or services required.

B. Increase the number of suppliers.

C. Avoid preparing a budget.

D. Determine employees' salaries.

13. Which document is issued by a buyer to formally order goods from a supplier?

A. Invoice.

B. Purchase order.

C. Delivery note.

D. Bank statement.

14. Which of the following should be considered when evaluating suppliers?

A. Personal friendship with procurement officers.

B. Political affiliation.

C. Quality, price and delivery capacity.

D. The supplier's willingness to offer gifts.

15. Which activity is carried out after goods have been delivered?

A. Identifying organisational needs.

B. Inspecting and verifying the goods.

C. Preparing the procurement plan.

D. Advertising the tender.

16. Which of the following is a legal issue in procurement?

A. Favouring relatives.

B. Accepting bribes.

C. Compliance with procurement laws.

D. Sharing confidential quotations unfairly.

17. A procurement officer accepts money from a supplier to influence the awarding of a contract. This is an example of:

A. Transparency.

B. Bribery.

C. Accountability.

D. Fair competition.

18. Which ethical principle requires procurement officers to be truthful and trustworthy?

A. Integrity.

B. Favouritism.

C. Discrimination.

D. Secrecy.

19. Which of the following is an example of a conflict of interest?

A. Comparing quotations from different suppliers.

B. Inspecting goods before acceptance.

C. Awarding a contract to a company in which the procurement officer has an undeclared financial interest.

D. Preparing a procurement budget.

20. Which of the following promotes value for money in procurement?

A. Selecting suppliers based only on friendship.

B. Comparing cost, quality and suitability.

C. Ignoring product specifications.

D. Purchasing goods without approval.

21. Which of the following is a challenge faced during procurement?

A. Proper budgeting.

B. Transparency.

C. Delayed delivery of goods.

D. Fair supplier evaluation.

22. An organisation purchases goods from a supplier without properly checking their quality. Which problem may arise?

A. Improved quality.

B. Delivery of defective goods.

C. Reduced procurement risks.

D. Improved supplier evaluation.

23. Why is procurement documentation important?

A. It encourages unnecessary purchases.

B. It prevents organisations from keeping records.

C. It supports accountability and auditing.

D. It eliminates the need for supplier evaluation.

24. Which of the following is an advantage of maintaining good supplier relationships?

A. Increased supply interruptions.

B. Improved reliability of supplies.

C. Reduced product quality.

D. Increased procurement fraud.

25. A school compares quotations from different stationery suppliers before making a purchase. What is the main benefit?

A. Encouraging favouritism.

B. Promoting competition and cost savings.

C. Increasing corruption.

D. Delaying all procurement activities.

26. Which of the following is an ethical responsibility of a procurement officer?

A. Demanding gifts from suppliers.

B. Disclosing confidential information.

C. Treating suppliers fairly.

D. Awarding contracts to relatives.

27. Which institution's procurement is particularly guided by the Public Procurement and Asset Disposal Act, 2015?

A. Public entities.

B. Private households only.

C. Informal family gatherings.

D. Individual consumers buying personal goods.

28. Why should an organisation inspect goods after delivery?

A. To increase the supplier's prices.

B. To confirm that the goods meet the required specifications.

C. To avoid paying for goods.

D. To reduce the number of suppliers.

29. Which of the following is a measure for improving procurement?

A. Ignoring procurement records.

B. Encouraging bribery.

C. Employing qualified procurement personnel.

D. Avoiding supplier evaluation.

30. Which statement best describes value for money in procurement?

A. Always purchasing the cheapest goods.

B. Obtaining the most suitable combination of cost, quality and performance.

C. Purchasing goods without considering quality.

D. Selecting suppliers based on personal relationships.

Section B: Structured Questions

1. a) Define the term procurement. (2 marks)

b) Explain five reasons why procurement is important in an organisation. (10 marks)

2. a) Identify six methods of procurement used in organisations. (6 marks)

b) Explain four advantages of open tendering. (8 marks)

3. a) State five documents used during the procurement process. (5 marks)

b) Explain five steps followed when procuring goods and services in an organisation. (10 marks)

4. a) Differentiate between legal and ethical issues in procurement. (4 marks)

b) Explain six ethical issues that should be observed during procurement. (12 marks)

5. A school intends to purchase 50 computers for its ICT laboratory.

a) Identify five factors the school should consider when selecting a computer supplier. (5 marks)

b) Explain five stages the school should follow when procuring the computers. (10 marks)

6. Explain five challenges that organisations may face during procurement and suggest one solution for each challenge. (10 marks)

7. Explain five ways through which proper procurement contributes to the growth of an organisation. (10 marks)

8. Describe five measures that an organisation can adopt to promote transparency and accountability in procurement. (10 marks)

STRAND 1.0: BUSINESS AND ITS ENVIRONMENT

SUB-STRAND 1.4: MARKET COMPETITION

1.4.1 Introduction to Market Competition

Businesses operate in markets where buyers and sellers interact to exchange goods and services. In many markets, several businesses offer similar products and compete to attract customers. This competition influences prices, product quality, innovation, customer service and the growth of enterprises.

For example, in Kenya, supermarkets, mobile network operators, banks, transport companies and manufacturers compete to attract customers. Their competition may encourage them to improve their products, reduce costs and introduce better services.

However, competition is not always fair. Some businesses may engage in practices such as price-fixing, collusion, misleading advertising and abuse of market power to prevent other businesses from competing effectively.

Understanding market competition helps learners appreciate how markets operate, how businesses make decisions and why governments regulate certain business practices.

1.4.2 Meaning of a Market

A **market** is an arrangement or environment where buyers and sellers interact to exchange goods and services at agreed prices.

A market does not necessarily have to be a physical place. It may operate physically or electronically.

Examples of markets in Kenya:

1. **Physical markets:** Wakulima Market, Marikiti Market and local open-air markets where traders sell agricultural produce.
2. **Retail markets:** Supermarkets, shops and shopping centres where consumers purchase goods.
3. **Financial markets:** Markets where financial assets such as shares and bonds are traded.
4. **Online markets:** Digital platforms where buyers and sellers transact through the internet.
5. **Agricultural markets:** Markets where farmers sell maize, tea, coffee, vegetables, milk and other agricultural products.
6. **Labour markets:** Markets where employers seek workers and individuals offer their labour services.


Siwa





Main Features of a Market

1. **Buyers:** Individuals or organisations that purchase goods and services to satisfy their needs and wants.
2. **Sellers:** Individuals or businesses that offer goods and services for sale.
3. **Goods and services:** Products offered for exchange in the market.
4. **Prices:** Amounts of money paid by buyers in exchange for goods and services.
5. **Demand:** The quantity of a product that consumers are willing and able to buy at different prices over a given period.
6. **Supply:** The quantity of a product that producers are willing and able to offer for sale at different prices over a given period.
7. **Competition:** Rivalry among businesses seeking to attract customers and increase sales.
8. **Exchange:** The transfer of goods or services from sellers to buyers in return for payment or another agreed form of value.

1.4.3 Meaning of Market Competition

Market competition refers to the rivalry among businesses selling similar or substitute goods and services as they seek to attract customers, increase sales and achieve business objectives.

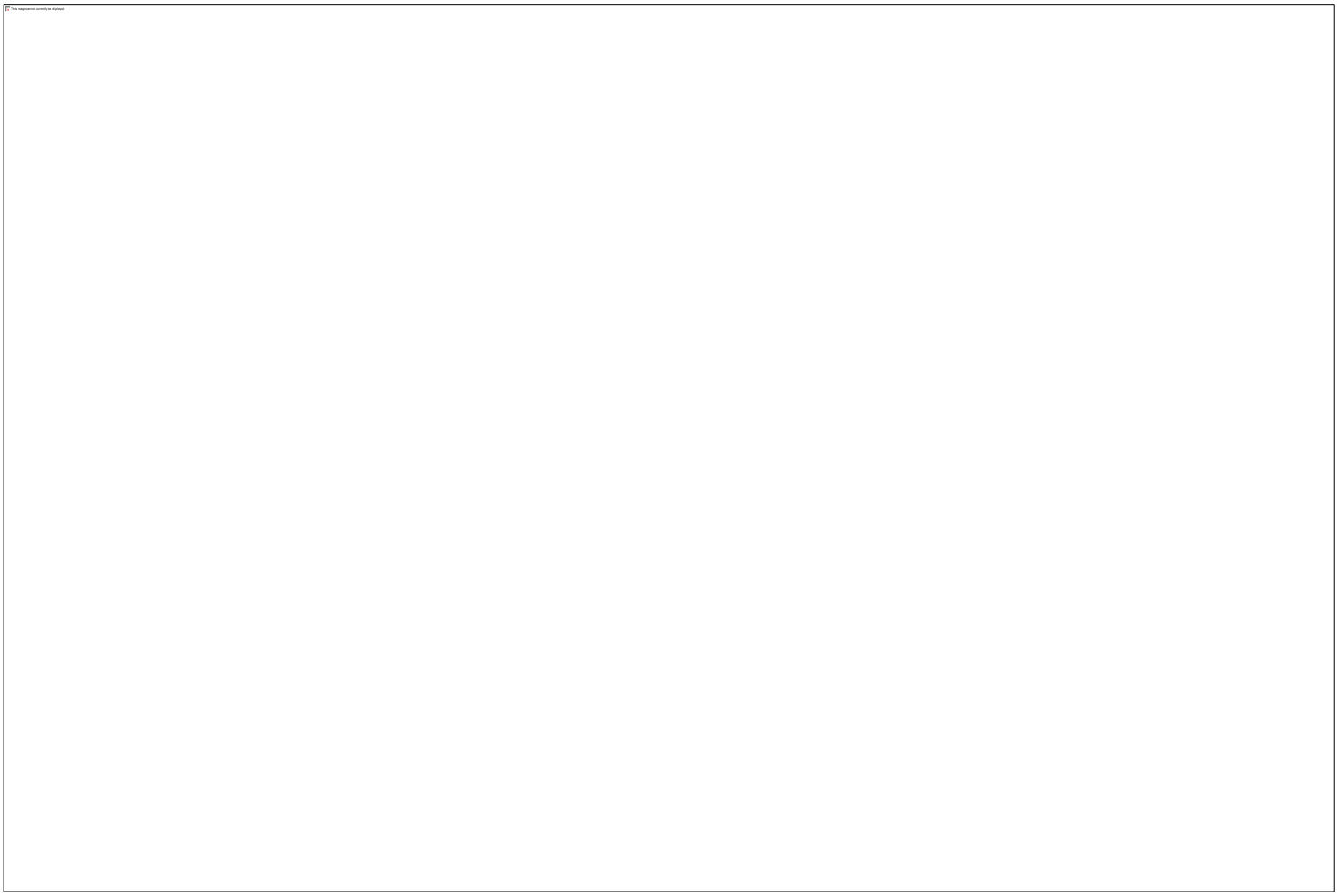
Businesses compete by using different strategies, including:

- Offering competitive prices.

- Improving product quality.
- Providing better customer service.
- Advertising and promoting products.
- Introducing new products.
- Improving packaging.
- Offering discounts and other incentives.
- Expanding distribution networks.

Kenyan example:

Mobile network operators compete by offering different data bundles, calling rates, mobile money services, network coverage and customer support. This rivalry gives customers alternatives when choosing a service provider.



Characteristics of Market Competition

1. **Existence of rival businesses:** There are two or more businesses seeking to attract the same or similar customers.
2. **Availability of alternatives:** Customers can choose from different products, brands or suppliers.
3. **Efforts to attract customers:** Businesses use pricing, advertising, quality and customer service strategies.

4. **Possibility of innovation:** Businesses develop new products and better ways of serving customers.
5. **Influence on prices:** Competition may encourage businesses to offer reasonable prices.
6. **Differences in market power:** Some businesses may have greater influence over prices and supply than others.
7. **Changing customer preferences:** Businesses must respond to changes in consumers' tastes, income and expectations.

1.4.4 Meaning of Market Competition in an Economy

Market competition in an economy refers to the rivalry among different producers and sellers of goods and services within a country's economic system.

It determines how businesses attract customers, set prices, improve products and compete for market share.

Market competition may be strong where many businesses operate independently, or weak where a few businesses or one dominant business control a large part of the market.

Market share is the proportion of total sales in a particular market that is accounted for by a business over a given period.

For example, if five companies sell similar products in Kenya, each company's market share depends on its sales compared with the total sales of all the companies in that market.

1.4.5 Importance of Market Competition in Business

Market competition is important because it encourages businesses to improve their performance and provide better value to customers.

1. Encourages improvement in product quality

- Businesses strive to produce goods and services that meet or exceed customer expectations.
- They improve the quality, durability, reliability and safety of their products.
- High-quality products help businesses attract and retain customers.
- For example, Kenyan food-processing companies may improve the quality and packaging of their products to compete with other brands.

2. Promotes fair and competitive prices

- Competition encourages businesses to review their prices to remain attractive to customers.
- Businesses may reduce unnecessary costs to offer affordable products.
- Consumers may benefit from reasonable prices and wider choices.
- For example, competing retailers may offer different prices and promotions on household goods.

3. Encourages innovation

- Businesses develop new products, services and production methods to gain an advantage over competitors.
- Innovation helps businesses respond to changing consumer needs.
- For example, financial institutions and technology companies may introduce digital payment solutions and improved mobile banking services.

4. Improves customer service

- Businesses compete by providing better treatment and support to customers.
- They may improve delivery services, complaint handling, after-sales services and communication.
- This increases customer satisfaction and loyalty.

5. Increases consumer choice

- Competition encourages the availability of different brands, products, sizes, designs and prices.
- Consumers can select products that match their preferences and financial abilities.
- For example, consumers can choose from different brands of cooking oil, soap, milk and mobile phones.

6. Promotes efficiency in production

- Businesses seek to minimise wastage and use resources effectively to remain competitive.
- They may adopt better technology and improve production processes.
- Efficient production can lower costs and increase output.

7. Encourages business growth and expansion

- Businesses that compete successfully may increase their sales and profits.
- Increased sales can provide funds for opening new branches, purchasing equipment and employing additional workers.
- Competition can therefore encourage enterprise development.

8. Promotes entrepreneurship

- Competition creates opportunities for entrepreneurs to introduce new products and services.
- It encourages individuals to identify gaps in the market and develop business ideas.
- For example, young entrepreneurs may establish delivery services, food-processing enterprises or digital businesses.

9. Encourages responsible use of resources

- Businesses must manage their finances, labour, raw materials and equipment carefully to remain competitive.
- Poor resource management may increase costs and weaken their market position.

- Competition therefore encourages better business management.

10. Improves product availability

- Businesses compete to meet customer demand by improving distribution and maintaining adequate stocks.
- This may increase the availability of goods in different parts of the country.
- For example, competing distributors may supply household products to both urban and rural shops.

11. Promotes economic growth

- Competition encourages production, investment, innovation and trade.
- Growing businesses may contribute to national income and economic development.
- Increased business activity can support the growth of different sectors of the Kenyan economy.

12. Encourages employment creation

- Expanding businesses may employ more workers to increase production and improve service delivery.
- New businesses entering competitive markets also create employment opportunities.
- This can improve household incomes and living standards.

13. Promotes customer satisfaction

- Businesses work to understand and meet customer needs.
- They improve product quality, affordability and convenience.
- Satisfied customers are more likely to return and recommend the business to others.

14. Encourages foreign and local investment

- Competitive markets can attract investors seeking opportunities to produce and sell goods and services.
- Investment may introduce capital, technology, skills and new products.
- This can strengthen the country's productive capacity.

15. Reduces business complacency

- Competition encourages businesses to monitor market changes and improve their operations.
- Businesses cannot assume that customers will continue buying from them if better alternatives become available.
- This promotes continuous improvement.

1.4.6 Types of Market Competition in an Economy

Market competition can be classified according to the number of businesses operating in a market, the nature of their products, the degree of control over prices and the ease with which new businesses can enter the market.

The four major market structures are:

1. Perfect competition.
2. Monopolistic competition.
3. Oligopoly.
4. Monopoly.

A. Perfect Competition

Meaning of perfect competition

Perfect competition is a market structure in which there are many buyers and sellers dealing in identical or homogeneous products, with no single buyer or seller having the power to influence the market price.

Under perfect competition, individual businesses accept the market price determined by the forces of demand and supply.

Characteristics of perfect competition

1. **Many buyers and sellers**

- There are many buyers and sellers in the market.
- Each seller supplies only a small proportion of the total market output.
- No individual seller can easily influence the market price.

2. **Homogeneous products**

- Businesses sell identical or very similar products.
- Products from different sellers are regarded as having the same characteristics.
- Buyers may have little reason to prefer one seller's product over another based on product differences.

3. **Free entry and exit**

- New businesses can enter the market when they identify profitable opportunities.
- Existing businesses can leave the market when they are unable to operate profitably.
- There are no significant artificial restrictions preventing entry or exit.

4. **Perfect knowledge of market conditions**

- Buyers and sellers are assumed to have full information about prices and product characteristics.
- Buyers can compare offers from different sellers.
- Sellers understand the market conditions under which they operate.

5. **Uniform market price**

- Similar products are sold at the prevailing market price.
- A seller who charges a significantly higher price may lose customers to competitors.
- Individual firms have little control over price.

6. **High mobility of factors of production**

- Labour, capital and other productive resources can move between businesses and industries.
- Resources can be attracted to more profitable activities.
- This helps businesses respond to market opportunities.

7. **No significant selling costs**

- Since products are identical, businesses do not need extensive advertising to differentiate their products.
- Buyers mainly consider the market price and availability.

Advantages of perfect competition

1. Encourages efficient use of resources.
2. Promotes competitive prices for consumers.
3. Encourages businesses to minimise production costs.
4. Provides consumers with many sellers to choose from.
5. Reduces the ability of individual sellers to exploit consumers through high prices.
6. Encourages businesses to respond to market demand.
7. In the long run, economic profits tend towards normal profit under the standard assumptions of the model.

Disadvantages of perfect competition

1. Businesses may earn low profit margins because of strong competition.
2. There may be little incentive to develop product differences.
3. Small businesses may struggle to survive when costs increase.
4. The model assumes perfect information, which is rarely achieved in real markets.
5. Businesses may have limited ability to influence market prices.
6. Extensive competition may make it difficult for some small enterprises to accumulate funds for expansion.

Illustration from the Kenyan economy

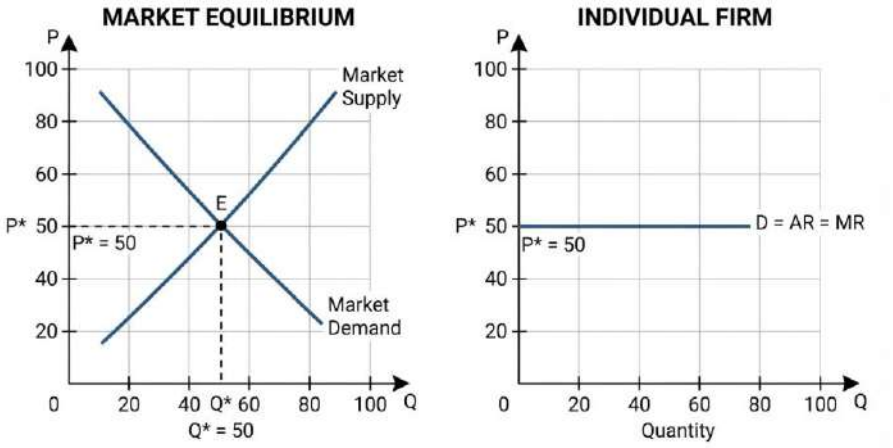
Agricultural produce markets, such as markets where many farmers sell similar vegetables or grains, may display some features of perfect competition. However, these real markets are not necessarily perfectly competitive because products, quality, transport costs, market information and access to buyers may differ.



Important economic concept: Price taker

A price taker is a business that accepts the market price because it has no significant ability to influence that price.

In the theoretical model of perfect competition, an individual firm is a price taker.



B. Monopolistic Competition

Meaning of monopolistic competition

Monopolistic competition is a market structure in which many businesses sell products that are similar but differentiated through branding, quality, packaging, design, location or customer service.

Each business attempts to make its product appear different from those of competitors.

Characteristics of monopolistic competition

1. **Many sellers**

- There are many businesses operating in the market.

- Each business competes with several other sellers.
- No single business normally controls the entire market.

2. **Product differentiation**
   - Businesses sell products that satisfy similar needs but have different characteristics.
   - Differentiation may be based on quality, brand name, design, packaging or ingredients.
   - For example, different companies manufacture and sell soap, toothpaste and bottled water.
3. **Some control over prices**
   - A business may charge a slightly higher price if customers prefer its brand.
   - However, it cannot ignore competing products because customers can switch to alternatives.
4. **Freedom of entry and exit**
   - New businesses can enter the market when opportunities arise.
   - Existing businesses can leave when they are unable to continue operating profitably.
   - Entry may still require capital, licences and compliance with regulations.
5. **Use of advertising**
   - Businesses advertise to inform customers and create awareness of their brands.
   - Advertising is used to persuade customers to choose one product over another.
6. **Non-price competition**
   - Businesses compete through product quality, packaging, customer service, delivery and promotions instead of relying only on price.
   - This helps them attract and retain customers.
7. **Brand loyalty**
   - Some customers develop a preference for particular brands.
   - This may enable a business to maintain customers even when competitors offer similar products.
8. **Relatively easy market entry**
   - Entry is generally easier than in markets dominated by monopolies or a few large firms.
   - However, businesses may face challenges such as capital requirements, customer loyalty and distribution costs.

Advantages of monopolistic competition

1. Provides consumers with a variety of products.
2. Encourages innovation and product improvement.
3. Promotes advertising and product awareness.
4. Encourages businesses to improve customer service.

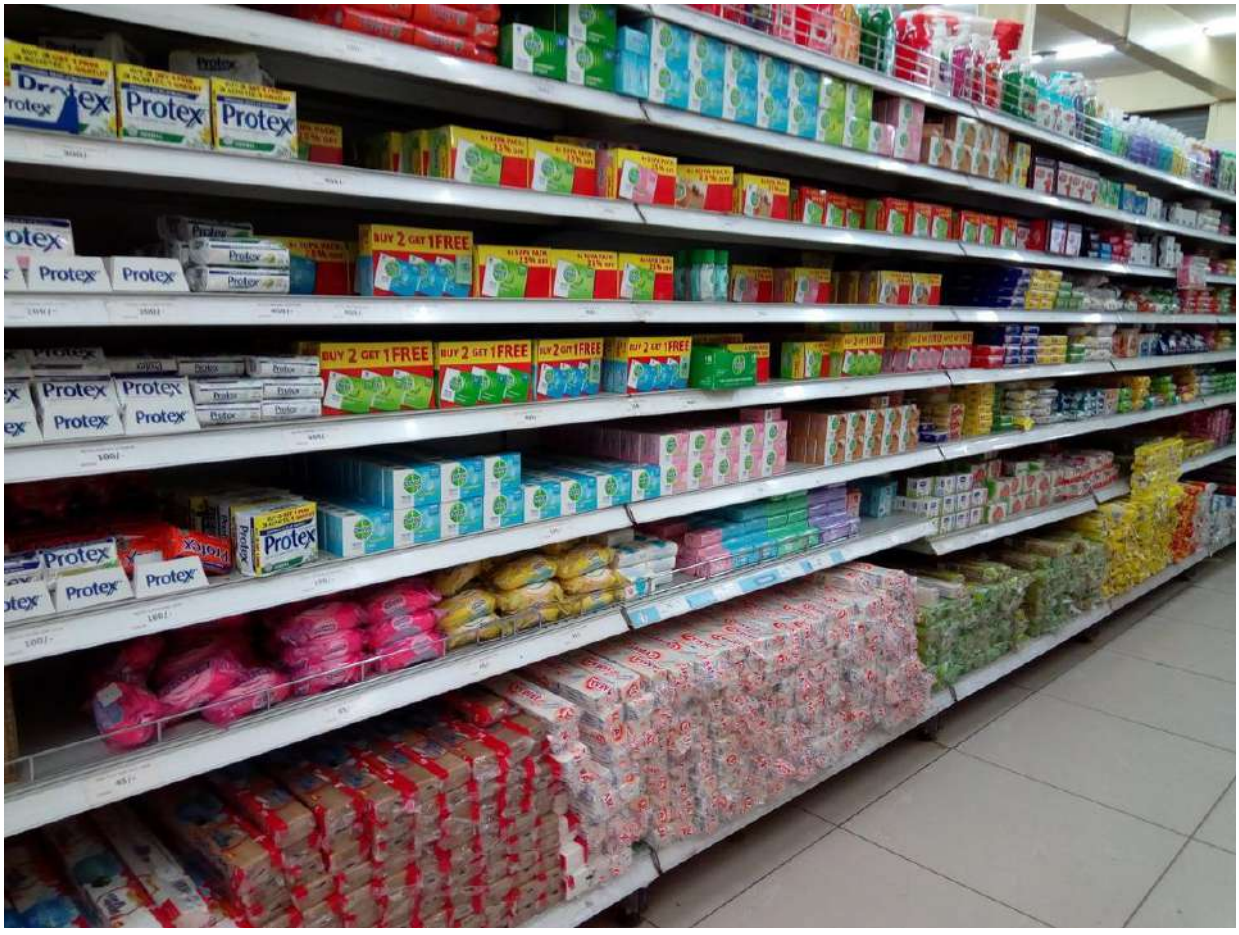
5. Provides opportunities for small and medium-sized enterprises.
6. Encourages entrepreneurship and product differentiation.
7. Gives consumers freedom to choose products according to their preferences.

Disadvantages of monopolistic competition

1. Businesses may spend heavily on advertising and promotion.
2. Product differentiation may increase production and marketing costs.
3. Consumers may pay higher prices for strongly branded products.
4. Misleading advertising may influence consumer decisions.
5. Some businesses may create artificial differences between products.
6. Excessive competition may lead to duplication of similar products.

Examples from Kenya

- Different manufacturers selling soap and detergents.
- Bakeries selling different types and brands of bread.
- Restaurants offering different menus and customer experiences.
- Clothing businesses selling differentiated designs and brands.
- Hair salons offering similar services but differentiating themselves through location, style and service quality.



C. Oligopoly

Meaning of oligopoly

Oligopoly is a market structure in which a small number of large businesses dominate the supply of a particular good or service.

The decisions made by one business may significantly affect the activities and performance of other businesses in the same market.

Characteristics of oligopoly

1. **Few dominant sellers**
   - A small number of large firms control a significant proportion of the market.
   - Each firm may have considerable influence over market conditions.
2. **Interdependence of businesses**
   - Businesses closely observe the decisions made by their competitors.
   - A change in price, product quality or promotion by one firm may lead to responses from others.
   - For example, when one mobile network operator changes its data bundle offers, competitors may review their own offers.
3. **High barriers to entry**
   - New businesses may require large amounts of capital, advanced technology and established distribution networks.
   - Existing firms may have strong brands and established customer relationships.
   - These factors make entry difficult.
4. **Possibility of price rigidity**
   - Prices may remain relatively stable because firms are cautious about starting price competition.
   - A business may fear that competitors will respond by reducing their own prices.
5. **Non-price competition**
   - Businesses may compete through advertising, customer service, technology, product quality and loyalty programmes.
   - This may be more attractive than continuously reducing prices.
6. **Possibility of collusion**
   - Firms may be tempted to cooperate secretly or openly to influence market conditions.
   - For example, competing firms may agree to fix prices or divide markets.
   - Such anti-competitive agreements are prohibited under Kenya's competition law unless lawfully exempted.
7. **Large-scale operations**

- Oligopolistic firms are often large enterprises with significant production and distribution capacity.
- They may benefit from economies of scale.

8. **Strong market influence**

- Decisions made by one dominant firm may influence prices, output and strategies throughout the industry.

Advantages of oligopoly

1. Large firms may benefit from economies of scale.
2. Large businesses may invest in research and development.
3. Businesses may introduce advanced technology.
4. Strong firms may provide consistent supplies.
5. Competition among the few firms may encourage improved products and services.
6. Large enterprises may create employment opportunities.

Disadvantages of oligopoly

1. A few businesses may dominate the market.
2. Prices may remain high where competition is weak.
3. New businesses may face difficulties entering the market.
4. Consumers may have fewer choices than in more competitive markets.
5. Firms may engage in collusion and price-fixing.
6. Smaller suppliers may face pressure from powerful buyers.
7. Businesses may use their market power to restrict competition.

Examples and illustrations

Markets with a few large providers, such as some telecommunications, airline or cement markets, may display oligopolistic characteristics. The actual market structure must be established by examining the relevant product market, geographic market, market shares and competitive conditions.



D. Monopoly

Meaning of monopoly

A monopoly is a market structure in which a single supplier or business is the only seller of a particular product or service in a defined market, with no close substitutes and significant barriers preventing other businesses from entering.

A monopolist may have considerable control over the price and supply of the product, although its decisions may still be affected by consumer demand, regulation and other market conditions.

Characteristics of monopoly

1. **Single seller**
   - One business is the only supplier in the relevant market.
   - Consumers have limited or no alternative suppliers of the same product.
2. **No close substitutes**
   - Consumers cannot easily switch to another product that performs the same function.
   - This gives the monopolist considerable market power.
3. **High barriers to entry**
   - New businesses may face legal, financial, technological or structural obstacles.
   - These barriers make it difficult for competitors to enter the market.
4. **Considerable control over price**
   - A monopolist may influence the price charged for its product.
   - However, it cannot charge any price it wishes because demand and regulation may limit its pricing decisions.
5. **Possibility of abnormal profits**
   - A monopoly may earn high profits where barriers to entry protect it from competition.
   - This is not guaranteed because profits depend on costs, demand and other conditions.
6. **Limited consumer choice**
   - Customers may have few alternatives when purchasing the product or service.
   - This may reduce their bargaining power.
7. **Control over market supply**
   - The monopolist may have significant influence over the quantity of goods or services supplied.
   - Restrictions on supply can affect market prices and availability.
8. **Possibility of economies of scale**
   - A large monopolistic enterprise may produce at a lower average cost because of large-scale operations.
   - This may be particularly important in industries requiring expensive infrastructure.

Advantages of monopoly

1. Large-scale production may reduce average production costs.
2. A monopolist may invest in expensive infrastructure.
3. It may provide consistent services where duplication of infrastructure would be wasteful.
4. Large profits, where earned, may support research and development.
5. In some regulated industries, monopoly provision may support coordinated service delivery.

Disadvantages of monopoly

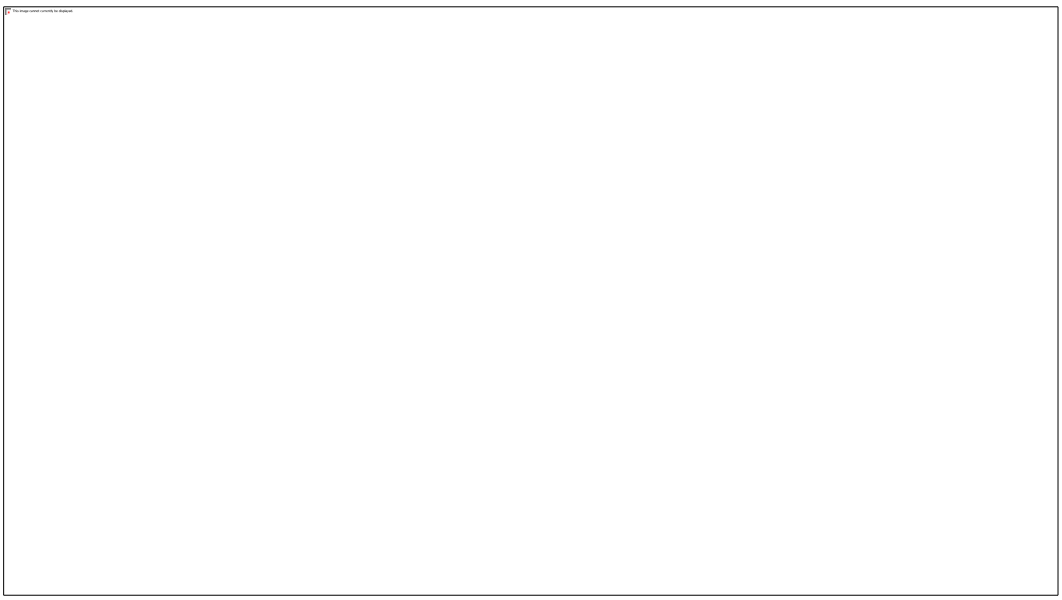
1. Consumers may face high prices where the monopolist abuses market power.
2. Limited competition may reduce the incentive to improve quality.
3. Consumers may have limited alternatives.
4. New businesses may find it difficult to enter the market.
5. A monopolist may restrict output to increase profits.
6. Poor customer service may persist where consumers cannot easily switch providers.
7. Abuse of market power may harm consumers and other businesses.

Examples and illustrations

- A public utility may have exclusive responsibility for a particular service within a defined area because of infrastructure and legal arrangements.
- A firm holding exclusive rights to a protected invention may temporarily have exclusive rights to exploit that invention within the scope of the law.
- A business may be the only supplier in a small, isolated local market.

Important: A large market share does not automatically mean that a business is acting illegally. In Kenya, having a dominant position is not itself prohibited; abusing that position is prohibited.

Economic illustration of monopoly pricing and output



Comparison of the Four Market Structures

Feature	Perfect competition	Monopolistic competition	Oligopoly	Monopoly
Number of sellers	Very many	Many	Few dominant firms	One
Nature of products	Identical	Differentiated	Similar or differentiated	No close substitute
Control over price	Very little	Some	Considerable, depending on rivals	Significant
Entry barriers	Very low	Relatively low	High	Very high
Advertising	Usually limited	Common	Common	May be used
Competition	Very high	High	Between a few large firms	No direct competitor in the defined market
Consumer choice	Many sellers	Many differentiated brands	Relatively limited	Very limited

Remember: These are theoretical market structures. Actual markets may combine characteristics of more than one structure.

1.4.7 Meaning of Uncompetitive Market Practices

Uncompetitive market practices are actions or arrangements by businesses that prevent, restrict, distort or lessen fair competition in a market.

These practices interfere with the ability of businesses to compete independently and may harm consumers, suppliers and the wider economy.

They may involve agreements between competing businesses, misuse of market power or conduct that misleads consumers.

In Kenya, the Competition Authority of Kenya (CAK) is responsible for promoting and safeguarding competition and protecting consumers from unfair and misleading market conduct.

Forms of Uncompetitive Market Practices in a Country

1. Price Fixing

Meaning: Price fixing occurs when two or more competing businesses agree to charge similar or specified prices instead of allowing prices to be determined independently through competition.

How it occurs:

- Competitors secretly agree to charge the same price.
- Businesses agree on the minimum price at which goods should be sold.
- Competitors agree not to reduce their prices below an agreed level.
- Businesses coordinate price increases to avoid competing.

Example:

Suppose three competing suppliers of construction materials agree secretly to sell a bag of cement at the same artificially high price to avoid competing with one another.

Effects:

- Consumers may pay higher prices.
- Businesses lose the incentive to compete.
- Customers may have fewer affordable alternatives.
- Efficient businesses may be prevented from attracting customers through lower prices.

2. Market Sharing

Meaning: Market sharing occurs when competing businesses agree to divide a market among themselves instead of competing freely.

They may divide the market according to:

- Geographical areas.
- Customers.
- Types of products.
- Categories of suppliers.
- Distribution channels.

Example:

Two transport companies agree that one will serve a particular town while the other will serve a neighbouring town, and neither will compete in the other's area.

Effects:

- Customers may have limited choices.
- Businesses may charge higher prices.
- New businesses may find it difficult to enter the market.
- Competition and innovation may decline.

3. Collusive Tendering (Bid Rigging)

Meaning: Collusive tendering occurs when businesses secretly cooperate to manipulate a tendering process so that a particular supplier wins or suppliers share the available contracts.

Ways it may occur:

1. Competitors agree in advance who should win a tender.
2. Some suppliers submit deliberately high bids to make another supplier's bid appear more attractive.
3. Suppliers agree to take turns winning contracts.
4. A supplier submits a supporting bid without intending to win.
5. Competitors agree to withdraw or avoid submitting genuine bids.

Example:

Three construction companies secretly agree that Company A should win a road construction tender. The other two companies submit deliberately inflated bids to make Company A's offer appear cheaper.

Effects:

- Public or private organisations may pay inflated prices.
- Quality may decline.
- Public resources may be wasted.
- Honest suppliers may be denied opportunities.
- Trust in procurement systems may be damaged.

4. Predatory Pricing

Meaning: Predatory pricing occurs when a business deliberately sets prices at an unsustainably low level, often with the intention of forcing competitors out of the market or discouraging new businesses from entering.

After competitors leave the market, the business may attempt to increase prices.

Example:

A large retailer temporarily sells a product at a price intended to drive smaller competing retailers out of the market, with the aim of gaining greater control over future sales.

Effects:

- Smaller businesses may close.
- Competition may decline.
- Workers may lose employment.
- Consumers may later face higher prices if alternatives disappear.

Note: Low prices are not automatically predatory. A business may legitimately reduce prices because of efficiency, discounts, promotions or lower operating costs. The conduct and its effect on competition must be examined.

5. Abuse of Dominant Market Position

Meaning: Abuse of a dominant market position occurs when a business with substantial market power uses that position unfairly to restrict competition or exploit customers, suppliers or other businesses.

Forms of abuse include:

1. Charging unfairly high selling prices.
2. Imposing unfair purchasing or selling conditions.
3. Restricting the supply of goods or services to harm competitors.
4. Preventing other businesses from accessing essential distribution channels.
5. Applying unfairly different conditions to equivalent transactions.

6. Making contracts conditional on accepting unrelated obligations.
7. Using market power to prevent the entry of competing businesses.

Example:

A dominant supplier refuses to supply an independent retailer unless the retailer agrees not to stock products from competing manufacturers, where this conduct unlawfully restricts competition.

Effects:

- Smaller businesses may be pushed out of the market.
- Consumers may pay unfair prices.
- Product choice may decline.
- Innovation and investment may be discouraged.

6. Exclusive Dealing

Meaning: Exclusive dealing refers to an arrangement in which a business requires or induces another business to deal only with it, or places restrictions on dealing with competing suppliers or customers.

Some exclusive arrangements may be legitimate. However, they can become anti-competitive where they substantially restrict competition.

Example:

A powerful supplier requires a retailer to stock only its products and refuses to supply the retailer if it also stocks competing products.

Effects:

- Other suppliers may lose access to customers.
- Retailers may have limited freedom of choice.
- New businesses may struggle to enter the market.
- Consumers may have fewer product alternatives.

7. Minimum Resale Price Maintenance

Meaning: Minimum resale price maintenance occurs when a supplier or manufacturer requires a reseller to sell a product at or above a specified minimum price, rather than allowing the reseller to determine its own resale price independently.

Example:

A manufacturer requires all retailers selling its products to charge customers at least KSh 2,000, even where retailers would independently prefer to offer lower prices.

Effects:

- Retailers may be prevented from competing through lower prices.
- Consumers may pay higher prices.

- Price competition between sellers may be reduced.

A supplier may recommend a resale price under the conditions permitted by Kenyan law, provided the recommendation is genuinely non-binding and properly identified as recommended.

8. Output Restriction

Meaning: Output restriction occurs when businesses agree or act to limit the quantity of goods or services supplied to the market in order to influence prices or restrict competition.

Example:

Competing producers agree to reduce the amount of a product supplied to the market despite having the capacity to produce more.

Effects:

- Goods may become scarce.
- Prices may increase.
- Consumers may experience shortages.
- Businesses may earn higher profits at the expense of consumers.

9. Bid Suppression

Meaning: Bid suppression occurs when a supplier deliberately agrees not to submit a competitive bid or withdraws an existing bid so that another supplier can win a tender.

Example:

A company agrees not to submit a bid for a supply contract so that a competing company selected by the group can win.

Effects:

- Reduces genuine competition.
- May lead to inflated contract prices.
- Denies honest suppliers a fair opportunity.
- May lead to poor-quality goods or services.

10. Misuse of Intellectual Property Rights

Meaning: This occurs when a business uses intellectual property rights in a manner that goes beyond legitimate protection and unfairly restricts competition.

Examples:

- Using intellectual property rights to prevent lawful competition beyond the protection granted by law.
- Unfairly restricting access to essential technology.
- Using intellectual property arrangements as part of an anti-competitive agreement.

Effects:

- Innovation may be restricted.

- New businesses may face unfair barriers.
- Consumers may have fewer product choices.
- Technological development may be discouraged.

11. Abuse of Buyer Power

Meaning: Abuse of buyer power occurs when a powerful buyer uses its position to impose unfair or unreasonable terms on suppliers who have limited bargaining power.

Examples:

1. Deliberately delaying payments to small suppliers.
2. Forcing suppliers to accept unfairly reduced prices.
3. Changing contract terms unilaterally without proper justification.
4. Requiring suppliers to pay unreasonable charges to access the buyer's market.
5. Forcing suppliers to fund promotions or rebates unfairly.

Example:

A large retailer purchases agricultural produce from small farmers but repeatedly delays payment and imposes unfair price reductions because the farmers have limited alternative buyers.

Effects:

- Small suppliers may experience financial difficulties.
- Farmers may reduce production.
- Some suppliers may close their businesses.
- Investment and innovation may decline.
- Rural incomes may be affected.

12. Predatory Acquisition or Anti-Competitive Mergers

Meaning: This involves a merger or acquisition that substantially reduces competition or strengthens market power in a way that may harm consumers and other businesses.

Example:

A major business acquires several competing enterprises in the same market, leaving consumers with very few independent suppliers.

Effects:

- Market concentration may increase.
- Competition may decline.
- Consumers may face higher prices.
- New businesses may encounter greater barriers to entry.

Important: Not every merger or acquisition is anti-competitive. Some mergers improve efficiency, investment and service delivery. The relevant competition authority examines their likely effects and whether approval or conditions are required.

Summary of Uncompetitive Market Practices

Practice	Explanation
Price fixing	Competitors agree on prices instead of competing independently.
Market sharing	Competitors divide customers, areas or products among themselves.
Collusive tendering	Suppliers manipulate tender outcomes through secret cooperation.
Predatory pricing	A firm uses deliberately unsustainable low prices to weaken competitors.
Abuse of dominance	A powerful business uses its market position unfairly.
Exclusive dealing	A business restricts another business from dealing with competitors.
Minimum resale price maintenance	A supplier imposes a minimum resale price on retailers.
Output restriction	Businesses limit supply to influence market conditions.
Bid suppression	A supplier deliberately avoids competing for a tender.
Misuse of intellectual property	Intellectual property rights are used beyond legitimate protection to restrict competition.
Abuse of buyer power	A powerful buyer imposes unfair terms on weaker suppliers.
Anti-competitive mergers	Business combinations substantially lessen competition.

1.4.8 Ethical and Unethical Promotion Practices by Business Firms

Meaning of Promotion

Promotion refers to the communication activities used by a business to inform, persuade and remind customers about its products or services with the aim of increasing awareness, attracting customers and encouraging purchases.

Promotion is an important element of the marketing mix.

Examples of promotional activities in Kenya:

- Television advertisements.
- Radio advertisements.
- Newspaper advertisements.
- Social media marketing.
- Billboards and posters.

- Product demonstrations.
- Sales discounts.
- Free product samples.
- Sponsorships.
- Public relations activities.
- Personal selling.

A. Ethical Promotion Practices

Meaning: Ethical promotion practices are honest, fair and responsible methods used by businesses to communicate information about their goods and services to customers.

They respect consumer rights and avoid misleading or harmful promotional messages.

1. Truthful Advertising

- Businesses should provide accurate information about their products and services.
- Advertisements should not contain false claims.
- Product benefits should be presented honestly.
- For example, a company advertising a food product should not claim that it cures diseases without reliable evidence and legal authorisation.

2. Providing Clear Product Information

- Businesses should communicate important information about their products.
- Information may include ingredients, quantities, prices, expiry dates, usage instructions and warnings.
- Clear information helps consumers make informed decisions.

3. Honest Pricing and Discounts

- Businesses should communicate genuine prices and discounts.
- They should not advertise fake discounts by artificially increasing previous prices.
- Customers should be informed of important conditions attached to promotions.

Example: A supermarket advertises a genuine reduction in the price of cooking oil from KSh 500 to KSh 450 for a specified period.

4. Respecting Consumer Privacy

- Businesses should handle customer information responsibly.
- They should not misuse personal data collected during promotional activities.
- Customers should be treated respectfully when receiving marketing messages.

5. Avoiding Discriminatory Messages

- Promotional messages should respect different groups of people.
- Advertisements should avoid insulting or unfairly stereotyping individuals based on their personal characteristics.

- Respectful advertising promotes social harmony.

6. Responsible Use of Social Media

- Businesses should share genuine product information through social media platforms.
- They should not create fake customer reviews or false testimonials.
- Paid endorsements should be presented transparently where disclosure is required.

7. Promoting Safe Products

- Businesses should not promote products in ways that encourage dangerous or irresponsible use.
- Safety warnings and usage instructions should be communicated where necessary.
- This protects consumers from harm.

8. Respecting Competitors

- Businesses should promote their products without making false or damaging claims about competitors.
- They should compete through genuine product benefits, quality and service.
- Respectful competition promotes trust in the market.

9. Responsible Use of Children in Advertising

- Advertisements directed at children should be age-appropriate and responsible.
- Businesses should avoid exploiting children's limited ability to understand persuasive messages.
- Promotional content should not encourage harmful or unsafe behaviour.

10. Respecting Intellectual Property

- Businesses should obtain permission before using protected music, photographs, logos, videos and other creative works in advertisements.
- They should avoid copying competitors' advertising materials unlawfully.
- This protects the rights of creators and businesses.

11. Transparent Influencer Marketing

- Businesses using social media influencers should ensure that paid endorsements and sponsored content are disclosed where required.
- Influencers should not pretend to be independent customers when they are being paid to promote a product.
- This allows consumers to recognise promotional messages.

12. Environmental Responsibility in Promotion

- Businesses should avoid making unsupported claims that products are environmentally friendly.
- Environmental benefits should be genuine and capable of verification.

- This helps prevent greenwashing.

B. Unethical Promotion Practices

Meaning: Unethical promotion practices are dishonest, misleading, unfair or irresponsible promotional activities used by businesses to influence customers or increase sales.

These practices may deceive consumers, damage competitors and undermine public confidence in the market.

1. False Advertising

- False advertising occurs when a business communicates incorrect information about its products or services.
- It may involve making claims that cannot be supported by evidence.
- It misleads customers and may cause financial loss.

Example: A business advertises an ordinary product as an officially certified product when it has not received the claimed certification.

2. Misleading Product Claims

- Businesses may exaggerate product benefits or performance.
- They may make promises that the products cannot fulfil.
- This creates unrealistic expectations among customers.

Example: A seller claims that a particular beauty product guarantees permanent results for every user without scientific evidence.

3. Fake Discounts

- A business may advertise a large price reduction that is not genuine.
- It may artificially inflate the original price to make a small reduction appear substantial.
- This deceives customers into believing they are saving more money than they actually are.

4. False Testimonials and Reviews

- Businesses may create fake customer reviews.
- They may pay individuals to give dishonest testimonials without appropriate disclosure.
- Such practices mislead consumers about the actual performance of products.

5. Bait Advertising

- Bait advertising occurs when a business advertises a product at an attractive price to attract customers but has no reasonable intention or ability to supply it as advertised.
- The business may then pressure customers to purchase more expensive alternatives.
- This wastes customers' time and may cause financial loss.

6. Concealing Important Product Information

- A business may hide important details such as additional charges, limitations, risks or conditions.

- Customers may make purchasing decisions without understanding the full terms.
- This is unfair and may result in disputes.

7. Denigrating Competitors

- A business may spread false information about competing products or companies.
- This may damage the reputation of competitors.
- It creates unfair competition and misleads customers.

8. Counterfeit Branding

- Businesses may use names, logos, packaging or designs that imitate established brands without authorisation.
- Customers may mistakenly believe they are buying genuine products.
- Counterfeiting may expose consumers to unsafe or poor-quality goods.

9. Hidden Charges

- A business may advertise an attractive price but fail to disclose additional mandatory charges.
- Customers may only discover the full cost after committing to the purchase.
- This undermines transparency.

10. Exploiting Consumer Fear

- Businesses may use frightening or exaggerated messages to pressure customers into buying products.
- They may suggest that customers will suffer serious harm unless they purchase immediately.
- This manipulates consumer decisions.

11. Misuse of Children's Images and Influence

- Some businesses may use children irresponsibly to pressure parents into purchasing products.
- They may exploit children's trust or limited understanding of advertising.
- Such practices raise ethical and consumer protection concerns.

12. Unauthorised Use of Personal Information

- Businesses may use customer phone numbers, emails or other personal information for marketing without a lawful basis.
- They may send unwanted messages or share customer information improperly.
- This may violate privacy and data protection requirements.

Comparison Between Ethical and Unethical Promotion

Ethical promotion	**Unethical promotion**
Uses truthful product information.	Uses false or misleading information.

Advertises genuine discounts.	Advertises fake discounts.
Respects competitors.	Spreads false information about competitors.
Protects customer privacy.	Misuses customers' personal information.
Provides clear product details.	Conceals important product information.
Uses genuine testimonials.	Creates fake reviews and testimonials.
Discloses relevant sponsorships.	Hides paid promotional relationships.
Promotes safe product use.	Encourages unsafe or irresponsible use.

Importance of ethical promotion

1. Builds customer trust.
2. Improves business reputation.
3. Promotes customer loyalty.
4. Encourages fair competition.
5. Reduces consumer complaints.
6. Protects customers from misleading information.
7. Promotes long-term business growth.
8. Supports compliance with consumer protection requirements.

Consequences of unethical promotion

1. Loss of customer trust.
2. Damage to business reputation.
3. Consumer complaints and legal action.
4. Financial penalties where the law is breached.
5. Loss of sales and customers.
6. Increased business disputes.
7. Unfair disadvantage to honest competitors.
8. Reduced confidence in the market.

Kenyan law prohibits false or misleading representations when goods or services are supplied, offered or promoted. The Competition Authority of Kenya investigates relevant consumer complaints and may apply remedies such as refunds, replacements, repairs, withdrawal of misleading representations and recalls of unsafe goods, depending on the case.

1.4.9 Importance of Market Competition in an Economy

Market competition benefits not only individual businesses but also consumers, workers, producers, investors and the entire economy.

1. Promotes efficient allocation of resources

- Competition encourages businesses to direct resources towards goods and services demanded by consumers.
- Businesses that produce goods that customers do not want may lose sales.
- This encourages producers to respond to market needs.

2. Encourages economic growth

- Competition promotes production, trade, investment and enterprise development.
- Growing businesses contribute to national income.
- Increased economic activity may improve living standards.

3. Promotes innovation and technological advancement

- Businesses introduce new technologies and production methods to remain competitive.
- Innovation improves productivity and the quality of goods and services.
- For example, Kenyan businesses have increasingly adopted digital payments, online selling and mobile-based services.

4. Encourages foreign investment

- A competitive business environment can attract local and international investors.
- Investors may introduce capital, technology, skills and new products.
- This can strengthen the country's productive capacity.

5. Promotes employment creation

- Expanding businesses may recruit more workers.
- New enterprises entering the market create additional employment opportunities.
- Increased employment may improve household incomes.

6. Promotes consumer welfare

- Consumers benefit from a wider selection of products and services.
- Competition may lead to more affordable prices and better quality.
- Customers can choose businesses that meet their needs.

7. Encourages growth of small businesses

- Fair competition gives small and medium-sized enterprises opportunities to enter markets and attract customers.
- This promotes entrepreneurship and local economic development.
- It may also encourage businesses to specialise in particular products and services.

8. Promotes national productivity

- Businesses improve their production processes to reduce waste and costs.
- Efficient enterprises can produce more goods and services using available resources.
- This contributes to national productivity.

9. Improves international competitiveness

- Competition encourages local businesses to improve product standards and efficiency.
- Businesses may become better prepared to compete in regional and international markets.
- This may support exports and foreign exchange earnings.

10. Promotes balanced economic development

- Competition encourages businesses to establish themselves in different parts of the country.
- This may increase access to goods, services and employment opportunities beyond major towns.
- For example, the growth of distribution businesses can improve access to products in rural areas.

11. Discourages business inefficiency

- Businesses that fail to control costs or meet customer expectations may lose customers.
- Competition encourages managers to improve operations and make better decisions.
- This promotes efficiency throughout the economy.

12. Encourages fair business practices

- Competition laws discourage cartels, collusion, price-fixing and abuse of market power.
- Businesses are encouraged to compete through quality, price, innovation and customer service.
- This strengthens confidence in markets.

1.4.10 Effects of Uncompetitive Market Practices

Uncompetitive market practices negatively affect consumers, businesses, suppliers and the economy.

A. Effects on Consumers

1. High prices of goods and services

- Businesses may agree to charge artificially high prices.
- Consumers are forced to pay more than they would pay in a competitive market.
- This reduces their purchasing power.

2. Limited consumer choice

- Market sharing, mergers that reduce competition and abuse of dominance may reduce the number of available suppliers.
- Consumers may have fewer brands and products to choose from.
- This limits their freedom to select suitable products.

3. Poor quality of goods and services

- Businesses facing little competition may have less incentive to improve quality.

- They may continue supplying low-quality products because customers have limited alternatives.
- This can reduce consumer satisfaction.

4. Shortages of goods and services

- Businesses may restrict production or supply to influence market prices.
- This may create artificial shortages.
- Consumers may struggle to obtain essential products.

5. Consumer exploitation

- Dominant businesses may impose unfair prices or trading conditions.
- Consumers may have little bargaining power.
- This may lead to financial loss.

6. Misleading purchasing decisions

- Unethical promotional practices may cause consumers to purchase products based on false information.
- Consumers may waste money on unsuitable or ineffective goods and services.

B. Effects on Businesses

7. Closure of small businesses

- Powerful businesses may use unfair practices to weaken smaller competitors.
- Small enterprises may lose customers and sales.
- Some may eventually close.

8. Discourages entrepreneurship

- Unfair barriers to entry may prevent new businesses from entering the market.
- Potential entrepreneurs may be discouraged from investing.
- This reduces business innovation and enterprise development.

9. Reduced innovation

- Businesses protected from competition may have less incentive to improve products and production methods.
- This may slow technological advancement.
- Customers may continue receiving outdated products and services.

10. Unfair business environment

- Honest businesses may struggle to compete against firms using collusion, bribery and other unfair practices.
- This weakens business confidence.

- It may discourage responsible investment.

11. Reduced business investment

- Investors may avoid markets where a few powerful firms control opportunities unfairly.
- This may reduce capital investment and enterprise expansion.

12. Increased business costs

- Businesses may pay artificially high prices for inputs because of supplier collusion.
- Unfair contractual conditions may increase their operating expenses.
- This may reduce profitability.

C. Effects on the Economy

13. Increased unemployment

- Small businesses may close because of unfair competition.
- Employees may lose their jobs.
- New employment opportunities may also decline.

14. Increased income inequality

- Unfair market practices may enable powerful businesses to gain excessive economic advantages.
- Smaller businesses and consumers may suffer financial losses.
- This may widen economic inequalities.

15. Reduced government revenue

- Business closures and reduced economic activity may reduce tax revenue.
- The government may collect less income from affected businesses and workers.
- This may affect public service delivery.

16. Misallocation of resources

- Resources may be directed towards protecting market power instead of producing goods and services efficiently.
- This reduces economic productivity.
- The economy may fail to benefit fully from available resources.

17. Reduced national economic growth

- Lower investment, reduced innovation and business closures may slow economic growth.
- This can affect national development.
- The economy may become less competitive internationally.

18. Loss of public confidence

- Corruption, price-fixing and unfair market practices weaken confidence in businesses and institutions.

- Consumers may lose trust in market transactions.
- This may discourage investment and participation in economic activities.

1.4.11 Ways the Government Can Identify Uncompetitive Market Practices

The government uses different methods to identify businesses or groups of businesses engaging in anti-competitive conduct.

In Kenya, the Competition Authority of Kenya (CAK) is the principal institution responsible for enforcing the Competition Act and promoting effective competition in markets.

1. Receiving Complaints from Consumers

- Consumers may report unfair prices, misleading advertisements, poor treatment or other suspected market abuses.
- The government examines complaints to identify possible violations.
- Consumer complaints may reveal patterns of unfair business conduct.

Example: Customers report that competing suppliers have agreed to charge identical unusually high prices for a particular product.

2. Receiving Complaints from Businesses

- Businesses may report unfair practices by competitors or powerful suppliers.
- Small enterprises may report conduct that prevents them from accessing markets.
- Such complaints may provide evidence of anti-competitive behaviour.

3. Conducting Market Surveys

- The government collects information about prices, supply, demand and business activities.
- Surveys help identify unusual market patterns.
- They may reveal whether a small number of businesses control a market.

Example: A market survey may establish that only a few companies supply a particular essential product in a region.

4. Investigating Price Changes

- The government may monitor unusual or coordinated price increases.
- It compares price movements among competing businesses.
- Similar price changes alone do not prove collusion, but they may provide grounds for further investigation.

5. Examining Business Agreements

- Investigators may examine agreements between businesses.
- They look for evidence of price-fixing, market sharing, output restriction and other prohibited arrangements.
- Relevant records may reveal whether businesses are coordinating their activities.

6. Examining Tender Documents

- The government may analyse tender submissions to identify unusual bidding patterns.
- It may investigate repeated tender wins by certain suppliers.
- Similar bid prices, coordinated withdrawals or suspicious bidding patterns may indicate collusive tendering.

7. Conducting Business Inspections and Investigations

- Authorised investigators may examine relevant business records and information in accordance with the law.
- They may investigate suspected restrictive agreements and abuse of dominant position.
- Investigations help establish whether competition laws have been breached.

8. Analysing Market Shares

- The government examines the proportion of sales controlled by different businesses.
- It identifies markets where a few firms have significant market power.
- Market share information helps determine whether further investigation is necessary.

Example: If one company controls a very large proportion of a particular market, the Authority may examine whether its conduct harms competition.

9. Studying Barriers to Market Entry

- The government examines factors that prevent new businesses from entering a market.
- Such factors may include high start-up costs, restrictive agreements and unfair access conditions.
- High barriers may indicate that competition is weak.

10. Examining Consumer Complaints and Advertising Claims

- The government may examine advertisements, product labels, social media promotions and sales claims.
- It checks whether businesses make false or misleading representations.
- This helps identify unethical promotional practices.

11. Conducting Market Inquiries and Research

- The government may investigate specific industries or sectors to understand how competition operates.
- Research may identify structural problems, barriers to entry and unfair market practices.
- Findings may inform enforcement and policy decisions.

The Competition Authority of Kenya conducts market inquiries into specific sectors when concerns arise about restrictions or distortions of competition.

12. Monitoring Mergers and Acquisitions

- The government examines proposed mergers and acquisitions where notification or approval is required.
- It assesses whether the transactions may substantially lessen competition.

- This helps prevent harmful market concentration.

1.4.12 Ways the Government Can Prevent Uncompetitive Market Practices

After identifying possible anti-competitive practices, the government may take different measures to prevent, control or remedy them.

1. Enacting and Enforcing Competition Laws

- The government establishes laws that prohibit unfair business practices.
- The laws provide rules governing competition and market conduct.
- Businesses are expected to comply with these requirements.

Kenyan example: The Competition Act, 2010, as amended, provides the legal framework for regulating competition and protecting consumers in Kenya.

2. Investigating Suspected Anti-Competitive Conduct

- The government investigates suspected price-fixing, market sharing, collusion and abuse of market power.
- Investigations help establish whether the law has been violated.
- Appropriate enforcement measures may follow where a breach is established.

3. Imposing Penalties

- Businesses that violate competition laws may face financial penalties and other legal consequences.
- Penalties discourage businesses from engaging in prohibited conduct.
- They also promote compliance with the law.

4. Prohibiting Price Fixing and Collusion

- The government prohibits competitors from agreeing to fix prices or restrict competition unlawfully.
- It investigates suspected secret agreements.
- This helps preserve independent decision-making by businesses.

5. Regulating Mergers and Acquisitions

- The government examines mergers and acquisitions that may reduce competition.
- It may approve, conditionally approve or prohibit a transaction in accordance with the law.
- This helps prevent excessive market concentration.

6. Controlling Abuse of Dominant Market Position

- The government monitors businesses with significant market power.
- It prevents the unlawful exploitation of consumers, suppliers and competitors.
- Dominant businesses are expected to compete fairly.

7. Promoting Entry of New Businesses

- The government may remove unnecessary barriers that prevent businesses from entering markets.
- It can simplify lawful business registration and licensing procedures.
- This encourages entrepreneurship and increases competition.

8. Protecting Small and Medium-Sized Enterprises

- The government may take measures to protect smaller suppliers and businesses from unfair market conduct.
- It promotes fair access to markets and business opportunities.
- It also addresses abuse of buyer power.

9. Promoting Consumer Education

- Consumers are educated about their rights and responsibilities.
- They are encouraged to compare products, verify claims and report unfair practices.
- Informed consumers are less likely to be misled.

10. Regulating Misleading Advertising

- The government monitors promotional activities that contain false or misleading information.
- It may require businesses to withdraw misleading advertisements.
- It may also take other lawful measures to protect consumers.

11. Promoting Fair Trade Practices

- The government encourages businesses to compete through quality, price, innovation and customer service.
- It discourages unfair agreements and exploitative conduct.
- This improves the functioning of markets.

12. Encouraging Whistleblowing and Reporting

- The government provides channels through which individuals and businesses can report suspected anti-competitive conduct.
- Whistleblowers may help reveal secret agreements and unfair business practices.
- Appropriate confidentiality protections may apply under the law.

13. Conducting Regular Market Surveillance

- The government monitors market developments and business behaviour.
- It identifies emerging risks before they become widespread.
- Regular monitoring supports timely intervention.

14. Promoting Competition Awareness

- The government educates business owners, suppliers and consumers about competition laws.

- Businesses learn which agreements and practices are prohibited.
- Awareness promotes voluntary compliance.

15. Working with Other Regulatory Agencies

- The Competition Authority cooperates with relevant government institutions and sector regulators.
- This helps address competition concerns in industries such as telecommunications, banking, energy and transport.
- Cooperation improves enforcement and consumer protection.

16. Providing Remedies to Affected Consumers

- Where a consumer protection violation is established, appropriate remedies may include refunds, replacements, repairs or withdrawal of misleading representations.
- Unsafe goods may be recalled where legally justified.
- These measures help protect consumers from further harm.

The Competition Authority of Kenya provides for investigations, market inquiries, consumer complaints and enforcement measures under the Competition Act.

1.4.13 Government Institutions Responsible for Promoting Fair Competition in Kenya

A. Competition Authority of Kenya (CAK)



The Competition Authority of Kenya is the principal government institution responsible for promoting and safeguarding competition in the Kenyan economy.

Main functions:

1. Enforces the Competition Act.
2. Investigates restrictive trade practices.
3. Investigates abuse of dominant market position.
4. Examines anti-competitive agreements.
5. Regulates mergers and acquisitions under the Act.
6. Investigates abuse of buyer power.

7. Protects consumers from false and misleading representations.
8. Conducts market inquiries and research.
9. Promotes awareness of competition laws.
10. Advises the government on competition and consumer welfare matters.

B. Competition Tribunal

The Competition Tribunal is an institution that hears and determines appeals and disputes arising from decisions made by the Competition Authority of Kenya within its legal mandate.

Main functions:

1. Hears appeals against relevant decisions of the Competition Authority.
2. Determines disputes relating to restrictive trade practices.
3. Handles relevant matters involving abuse of dominant position.
4. Deals with disputes relating to mergers and acquisitions.
5. Provides a legal avenue for parties dissatisfied with certain decisions of the Authority.

C. Communications Authority of Kenya (CA)

The Communications Authority regulates the communications sector in Kenya.

Relevant functions include:

1. Licensing communications service providers.
2. Regulating the telecommunications sector.
3. Promoting fair competition within its regulatory mandate.
4. Protecting consumers of communications services.
5. Monitoring compliance with communications regulations.

D. Central Bank of Kenya (CBK)

The Central Bank of Kenya regulates and supervises banks and certain financial institutions.

Relevant functions include:

1. Licensing and supervising banks.
2. Promoting stability in the financial system.
3. Monitoring compliance with banking laws and regulations.
4. Protecting the soundness of the banking sector.
5. Supporting a stable environment for financial services.

E. Energy and Petroleum Regulatory Authority (EPRA)

EPRA regulates the energy and petroleum sectors in Kenya.

Relevant functions include:

1. Regulating relevant energy and petroleum activities.

2. Licensing businesses within its regulatory mandate.
3. Monitoring compliance with sector standards.
4. Protecting consumers within the regulated sectors.
5. Supporting orderly and efficient energy markets.

Important distinction: CAK is the principal competition authority. Sector regulators such as the Communications Authority, CBK and EPRA regulate their respective industries and may work with CAK on competition matters.

1.4.14 Kenyan Legal Framework for Market Competition

Market competition in Kenya is regulated through laws and institutions designed to promote fair business conduct and protect consumers.

1. Constitution of Kenya, 2010

- The Constitution provides the broader legal foundation for economic governance and consumer protection.
- Article 46 protects consumer rights.
- Article 227 provides principles governing public procurement and disposal of public assets.
- These provisions contribute to accountability, fairness and protection of economic interests.

2. Competition Act, 2010

- The Competition Act provides the main legal framework for promoting competition in Kenya.
- It prohibits certain restrictive trade practices and abuse of dominant market position.
- It also addresses mergers and acquisitions, abuse of buyer power and consumer protection matters.
- It establishes the legal basis for the work of the Competition Authority of Kenya.

3. Consumer Protection Requirements

- Businesses should provide truthful information about their products and services.
- They should avoid false and misleading representations.
- They should not engage in unconscionable conduct.
- Consumers should receive appropriate protection against unsafe, unsuitable and defective goods.

4. Data Protection Requirements

- Businesses collecting and using personal information for marketing should observe applicable data protection requirements.
- Customer information should be handled lawfully and responsibly.
- Businesses should respect privacy and applicable consent requirements.

Important Legal Reference for Learners

The Competition Act, 2010, as amended, prohibits certain agreements and practices that prevent, distort or lessen competition. These include price-fixing, market allocation, collusive tendering and other restrictive practices. It also prohibits abuse of dominant position.

1.4.15 Practical Case Study: Market Competition in Kenya

Case study: Competition among retailers in a Kenyan town

Three supermarkets operate in a growing town in Kenya. They sell similar goods, including maize flour, cooking oil, sugar, soap, rice and other household products.

Supermarket A attracts customers by offering affordable prices. Supermarket B focuses on quality products, customer service and loyalty rewards. Supermarket C advertises special offers and provides convenient delivery services.

As a result, the three supermarkets compete to attract customers.

However, the managers of Supermarket A and Supermarket B later meet secretly and agree that both businesses should charge the same high prices for selected products. They also agree not to offer discounts that could attract customers from one another.

A small retailer complains that the agreement has made it difficult to compete fairly.

Questions for discussion

1. Identify the type of market competition initially demonstrated by the three supermarkets.
2. Explain three ways in which the supermarkets compete.
3. Identify the uncompetitive market practice committed by Supermarkets A and B.
4. Explain four negative effects of the agreement on consumers.
5. State three ways the government can identify the suspected practice.
6. Explain three measures the government can take to prevent such practices.
7. State four benefits of fair competition to the local economy.

Lessons from the case study

- Competition encourages businesses to improve their products and services.
- Consumers benefit from different prices and product choices.
- Price-fixing interferes with fair competition.
- Businesses should make independent pricing decisions.
- Government regulation helps protect consumers and honest businesses.

1.4.16 Competency-Based Learning Activities

The following activities help learners apply the knowledge gained to real-life business situations.

Activity 1: Identifying Markets in the Community

In groups, learners identify different markets within their community.

They should:

1. Identify at least five markets.

2. State the goods or services traded in each market.
3. Identify some of the businesses operating in each market.
4. Explain how the businesses compete.
5. Present their findings to the class.

Activity 2: Comparing Market Structures

Learners identify businesses operating in different industries in Kenya.

They classify the markets according to:

- Perfect competition.
- Monopolistic competition.
- Oligopoly.
- Monopoly.

They explain the characteristics that support their classification and identify where real markets differ from theoretical models.

Activity 3: Analysing Promotional Messages

Learners collect examples of advertisements from newspapers, television, posters or social media.

They examine the advertisements and identify:

1. The product being promoted.
2. The target customers.
3. The promotional method used.
4. Whether the information is clear and truthful.
5. Any ethical or unethical practices.
6. Ways the advertisement could be improved.

Activity 4: Investigating Uncompetitive Practices

Learners discuss possible examples of:

- Price-fixing.
- Market sharing.
- Collusive tendering.
- Predatory pricing.
- Abuse of dominant market position.
- Misleading advertising.

They explain how each practice affects consumers and businesses.

Activity 5: Group Debate

Debate topic:

Market competition is more beneficial to consumers than to businesses.

Learners are divided into two groups:

- Group A supports the motion.
- Group B opposes the motion.

Each group presents arguments using examples from the Kenyan economy.

Activity 6: Community Market Survey

Learners visit a local market or shopping centre and observe competing businesses.

They record:

- The types of businesses operating.
- Products sold by the businesses.
- Differences in prices.
- Product quality and packaging.
- Promotional activities.
- Customer service practices.

They then recommend ways businesses can compete fairly.

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Answer all questions. Choose the correct answer from the alternatives provided.

1. What is a market?

A. A place where only wholesalers operate.

B. An arrangement where buyers and sellers interact to exchange goods and services.

C. A place where goods are manufactured only.

D. An organisation that controls all business activities.

2. Market competition refers to:

A. Cooperation among all businesses to charge high prices.

B. Rivalry among businesses seeking to attract customers.

C. Government ownership of all businesses.

D. The elimination of consumers from business activities.

3. Which of the following is a characteristic of perfect competition?

A. One seller controls the entire market.

B. Few businesses dominate the market.

C. Many sellers offer identical products.

D. Businesses prevent new firms from entering the market.

4. Under perfect competition, an individual firm is generally described as a:

A. Price maker.

B. Price taker.

C. Market controller.

D. Sole supplier.

5. Which market structure involves many businesses selling differentiated products?

A. Monopoly.

B. Oligopoly.

C. Perfect competition.

D. Monopolistic competition.

6. A market dominated by a small number of large firms is known as:

A. Monopoly.

B. Oligopoly.

C. Perfect competition.

D. Monopolistic competition.

7. Which of the following best describes a monopoly?

A. A market with many sellers.

B. A market with identical products.

C. A market with a single supplier and high barriers to entry.

D. A market with unlimited competitors.

8. Which of the following is a characteristic of monopolistic competition?

A. Products are always identical.

B. Businesses use product differentiation.

C. There is only one seller.

D. There is no advertising.

9. One advantage of market competition is that it:

A. Encourages businesses to improve product quality.

B. Eliminates consumer choice.

C. Encourages price-fixing.

D. Prevents innovation.

10. Which of the following promotes consumer welfare?

A. Market sharing. B. Price-fixing.

C. Fair competition. D. Collusive tendering.

11. When competing businesses agree to charge the same prices, the practice is known as:

A. Product differentiation.

B. Price fixing.

C. Market research.

D. Product development.

12. Market sharing occurs when businesses:

A. Agree to divide customers or geographical areas among themselves.

B. Compete through better customer service.

C. Introduce new products.

D. Reduce unnecessary production costs.

13. Collusive tendering involves:

A. Honest competition among suppliers.

B. Secret cooperation among suppliers to manipulate tender results.

C. Advertising products through social media.

D. Improving the quality of goods.

14. Predatory pricing involves:

A. Increasing product quality.

B. Deliberately setting unsustainably low prices to weaken competitors.

C. Charging a reasonable price.

D. Offering genuine seasonal discounts only.

15. Which of the following is an example of abuse of dominant market position?

A. Improving customer service.

B. Introducing new products.

C. Using market power to impose unfair trading conditions.

D. Offering genuine discounts.

16. A supplier requires retailers to sell products at or above a fixed minimum resale price. This practice is known as:

A. Market research.

B. Minimum resale price maintenance.

C. Product differentiation.

D. Consumer education.

17. Which of the following is an example of ethical promotion?

A. Using fake testimonials.

B. Hiding additional charges.

C. Providing accurate product information.

D. Making false product claims.

18. Which of the following is an unethical promotional practice?

A. Honest advertising.

B. Providing clear product information.

C. Advertising fake discounts.

D. Disclosing sponsorships.

19. A business advertises a product at a low price but has no reasonable intention of supplying it as advertised. This is an example of:

A. Bait advertising.

B. Ethical marketing.

C. Product development.

D. Market segmentation.

20. Which of the following is an advantage of competition to consumers?

A. Increased exploitation.

B. Limited product choice.

C. Improved product quality.

D. Artificial shortages.

21. Which institution is primarily responsible for promoting and safeguarding competition in Kenya?

A. Kenya National Examinations Council.

B. Competition Authority of Kenya.

C. Kenya National Bureau of Statistics.

D. Teachers Service Commission.

22. Which of the following is a method used by the government to identify anti-competitive practices?

A. Ignoring consumer complaints.

B. Conducting market inquiries.

C. Encouraging price-fixing.

D. Preventing business registration.

23. The Competition Act in Kenya was enacted in:

A. 2000.

B. 2005.

C. 2010.

D. 2020.

24. Which of the following is a negative effect of price-fixing?

A. Reduced prices for all consumers.

B. Increased consumer choice.

C. Artificially high prices.

D. Improved fair competition.

25. One effect of uncompetitive market practices on small businesses is:

A. Improved access to all markets.

B. Possible closure due to unfair competition.

C. Guaranteed business expansion.

D. Elimination of operating costs.

26. Which of the following is an advantage of monopolistic competition?

A. Limited consumer choice.

B. Product differentiation and variety.

C. Complete absence of advertising.

D. One seller controls all supply.

27. Which market structure is most likely to involve strategic interdependence among a few large firms?

A. Perfect competition.

B. Monopoly.

C. Oligopoly.

D. Monopolistic competition.

28. Which of the following is a measure the government can use to prevent anti-competitive practices?

A. Encouraging collusion.

B. Enforcing competition laws.

C. Preventing consumer complaints.

D. Supporting market sharing agreements.

29. The main purpose of regulating mergers and acquisitions is to:

A. Prevent all businesses from expanding.

B. Ensure that business combinations do not unlawfully harm competition.

C. Eliminate all large businesses.

D. Prevent consumers from choosing products.

30. Which statement best describes ethical promotion?

A. Using any method to increase sales.

B. Providing truthful and responsible promotional information.

C. Hiding important product information.

D. Making exaggerated claims to attract customers.

SECTION B: STRUCTURED QUESTIONS

1. a) Define the term market. (2 marks)

b) Explain five characteristics of market competition. (10 marks)

2. a) Define perfect competition. (2 marks)

b) Explain five characteristics of perfect competition. (10 marks)

c) State three advantages of perfect competition. (3 marks)

3. a) Explain the meaning of monopolistic competition. (2 marks)

b) Describe five characteristics of monopolistic competition. (10 marks)

c) State three disadvantages of monopolistic competition. (3 marks)

4. a) Define oligopoly. (2 marks)

b) Explain five characteristics of an oligopolistic market. (10 marks)

c) State three disadvantages of oligopoly. (3 marks)

5. a) Define monopoly. (2 marks)

b) Explain five characteristics of monopoly. (10 marks)

c) State three disadvantages of monopoly. (3 marks)

6. Explain eight ways through which market competition benefits businesses and consumers. (16 marks)

7. a) Define uncompetitive market practices. (2 marks)

b) Explain six forms of uncompetitive market practices in a country. (12 marks)

8. a) Define promotion. (2 marks)

b) Explain six ethical promotional practices used by business firms. (12 marks)

9. a) Explain six unethical promotional practices that may be used by business firms. (12 marks)

b) State four consequences of unethical promotion. (4 marks)

10. Explain eight negative effects of uncompetitive market practices on the economy. (16 marks)

11. a) Identify the government institution responsible for promoting and safeguarding competition in Kenya. (2 marks)

b) Explain six ways through which the government can identify uncompetitive market practices. (12 marks)

12. Explain eight measures the government can use to prevent uncompetitive market practices in Kenya. (16 marks)

13. Differentiate between the following market structures:

a) Perfect competition and monopoly. (4 marks)

b) Monopolistic competition and oligopoly. (4 marks)

c) Monopoly and oligopoly. (4 marks)

14. A group of businesses selling cooking oil secretly agrees to charge the same high price and avoid competing through discounts.

a) Identify the uncompetitive market practice demonstrated. (2 marks)

b) Explain four effects of this practice on consumers. (8 marks)

c) State five measures the government can take to prevent such a practice. (10 marks)

15. A business advertises a product as being able to cure a serious disease without reliable evidence.

a) Identify the promotional practice demonstrated. (2 marks)

b) Explain four reasons why the practice is unethical. (8 marks)

c) State five ways businesses can promote products ethically. (10 marks)

Summary of the Sub-strand

Key concept	Main point
Market	An arrangement where buyers and sellers interact to exchange goods and services.

Market competition	Rivalry among businesses seeking to attract customers.
Perfect competition	Many sellers offering identical products with little individual control over price.
Monopolistic competition	Many businesses selling differentiated products.
Oligopoly	A market dominated by a few large firms.
Monopoly	A market with one supplier and significant barriers to entry.
Price fixing	An agreement among competitors to fix prices.
Market sharing	An agreement to divide customers, products or geographical areas.
Collusive tendering	Secret cooperation to manipulate tender outcomes.
Predatory pricing	Deliberately unsustainable low pricing intended to weaken competitors.
Ethical promotion	Honest and responsible communication about goods and services.
Unethical promotion	Misleading, dishonest or unfair promotional conduct.
Competition Authority of Kenya	The principal institution responsible for promoting and safeguarding competition in Kenya.

STRAND 2.0: FINANCIAL RECORD IN BUSINESS

SUB-STRAND 2.1: THE LEDGER

2.1.1 Introduction to the Ledger

Every business carries out financial transactions such as buying goods, selling products, paying rent, receiving money, purchasing equipment and paying employees.

These transactions must be properly recorded so that the business can establish how much it owns, how much it owes, how much it has earned and how much it has spent.

A business initially records transactions in books of original entry, such as the journal, sales journal, purchases journal and cash book. The information is then transferred, or posted, into the appropriate accounts in the ledger.

The ledger organises financial transactions into separate accounts, making it easier to determine the balance of each account and prepare financial statements.

Meaning of a Ledger

A **ledger** is the principal book of accounts in which financial transactions recorded in the books of original entry are classified and posted into separate accounts.

It contains individual accounts such as:

- Cash account.
- Bank account.
- Capital account.
- Sales account.
- Purchases account.
- Rent account.
- Furniture account.
- Debtors' accounts.
- Creditors' accounts.

Example from a Kenyan business

Suppose a trader in Nakuru operates a shop selling stationery. During one week, the trader:

1. Started the business with KSh 100,000 cash.
2. Bought stationery worth KSh 20,000 in cash.
3. Sold goods worth KSh 15,000 in cash.
4. Paid shop rent of KSh 5,000.
5. Purchased goods worth KSh 10,000 on credit from a supplier.

These transactions affect different accounts. The ledger records each transaction in the relevant account, showing the amounts debited and credited.

Appearance of a Ledger Account

A ledger account is traditionally prepared in a T-shaped format with two sides:

- The left-hand side is the **debit side (Dr)**.
- The right-hand side is the **credit side (Cr)**.

Dr.	CASH ACCOUNT				Cr.
Date	**Particulars**	**Amount (Ksh)**	**Date**	**Particulars**	**Amount (Ksh)**
2026-01-01	To Capital A/c	10,000	2026-01-05	By Purchases	5,000
2026-01-06	To Sales A/c	8,000	2026-01-08	By Rent Expense	2,000
			2026-01-31	By Balance c/d	11,000
Total		**18,000**	**Total**		**18,000**

Illustration of a T-account

Debit side (Dr)	**Credit side (Cr)**
Left-hand side	Right-hand side
Records debit entries	Records credit entries

A ledger account normally contains the following details:

1. **Date:** The date on which the transaction occurred or was posted.
2. **Particulars:** The name of the other account involved in the transaction.
3. **Folio:** The reference to the page or account in another accounting book.
4. **Amount:** The monetary value of the transaction.
5. **Account title:** The name of the account being maintained.

Main Features of a Ledger

1. **It contains separate accounts.**
   - Each type of transaction is recorded in its appropriate account.
   - For example, all rent payments are recorded in the rent account.
2. **It has debit and credit sides.**
   - The left side records debit entries.
   - The right side records credit entries.
3. **It classifies financial transactions.**

- Similar transactions are grouped together.
- This makes accounting records easier to understand.

4. **It provides account balances.**

- The difference between the debit and credit totals determines the account balance.
- The balance may be debit or credit.

5. **It is used to prepare financial statements.**

- Ledger balances provide information needed to prepare the trial balance and financial statements.

6. **It provides a permanent accounting record.**

- Transactions are maintained in an organised form for future reference.

2.1.2 Purpose of a Ledger in Accounting

Meaning of purpose of a ledger

The purpose of a ledger refers to the reasons why a business maintains ledger accounts when recording and managing its financial transactions.

A ledger is important because it converts scattered transaction records into organised accounts that can be analysed and used in making financial decisions.

Purposes of a Ledger

1. Classifying business transactions

- A ledger groups transactions according to the accounts they affect.
- Similar transactions are recorded in the same account.
- This makes it easier to identify the nature of business activities.

Example: All payments made for electricity are recorded in the electricity expense account.

2. Determining account balances

- A ledger helps the business establish the balance of each account.
- The balance may show the amount of cash available, the value of debtors or the amount owed to suppliers.
- This helps management understand the financial position of the business.

3. Providing information for preparing a trial balance

- Ledger balances are used to prepare the trial balance.
- The trial balance lists the balances of ledger accounts.
- It helps establish whether total debit balances equal total credit balances.

4. Providing information for preparing financial statements

- Ledger accounts provide information required to prepare the income statement and statement of financial position.
- Revenue and expense accounts help establish profit or loss.

- Asset, liability and capital accounts provide information about the financial position of the business.

5. Facilitating checking of accounting records

- A ledger makes it easier to trace transactions from one account to another.
- It helps accountants identify errors and omissions.
- This improves the reliability of accounting records.

6. Showing amounts owed by customers

- The sales ledger maintains individual accounts of credit customers.
- It helps the business establish the amount each customer owes.
- This assists in following up unpaid debts.

7. Showing amounts owed to suppliers

- The purchases ledger maintains individual accounts of credit suppliers.
- It helps the business establish the amounts owed to different suppliers.
- This supports proper payment planning.

8. Assisting in controlling business expenditure

- Expense accounts show how much the business spends on different activities.
- Management can identify areas where expenditure is increasing.
- This helps the business control unnecessary costs.

9. Assisting in detecting errors and fraud

- A well-maintained ledger provides a clear record of financial transactions.
- Unusual entries, missing amounts and incorrect balances can be investigated.
- This supports internal control and accountability.

10. Providing information for decision-making

- Managers use ledger balances to make financial decisions.
- They can determine whether the business has enough cash to meet its obligations.
- They can also assess the level of expenses, income and outstanding debts.

11. Providing historical financial information

- Ledger accounts preserve records of previous transactions.
- Management can compare current performance with previous periods.
- This helps in identifying business trends.

12. Supporting budgeting and financial planning

- Historical information from ledger accounts can be used to prepare budgets.
- A business can estimate future income and expenditure.

- This supports effective allocation of financial resources.

13. Supporting accountability

- Ledger records show how business funds and resources have been used.
- They help owners and managers monitor employees responsible for financial transactions.
- This promotes transparency in business operations.

14. Supporting compliance with accounting and legal requirements

- Proper accounting records help businesses meet applicable record-keeping and reporting obligations.
- They provide evidence of financial transactions when required for tax, audit or other lawful purposes.

2.1.3 Types of Ledgers Used in Business Record-Keeping

Businesses maintain different types of ledgers depending on the nature, size and complexity of their operations.

The main types include:

1. General ledger.
2. Sales ledger.
3. Purchases ledger.
4. Private ledger.

A. General Ledger

Meaning: A general ledger is the principal ledger that contains accounts relating to the assets, liabilities, capital, income and expenses of a business, including control accounts for certain subsidiary ledgers.

It provides an overall summary of the financial transactions of the business.

Accounts maintained in the general ledger include:

1. **Cash account**

- Records cash received and cash paid out.
- Helps establish the cash balance.

2. **Bank account**

- Records deposits into and withdrawals from the business bank account.
- Helps determine the bank balance according to the ledger.

3. **Capital account**

- Records the owner's investment in the business.
- It also reflects relevant changes in the owner's capital.

4. **Purchases account**

- Records purchases of goods intended for resale, where the periodic inventory system is used.
- Purchases of assets such as machinery are recorded in the relevant asset accounts instead.

5. **Sales account**

- Records sales of goods made by the business.
- It helps establish the revenue generated from selling goods.

6. **Rent account**

- Records rent paid or incurred by the business.
- It helps monitor premises-related expenditure.

7. **Furniture account**

- Records the purchase and disposal of business furniture.
- It shows the value of furniture recorded in the books.

8. **Motor vehicle account**

- Records transactions involving business motor vehicles.
- It helps monitor the business's investment in vehicles.

9. **Drawings account**

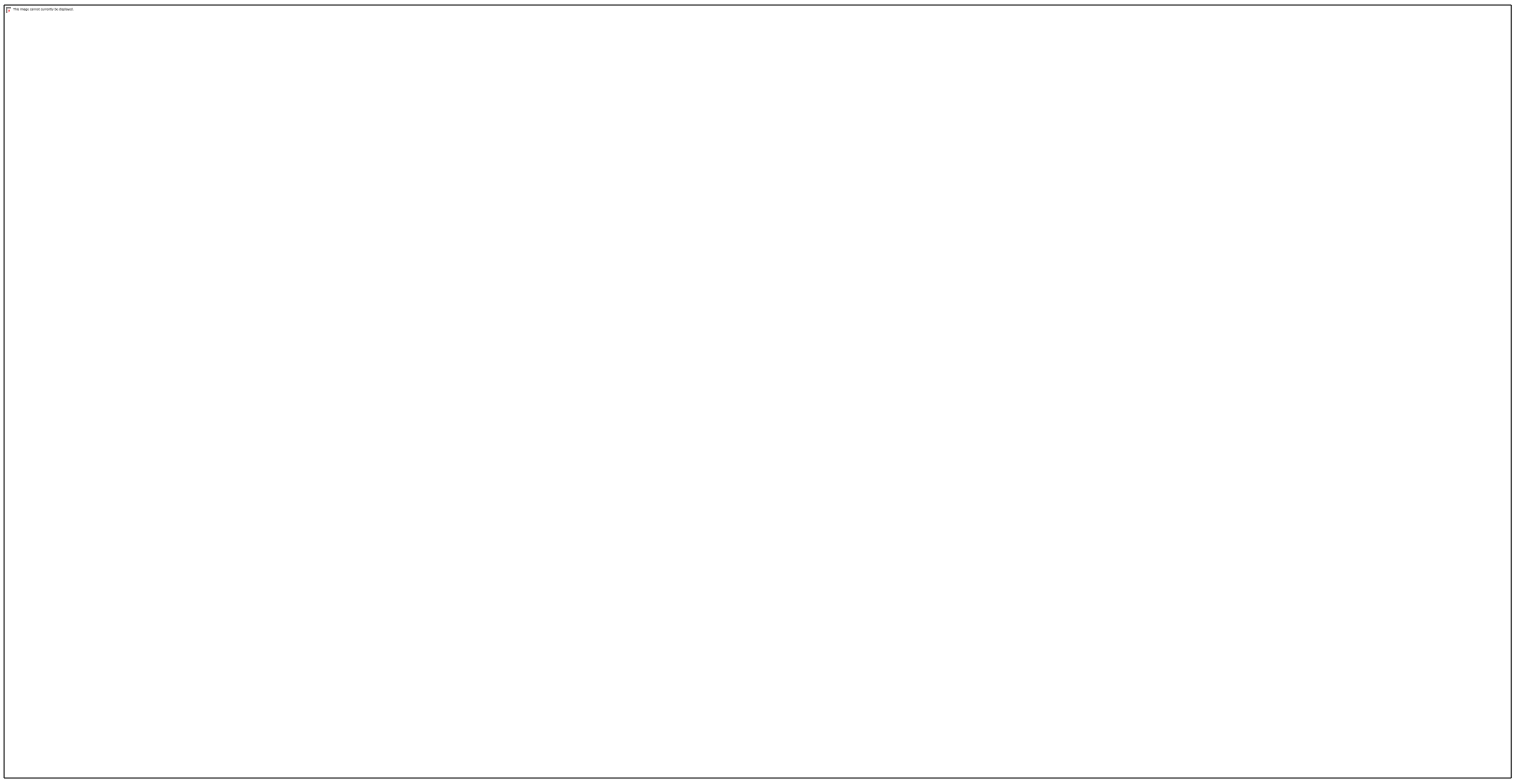
- Records cash or goods withdrawn by the owner for personal use.
- It helps distinguish personal withdrawals from business expenses.

10. **Wages account**

- Records wages incurred by the business.
- It assists in monitoring employee-related expenditure.

Importance of the general ledger

- Provides an overall record of business accounts.
- Helps in preparing the trial balance.
- Provides balances for financial statements.
- Helps monitor assets and liabilities.
- Supports financial control and decision-making.



B. Sales Ledger

Meaning: A sales ledger is a subsidiary ledger containing individual accounts of customers who purchase goods or services from a business on credit.

It is also known as the **debtors' ledger** or **accounts receivable ledger**.

A customer who purchases goods on credit owes money to the business and is therefore referred to as a debtor or trade receivable.

Information recorded in a sales ledger

1. Names of credit customers.
2. Amounts of goods sold on credit.
3. Payments received from customers.
4. Sales returns made by customers.
5. Discounts allowed, where applicable.
6. Outstanding balances owed by customers.

Example

A stationery shop in Nakuru sells goods on credit to the following customers:

Customer	Amount owed (KSh)
Mary	8,000
Peter	12,000
John	5,000
Total	25,000

The sales ledger maintains separate accounts for Mary, Peter and John.

Importance of a sales ledger

1. Helps identify individual debtors.
2. Shows the amount owed by each customer.
3. Helps monitor credit sales.
4. Assists in following up outstanding debts.
5. Helps prevent excessive credit sales to unreliable customers.
6. Supports preparation of the debtors' control account in the general ledger.
7. Helps in managing business cash flow.

CUSTOMER LEDGER **Customer Name** XYZ Business Products

Date	Detail	Debit	Credit	Balance
Apr-15-2025	Invoice 10568	250.00		250.00
Apr-20-2025	Credit CR022 - for returns		50.00	200.00
Apr-30-2025	Payment received		200.00	0.00
May-15-2025	Invoice 10587	500.00		500.00
May-30-2025	Payment received		350.00	150.00
Jun-10-2025	Invoice 10588	135.00		285.00
Jun-21-2025	Invoice 10590	575.00		860.00

C. Purchases Ledger

Meaning: A purchases ledger is a subsidiary ledger containing individual accounts of suppliers from whom a business purchases goods or services on credit.

It is also known as the **creditors' ledger** or **accounts payable ledger**.

A supplier who provides goods or services on credit is owed money by the business.

Information recorded in a purchases ledger

1. Names of credit suppliers.
2. Amounts of goods purchased on credit.
3. Payments made to suppliers.
4. Purchases returns.
5. Discounts received, where applicable.
6. Outstanding balances owed to suppliers.

Example

A retail shop purchases goods on credit from three suppliers:

Supplier	Amount owed (KSh)
ABC Wholesalers	15,000
Nakuru Distributors	20,000
Kenya General Supplies	10,000
Total	45,000

The purchases ledger maintains an individual account for each supplier.

Importance of a purchases ledger

1. Shows amounts owed to individual suppliers.
2. Helps businesses plan supplier payments.
3. Assists in avoiding overdue debts.
4. Helps monitor credit purchases.
5. Provides information for negotiating credit terms.
6. Supports preparation of the creditors' control account.
7. Helps maintain good relationships with suppliers.



D. Private Ledger

Meaning: A private ledger is a ledger containing confidential accounts relating to the owner, partners or other sensitive financial matters of a business.

It is commonly used where a business wishes to restrict access to certain financial information.

Examples of accounts that may be maintained in a private ledger

1. Capital accounts of owners.
2. Drawings accounts.
3. Partners' current accounts.
4. Loans to owners or partners.
5. Profit and loss appropriation accounts, where applicable.

Importance of a private ledger

1. Protects confidential financial information.
2. Restricts access to sensitive accounts.
3. Helps maintain privacy in partnership and ownership matters.
4. Promotes accountability in handling confidential financial records.
5. Separates sensitive information from routine accounting records.

Comparison of the Main Types of Ledgers

Type of ledger	**Main information recorded**
General ledger	Main asset, liability, capital, income and expense accounts.
Sales ledger	Individual accounts of credit customers.
Purchases ledger	Individual accounts of credit suppliers.
Private ledger	Confidential accounts relating to owners and other sensitive matters.

Important accounting note: The cash book is a special book of original entry that also functions as a ledger account for cash and bank transactions. It is therefore not normally classified as one of the four main ledgers listed above. A business may also use inventory or fixed asset subsidiary records to provide more detailed information about particular assets.

2.1.4 Concept of Double Entry in Accounting

Meaning of Double Entry

Double entry is an accounting system in which every financial transaction is recorded in at least two accounts, with one account being debited and another account being credited by equal amounts.

This means that every transaction has two aspects:

- A debit entry.

- A corresponding credit entry.

The total debit amount must always equal the total credit amount for each correctly recorded transaction.

Explanation of the Double-Entry Concept

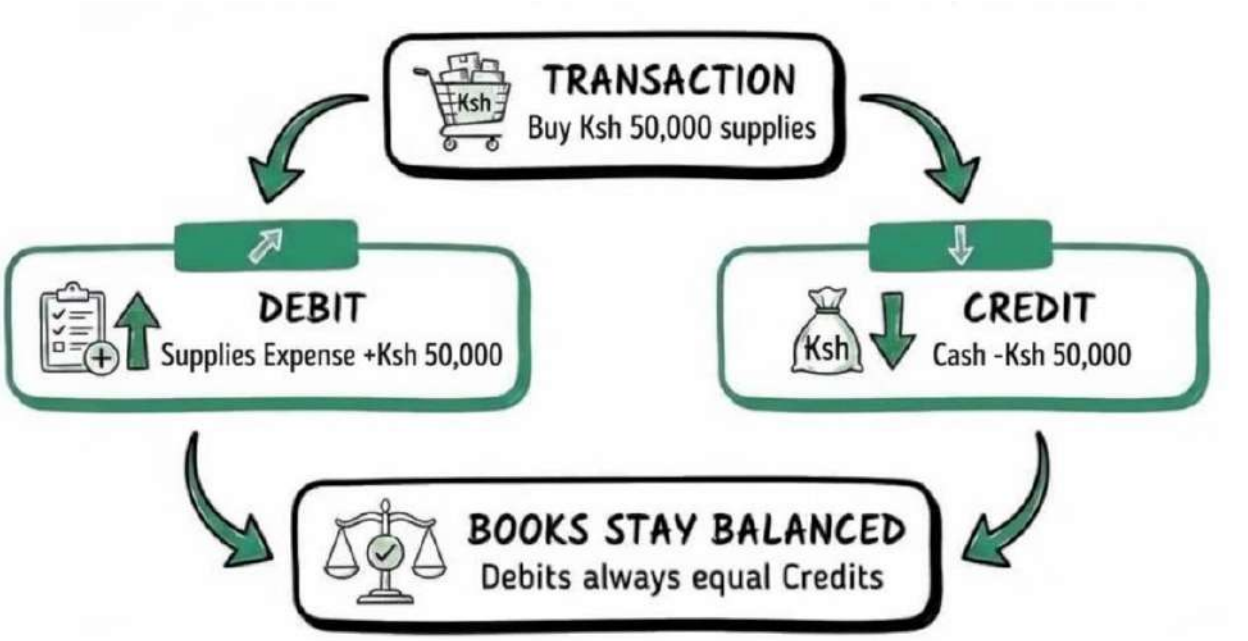
A business transaction normally involves receiving something and giving something in return, or one account increasing while another account decreases.

For example, when a business purchases furniture using cash:

- The furniture account increases.
- The cash account decreases.

The transaction is recorded by debiting the furniture account and crediting the cash account.

Diagram Showing the Double-Entry Principle



Basic Principles of Double Entry

1. Every transaction has two aspects

- Every business transaction affects at least two accounts.
- One account receives the debit entry while another receives the credit entry.
- This ensures that the transaction is completely recorded.

2. Every debit has an equal credit

- The amount entered on the debit side must equal the amount entered on the credit side.
- This maintains the accounting equation.
- It also helps in preparing a balanced trial balance.

3. Transactions are recorded in monetary terms

- Financial transactions are recorded using money as the measurement unit.
- For example, the purchase of goods worth KSh 10,000 is recorded as KSh 10,000.

4. Transactions are recorded in the appropriate accounts

- Each transaction must be entered in the accounts affected by it.
- This ensures proper classification of business activities.

5. The accounting equation remains balanced

The accounting equation is:

Assets=Capital+Liabilities

This equation is maintained through the double-entry system.

Examples of Double-Entry Transactions

Example 1: Owner introduces cash into the business

The owner starts a business with KSh 50,000 cash.

Effect:

- Cash increases by KSh 50,000.
- Capital increases by KSh 50,000.

Entries:

Account debited	Account credited	Amount (KSh)
Cash account	Capital account	50,000

Explanation:

- Debit cash because the business receives cash.
- Credit capital because the owner's investment in the business increases.

Example 2: Purchase of goods for cash

A business purchases goods worth KSh 10,000 in cash.

Effect:

- Purchases increase by KSh 10,000.
- Cash decreases by KSh 10,000.

Account debited	Account credited	Amount (KSh)
Purchases account	Cash account	10,000

Explanation:

- Debit purchases because goods for resale have been purchased.
- Credit cash because money has been paid out.

Example 3: Sale of goods for cash

A business sells goods worth KSh 15,000 for cash.

Effect:

- Cash increases.
- Sales revenue increases.

Account debited	Account credited	Amount (KSh)
Cash account	Sales account	15,000

Example 4: Purchase of goods on credit

A business purchases goods worth KSh 20,000 on credit from Jane Wholesalers.

Effect:

- Purchases increase.
- The amount owed to Jane Wholesalers increases.

Account debited	Account credited	Amount (KSh)
Purchases account	Jane Wholesalers account	20,000

Example 5: Payment of rent in cash

A business pays rent of KSh 5,000 in cash.

Effect:

- Rent expense increases.
- Cash decreases.

Account debited	Account credited	Amount (KSh)
Rent account	Cash account	5,000

Example 6: Receiving cash from a debtor

A customer, Mary, pays KSh 8,000 owed to the business.

Effect:

- Cash increases.
- Mary's account decreases.

Account debited	Account credited	Amount (KSh)
Cash account	Mary account	8,000

Importance of the Double-Entry System

1. Ensures complete recording of business transactions.
2. Helps maintain the accounting equation.

3. Makes it possible to prepare a trial balance.
4. Helps identify certain accounting errors.
5. Provides information for preparing financial statements.
6. Improves the reliability of accounting records.
7. Helps establish the financial position of the business.
8. Promotes accountability in financial management.

Remember: A balanced trial balance does not guarantee that all accounting errors have been eliminated. Some errors may still exist even when total debits equal total credits.

2.1.5 Rules of Recording Business Transactions in Ledger Accounts

Meaning of Debit and Credit

In accounting, every ledger account has two sides:

- **Debit (Dr):** The left-hand side of an account.
- **Credit (Cr):** The right-hand side of an account.

Debit and credit do not automatically mean an increase or decrease in every account. Their effect depends on the type of account being recorded.

A. Traditional Rules of Debit and Credit

The traditional rules of double entry are:

1. **Debit the receiver and credit the giver.**
   - This rule applies to personal accounts.
   - The person or organisation receiving value is debited.
   - The person or organisation giving value is credited.
2. **Debit what comes in and credit what goes out.**
   - This rule applies to real accounts.
   - Assets received by the business are debited.
   - Assets leaving the business are credited.
3. **Debit all expenses and losses and credit all incomes and gains.**
   - This rule applies to nominal accounts.
   - Business expenses and losses are debited.
   - Business income and gains are credited.

B. Modern Rules of Debit and Credit

For easier application in accounting, accounts can also be classified into five main categories.

Type of account	Increase is recorded on	Decrease is recorded on

Assets	Debit	Credit
Expenses	Debit	Credit
Drawings	Debit	Credit
Liabilities	Credit	Debit
Capital	Credit	Debit
Income/revenue	Credit	Debit

Explanation of the modern rules

1. Assets

Assets are resources owned or controlled by a business that have economic value.

Examples include:

- Cash.
- Bank balance.
- Furniture.
- Motor vehicles.
- Buildings.
- Machinery.
- Inventory.

Rules:

- Debit an asset account when the asset increases.
- Credit an asset account when the asset decreases.

Example: A business buys furniture worth KSh 30,000 in cash.

- Debit furniture account KSh 30,000.
- Credit cash account KSh 30,000.

2. Liabilities

Liabilities are amounts owed by a business to other people or organisations.

Examples include:

- Bank loans.
- Trade creditors.
- Outstanding expenses.
- Other amounts payable.

Rules:

- Credit a liability account when the liability increases.
- Debit a liability account when the liability decreases.

Example: A business obtains a bank loan of KSh 100,000.

- Debit bank account KSh 100,000.
- Credit bank loan account KSh 100,000.

3. Capital

Capital is the owner's financial contribution to the business.

Rules:

- Credit capital when the owner's investment increases.
- Debit capital when capital decreases through relevant transactions.

Example: The owner introduces KSh 80,000 cash into the business.

- Debit cash account KSh 80,000.
- Credit capital account KSh 80,000.

4. Expenses

Expenses are costs incurred by a business when carrying out its operations.

Examples include:

- Rent.
- Wages.
- Electricity.
- Water.
- Transport.
- Advertising.
- Insurance.

Rules:

- Debit an expense account when the expense increases.
- Credit an expense account when the expense is reduced or reversed.

Example: A business pays electricity expenses of KSh 2,500.

- Debit electricity account KSh 2,500.
- Credit cash account KSh 2,500.

5. Income or Revenue

Income refers to money earned by a business from its normal activities and other gains.

Examples include:

- Sales revenue.
- Commission received.
- Rent received.
- Interest received.
- Discounts received, where recognised as income under the applicable accounting treatment.

Rules:

- Credit an income account when income increases.
- Debit an income account when income is reduced or reversed.

Example: A business receives KSh 12,000 from selling goods for cash.

- Debit cash account KSh 12,000.
- Credit sales account KSh 12,000.

C. Rules for Posting Transactions into Ledger Accounts

Posting refers to transferring financial information from books of original entry into the appropriate ledger accounts.

The following rules should be followed:

1. Identify the accounts affected

- Determine the two or more accounts involved in the transaction.
- Establish the nature of each account.
- This prevents recording transactions in the wrong accounts.

2. Determine the account to be debited

- Identify the account that receives the debit entry.
- Apply the appropriate rules of debit and credit.
- Record the amount on the left-hand side.

3. Determine the account to be credited

- Identify the account that receives the credit entry.
- Record the same amount on the right-hand side of the relevant account.

4. Record the correct date

- Enter the date of the transaction or the date required by the accounting records.
- This helps arrange transactions in chronological order.

5. Enter the correct particulars

- Write the name of the corresponding account in the particulars column.
- This shows the other account involved in the transaction.
- It makes it easier to trace the double entry.

6. Record the correct amount

- Enter the exact monetary value of the transaction.
- Ensure that the debit and credit entries are equal.
- Avoid making arithmetic or transcription errors.

7. Use appropriate folio references

- Record the reference to the relevant page in the book of original entry or ledger.
- This helps in tracing transactions during checking and auditing.

8. Maintain chronological order

- Transactions should be entered according to their dates.
- This makes the records easier to follow and verify.

9. Avoid unauthorised alterations

- Errors should be corrected using appropriate accounting procedures.
- Entries should not be erased or altered in a way that conceals the original transaction.
- This promotes transparency and accountability.

10. Check the accuracy of postings

- Compare the ledger entries with the original records.
- Confirm that all transactions have been posted to the correct accounts.
- Check that the amounts agree.

2.1.6 Classification of Accounts Used in Ledger Recording

For proper application of double entry, accounts are traditionally classified into three categories.

A. Personal Accounts

Meaning: Personal accounts are accounts maintained for individuals, businesses and organisations with whom a business transacts.

They record amounts owed by or to particular persons and organisations.

Examples:

- Mary.
- Peter.
- Jane Wholesalers.
- ABC Distributors.
- KCB Bank.
- A customer who purchases goods on credit.

Rule: Debit the receiver and credit the giver.

Example:

A business purchases goods worth KSh 12,000 on credit from ABC Wholesalers.

- ABC Wholesalers gives goods on credit and is credited.
- Purchases account is debited.

B. Real Accounts

Meaning: Real accounts are accounts relating to the assets and properties of a business.

They record transactions involving resources owned or controlled by the business.

Examples:

- Cash.
- Furniture.
- Machinery.
- Buildings.
- Motor vehicles.
- Land.
- Equipment.

Rule: Debit what comes in and credit what goes out.

Example:

A business buys a computer for KSh 45,000 in cash.

- Computer/equipment account is debited.
- Cash account is credited.

C. Nominal Accounts

Meaning: Nominal accounts are accounts relating to business expenses, losses, incomes and gains.

They help establish the profit or loss made by the business.

Examples of expenses and losses:

- Rent.
- Wages.
- Electricity.
- Water.
- Advertising.
- Bad debts.
- Discounts allowed.

Examples of incomes and gains:

- Sales.

- Commission received.
- Rent received.
- Interest received.
- Discounts received.

Rule:

- Debit all expenses and losses.
- Credit all incomes and gains.

Summary of Traditional Account Classification

Type of account	Examples	Traditional rule
Personal	Customers, suppliers, banks	Debit the receiver; credit the giver.
Real	Cash, furniture, machinery	Debit what comes in; credit what goes out.
Nominal	Rent, wages, sales, commission	Debit expenses and losses; credit incomes and gains.

2.1.7 Steps in Recording Business Transactions in Ledger Accounts

Recording transactions in ledger accounts involves a systematic process.

Step 1: Identify the transaction

- Read the transaction carefully.
- Establish what has happened in the business.
- Identify the amount involved and the date.

Step 2: Identify the accounts affected

- Determine the accounts involved in the transaction.
- Identify whether the accounts relate to assets, liabilities, capital, expenses or income.

Step 3: Apply the rules of double entry

- Determine which account should be debited.
- Determine which account should be credited.
- Ensure that both entries have equal amounts.

Step 4: Open the relevant ledger accounts

- Prepare separate accounts for the transactions.
- Give each account an appropriate title.
- Draw the debit and credit columns.

Step 5: Post the transactions

- Enter the date, particulars, folio and amount.
- Record the debit entry on the left.
- Record the credit entry on the right.

Step 6: Balance the ledger accounts

- Add the debit and credit sides.
- Determine the difference between the two totals.
- Enter the balance on the side with the smaller total.

Step 7: Verify the entries

- Check the amounts.
- Confirm that the accounts have been correctly posted.
- Ensure that the entries are supported by the original documents.

Worked Example 1: Recording Transactions in Ledger Accounts

The following transactions relate to a business started by Mwangi in Nakuru in January 2027.

Date	Transaction
Jan 1	Started business with cash KSh 100,000.
Jan 2	Bought furniture for cash KSh 20,000.
Jan 3	Purchased goods for cash KSh 15,000.
Jan 5	Sold goods for cash KSh 25,000.
Jan 7	Paid rent KSh 5,000.

Required: Show how the transactions are recorded in the relevant ledger accounts.

Analysis of the Transactions

Date	Account debited	Account credited	Amount (KSh)
Jan 1	Cash	Capital	100,000
Jan 2	Furniture	Cash	20,000
Jan 3	Purchases	Cash	15,000
Jan 5	Cash	Sales	25,000
Jan 7	Rent	Cash	5,000

Ledger Accounts

1. Cash Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Jan 1	Capital	100,000	Jan 2	Furniture	20,000

Jan 5	Sales	25,000	Jan 3	Purchases	15,000
			Jan 7	Rent	5,000
			Jan 31	Balance c/d	85,000
Total		125,000	Total		125,000

The cash balance is KSh 85,000.

2. Capital Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
			Jan 1	Cash	100,000

The capital account has a credit balance of KSh 100,000.

3. Furniture Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Jan 2	Cash	20,000			

The furniture account has a debit balance of KSh 20,000.

4. Purchases Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Jan 3	Cash	15,000			

The purchases account has a debit balance of KSh 15,000.

5. Sales Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
			Jan 5	Cash	25,000

The sales account has a credit balance of KSh 25,000.

6. Rent Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Jan 7	Cash	5,000			

The rent account has a debit balance of KSh 5,000.

Learning point: The cash account has a debit balance because total cash received exceeds total cash paid. Capital and sales have credit balances, while furniture, purchases and rent have debit balances.

2.1.8 Balancing Off Ledger Accounts for a Business

Meaning of Balancing Off a Ledger Account

Balancing off is the process of calculating the difference between the total debit entries and total credit entries in a ledger account and recording that difference so that both sides have equal totals.

The difference is known as the **balance of the account**.

Balancing off helps a business establish the amount remaining in an account at a particular date.

Importance of Balancing Off Ledger Accounts

1. Establishes the remaining balance in each account.
2. Helps determine the amount of cash available.
3. Shows the amounts owed by customers.
4. Shows the amounts owed to suppliers.
5. Provides information for preparing the trial balance.
6. Helps in preparing financial statements.
7. Assists in checking accounting records.
8. Helps management monitor business assets and liabilities.
9. Supports financial planning and decision-making.
10. Makes it easier to compare account balances over different periods.

Types of Ledger Balances

There are three possible outcomes when a ledger account is balanced.

1. Debit Balance

A debit balance occurs when the total debit entries are greater than the total credit entries.

Examples:

- Cash account with a positive cash balance.
- Furniture account.
- Purchases account.
- Rent expense account.
- Debtors' accounts.

2. Credit Balance

A credit balance occurs when the total credit entries are greater than the total debit entries.

Examples:

- Capital account.
- Sales account.
- Bank loan account.
- Creditors' accounts.
- Income accounts.

3. Nil Balance

A nil balance occurs when the total debit entries are equal to the total credit entries.

This means that there is no difference between the two sides of the account.

Example: A customer who owed KSh 10,000 pays the full amount. If the customer's account has no other entries, the account will have a nil balance after the payment is posted.

Steps in Balancing Off a Ledger Account

Step 1: Add the debit side

- Calculate the total of all entries on the debit side.
- Ensure that all debit entries have been included.

Step 2: Add the credit side

- Calculate the total of all entries on the credit side.
- Ensure that all credit entries have been included.

Step 3: Compare the two totals

- Compare the total debit entries with the total credit entries.
- Identify which side has the larger total.

Step 4: Calculate the difference

- Subtract the smaller total from the larger total.
- The result is the balance of the account.

Step 5: Enter the balance on the smaller side

- If the debit side is larger, enter the balance on the credit side.
- If the credit side is larger, enter the balance on the debit side.

Step 6: Add the totals again

- Add the balance to the smaller side.
- Both sides should now have equal totals.

Step 7: Bring down the balance

- At the beginning of the next accounting period, bring the balance down on its normal side.
- A debit balance is brought down on the debit side.
- A credit balance is brought down on the credit side.

Important Accounting Terms Used When Balancing Accounts

1. Balance c/d (Balance carried down)

This is the amount entered on the smaller side of an account to make the two sides equal.

It represents the balance at the end of the accounting period.

2. Balance b/d (Balance brought down)

This is the balance transferred to the beginning of the next accounting period.

It is entered on the normal side of the account.

3. Balance carried forward

This refers to the balance transferred to the next accounting period.

4. Account total

This is the equal amount obtained after adding the entries on both sides of the account, including the balancing figure.

Worked Example 2: Balancing a Cash Account

The following transactions relate to a business during February 2027.

Date	Transaction	Amount (KSh)
Feb 1	Cash introduced by owner	80,000
Feb 3	Purchased goods for cash	20,000
Feb 5	Cash sales	30,000
Feb 10	Paid rent	8,000
Feb 15	Received commission	5,000
Feb 20	Paid wages	7,000

Required: Prepare and balance the cash account as at 28 February 2027.

Step 1: Identify the cash received

- Capital introduced = KSh 80,000.
- Cash sales = KSh 30,000.
- Commission received = KSh 5,000.

Total cash received:

80,000+30,000+5,000=115,000

Step 2: Identify the cash paid

- Purchases = KSh 20,000.

- Rent = KSh 8,000.
- Wages = KSh 7,000.

Total cash paid:

20,000+8,000+7,000=35,000

Step 3: Calculate the cash balance

115,000−35,000=80,000

Therefore, the cash balance is KSh 80,000.

Step 4: Prepare the cash account

Cash Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Feb 1	Capital	80,000	Feb 3	Purchases	20,000
Feb 5	Sales	30,000	Feb 10	Rent	8,000
Feb 15	Commission	5,000	Feb 20	Wages	7,000
			Feb 28	Balance c/d	80,000
Total		115,000	Total		115,000

At the beginning of the next accounting period, the balance is brought down:

Cash Account (March 2027)

Dr. Date	Particulars	Amount (KSh)
Mar 1	Balance b/d	80,000

Closing cash balance: KSh 80,000

Worked Example 3: Balancing a Creditor's Account

On 1 March 2027, a business owed ABC Wholesalers KSh 25,000.

During the month:

- March 5: Purchased goods on credit from ABC Wholesalers, KSh 15,000.
- March 15: Paid ABC Wholesalers KSh 20,000.

Required: Prepare ABC Wholesalers' account and balance it at the end of March.

Explanation

1. The opening amount owed to ABC Wholesalers is KSh 25,000.
2. Further credit purchases increase the amount owed by KSh 15,000.

3. Payment of KSh 20,000 reduces the amount owed.

25,000+15,000−20,000=20,000

The business still owes ABC Wholesalers KSh 20,000.

ABC Wholesalers Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Mar 15	Bank	20,000	Mar 1	Balance b/d	25,000
Mar 31	Balance c/d	20,000	Mar 5	Purchases	15,000
Total		40,000	Total		40,000

The balance brought down on 1 April is KSh 20,000 on the credit side.

Worked Example 4: Balancing a Customer's Account

A customer, Mary, owed a business KSh 18,000 on 1 April 2027.

During April:

- April 5: Mary purchased additional goods on credit worth KSh 7,000.
- April 20: Mary paid KSh 15,000.

Calculation

18,000+7,000−15,000=10,00018,000+7,000−15,000=10,000

Mary still owes the business KSh 10,000.

Mary's Account

Dr. Date	Particulars	Amount (KSh)	Cr. Date	Particulars	Amount (KSh)
Apr 1	Balance b/d	18,000	Apr 20	Bank	15,000
Apr 5	Sales	7,000	Apr 30	Balance c/d	10,000
Total		25,000	Total		25,000

The balance brought down on 1 May is KSh 10,000 on the debit side.

Difference Between a Debit Balance and a Credit Balance

Debit balance	Credit balance
Occurs when debit entries exceed credit entries.	Occurs when credit entries exceed debit entries.

Is brought down on the debit side.	Is brought down on the credit side.
Commonly occurs in asset and expense accounts.	Commonly occurs in liability, capital and income accounts.
Example: Cash, furniture and rent accounts.	Example: Capital, sales and creditors' accounts.

Important: A cash account normally has a debit balance or nil balance. A bank account maintained as an asset normally has a debit balance, but a bank overdraft is a liability and has a credit balance in the business's cash book or bank ledger account.

2.1.9 Roles of Ledger Accounts in a Business

Meaning of Roles of Ledger Accounts

The roles of ledger accounts refer to the functions performed by ledger accounts in recording, organising, monitoring and reporting the financial activities of a business.

Ledger accounts are important tools for financial management because they provide detailed information about the transactions affecting individual accounts.

Roles of Ledger Accounts

1. Recording individual business transactions

- Ledger accounts provide a systematic record of transactions.
- They show the amounts debited and credited to each account.
- This ensures that financial information is organised.

2. Classifying financial information

- Ledger accounts group similar transactions together.
- For example, all purchases are recorded in the purchases account.
- This makes it easier to understand business activities.

3. Monitoring business assets

- Asset accounts record resources owned or controlled by the business.
- Examples include cash, furniture, equipment and motor vehicles.
- Management can monitor the value of assets recorded in the books.

4. Monitoring business liabilities

- Liability accounts show amounts owed to other parties.
- These include bank loans, suppliers' balances and outstanding expenses.
- This helps management plan how to meet its financial obligations.

5. Monitoring business income

- Income accounts record revenue earned by the business.

- They help establish how much the business earns from its activities.
- This information is useful in assessing business performance.

6. Monitoring business expenses

- Expense accounts show the costs incurred by the business.
- Management can identify major expenditure areas.
- This helps control unnecessary costs.

7. Determining the amount owed by customers

- Sales ledger accounts show the balances of individual credit customers.
- They help the business follow up unpaid debts.
- This supports effective credit management.

8. Determining the amount owed to suppliers

- Purchases ledger accounts show individual supplier balances.
- They help businesses plan payments.
- This promotes good supplier relationships.

9. Providing information for preparing a trial balance

- Ledger balances are transferred to the trial balance.
- The trial balance helps check the arithmetical accuracy of the double-entry records.
- It also provides a basis for preparing financial statements.

10. Providing information for preparing financial statements

- Ledger accounts provide the figures used in preparing financial reports.
- Income and expense accounts contribute to the income statement.
- Asset, liability and capital accounts contribute to the statement of financial position.

11. Assisting in determining profit or loss

- Revenue and expense accounts help establish business performance.
- They provide information needed to calculate profit or loss for an accounting period.
- This helps the owner assess whether the business is performing well.

12. Supporting business decision-making

- Management uses ledger information when making financial decisions.
- For example, a business may use its cash and bank balances to determine whether it can afford new equipment.
- It may also use expense accounts to identify areas where costs can be reduced.

13. Supporting cash flow management

- Cash and bank accounts help monitor money received and paid out.

- They help management determine whether enough funds are available to meet short-term obligations.
- This reduces the risk of cash shortages.

14. Helping detect errors and irregularities

- Ledger accounts provide a clear record of transactions.
- Unusual entries and unexplained balances can be investigated.
- This may help identify mistakes, omissions or fraudulent activities.

15. Providing information for auditing

- Auditors may examine ledger accounts to verify financial transactions.
- The accounts help trace entries to supporting documents.
- This supports the verification of financial records.

16. Supporting tax and statutory reporting

- Ledger accounts provide information that may be required when preparing tax computations and other statutory reports.
- Proper records make it easier to substantiate business income and expenses.
- This supports compliance with relevant requirements.

17. Maintaining historical records

- Ledger accounts preserve information about past business transactions.
- Management can refer to previous balances and activities.
- This helps in comparing business performance over time.

18. Promoting accountability and transparency

- Ledger accounts show how money and other resources have been used.
- They help owners monitor the activities of employees responsible for financial records.
- This promotes responsible financial management.

19. Supporting business planning and budgeting

- Information from ledger accounts can be used to estimate future expenses and income.
- It helps management prepare realistic budgets.
- This improves resource allocation.

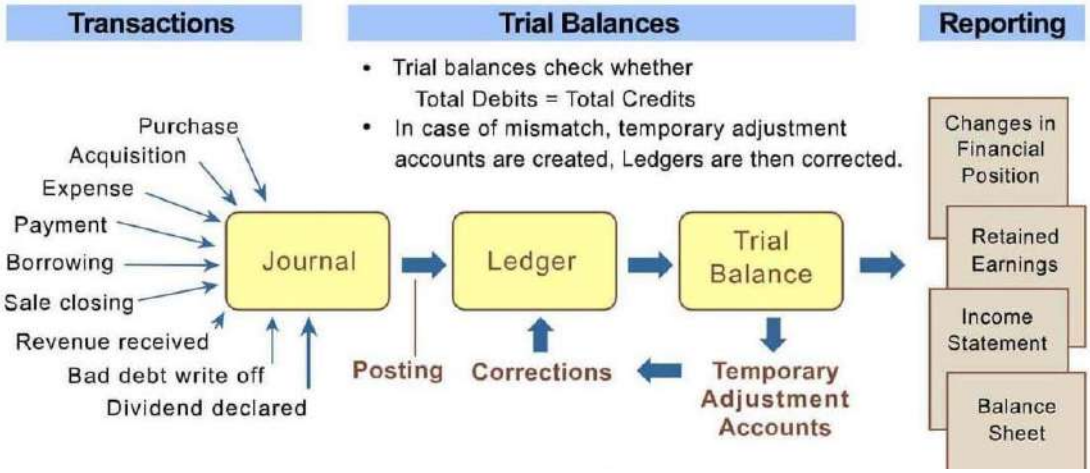
20. Supporting business growth and expansion

- Ledger information helps owners assess profitability, cash availability and outstanding obligations.
- It provides useful information when considering opening new branches, buying equipment or expanding operations.
- This supports informed business expansion.

2.1.10 Relationship Between the Journal, Ledger and Trial Balance

A business uses several accounting records when processing financial transactions.

The journal and other books of original entry record transactions first. The information is then posted to the ledger. The ledger balances are later used to prepare the trial balance.



1. Source Documents

These are original documents that provide evidence of business transactions.

Examples include:

- Receipts.
- Invoices.
- Credit notes.
- Debit notes.
- Bank deposit slips.
- Payment vouchers.
- Cheque counterfoils.

2. Books of Original Entry

These are books in which transactions are first recorded before being posted to the ledger.

Examples include:

- Sales journal.
- Purchases journal.
- Sales returns journal.
- Purchases returns journal.
- Cash book.
- General journal.

3. Ledger

The ledger receives information from the books of original entry.

It classifies transactions into individual accounts and provides account balances.

4. Trial Balance

A trial balance is a statement listing the debit and credit balances extracted from ledger accounts at a particular date.

It is prepared to check the arithmetical accuracy of the double-entry records.

5. Financial Statements

The information from the ledger and trial balance is used to prepare financial statements.

Examples include:

- Income statement.
- Statement of financial position.

Summary of the Accounting Process

Stage	Accounting record	Main function
1	Source documents	Provide evidence of transactions.
2	Books of original entry	Record transactions first.
3	Ledger	Classify transactions into accounts.
4	Trial balance	List account balances and check arithmetic agreement.
5	Financial statements	Report financial performance and position.

2.1.11 Practical Competency-Based Learning Activities

The activities below enable learners to apply accounting knowledge to realistic business situations.

Activity 1: Identifying Ledger Accounts

Visit a nearby shop, supermarket, stationery business or other enterprise.

Find out the types of financial transactions commonly carried out.

Identify at least ten ledger accounts that such a business may maintain.

Examples:

- Cash account.
- Bank account.
- Capital account.
- Purchases account.
- Sales account.
- Rent account.
- Wages account.
- Furniture account.

- Debtors' accounts.
- Creditors' accounts.

Expected learning outcome: The learner identifies different ledger accounts used in business record-keeping.

Activity 2: Preparing a T-Account

In groups, prepare a T-account using the following transactions:

A business starts with KSh 60,000 cash.

- Bought furniture for KSh 10,000 cash.
- Bought goods for KSh 15,000 cash.
- Sold goods for KSh 20,000 cash.
- Paid rent of KSh 5,000.

Prepare the cash account and determine the closing cash balance.

Expected learning outcome: The learner records business transactions in ledger accounts and balances the accounts correctly.

Activity 3: Applying the Rules of Double Entry

Study the following transactions and identify the account to be debited and the account to be credited.

Transaction	Amount (KSh)
Owner introduces cash	100,000
Purchases goods for cash	20,000
Sells goods for cash	30,000
Pays electricity	2,000
Purchases goods on credit	15,000
Pays supplier	10,000

Expected learning outcome: The learner applies the rules of debit and credit to business transactions.

Activity 4: Role-Play as Business Accountants

Learners form groups and assume the roles of:

- Business owner.
- Accountant.
- Cashier.
- Supplier.
- Customer.

Each group creates a simple business transaction scenario and records the transactions in the appropriate ledger accounts.

Expected learning outcome: The learner demonstrates practical application of ledger recording in a business setting.

Activity 5: Preparing a Customer Ledger

Assume that a stationery shop sells goods on credit to three customers.

Prepare individual customer accounts using the following information:

Customer	Credit purchase (KSh)	Payment (KSh)
Jane	12,000	5,000
Peter	15,000	10,000
Mary	8,000	3,000

Determine the outstanding balance of each customer.

Expected learning outcome: The learner maintains a sales ledger and calculates outstanding customer balances.

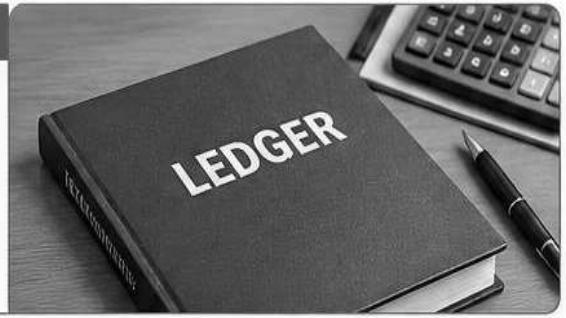
SUMMARY OF SUBSTRAND

2.0 FINANCIAL RECORD IN BUSINESS

2.1 THE LEDGER

1. Introduction

A ledger is a book in which all business transactions are recorded in separate accounts. It is a main book of accounts that helps a business to keep detailed and organised records.



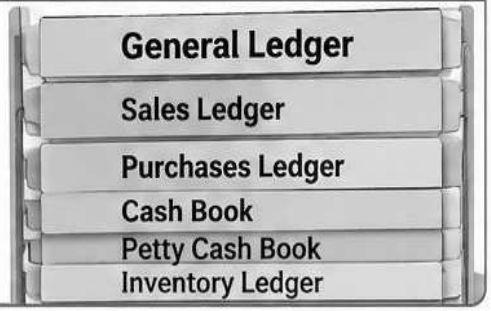
2. Purpose of a Ledger in Accounting

- Keeps detailed records of transactions.
- Helps in preparing financial statements.
- Shows the financial position of the business.
- Facilitates checking and control of accounts.
- Supports decision making.
- Complies with legal and regulatory requirements.

3. Types of Ledgers for Business Record Keeping

Common types include:

1. **General Ledger** – Records all accounts.
2. **Sales Ledger** – Records credit sales.
3. **Purchases Ledger** – Records credit purchases.
4. **Cash Book** – Records cash transactions.
5. **Petty Cash Book** – Records small payments.
6. **Inventory Ledger** – Records stock details.

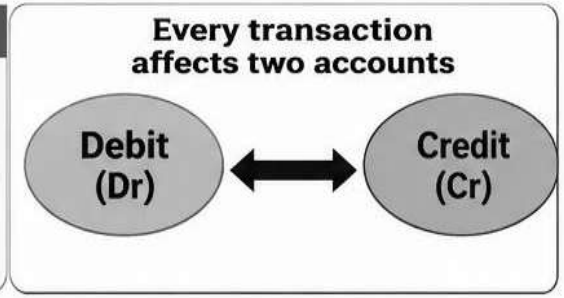


4. Concept of Double Entry

Double entry means every transaction affects at least two accounts: one is debited and the other is credited.

Example: If a business buys goods for KSh 10,000 on credit:

- Purchases account is debited (Dr)
- Creditor account is credited (Cr)



5. Rules of Recording Business Transactions in Ledger Accounts

Follow these rules:

1. Debit the receiver and credit the giver.
2. Record transactions in the correct accounts.
3. Record the correct amount.
4. Use proper narration (description).
5. Ensure the accounts are balanced.

6. Balancing Off Ledger Accounts for a Business

Balancing means finding the difference between the total **debits** and total **credits** in an account.

Steps:

1. Add up the debit side.
2. Add up the credit side.
3. If totals are equal, the account is balanced.
4. If not, look for errors.

Example: Cash Book

Total Debits = KSh 50,000

Total Credits = KSh 50,000

Account is balanced ✓

7. Roles of Ledger Accounts for a Business

- Provide detailed information about each account.
- Help in preparation of financial statements.
- Enable easy checking of transactions.
- Show the profitability and financial position.
- Assist in decision making and planning.
- Allow detection of errors and fraud.

Revision Questions

A. Short Answer Questions

1. What is a ledger?
2. State two purposes of a ledger.
3. Name any two types of ledgers.
4. What is double entry?
5. State any two rules of recording in a ledger.

B. Structured Questions

1. Explain three roles of ledger accounts. (6 marks)
2. Balance the following account:
   Dr: KSh 45,000 Cr: KSh 45,000
   What does this show? (4 marks)



A well-kept ledger leads to accurate financial records and better business decisions!

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Answer all questions. Choose the correct answer from the alternatives provided.

1. A ledger is best described as:

A. A book used only to record cash payments.

B. The principal book in which transactions are classified into separate accounts.

C. A document used to advertise business products.

D. A book used only to record purchases.

2. Which of the following is the main purpose of a ledger?

A. Advertising business products.

B. Classifying financial transactions into separate accounts.

C. Recruiting business employees.

D. Determining the selling price of goods.

3. The left-hand side of a ledger account is known as the:

A. Credit side.

B. Balance side.

C. Debit side.

D. Folio side.

4. The right-hand side of a ledger account is known as the:

A. Debit side.

B. Credit side.

C. Particulars side.

D. Balance side.

5. Which of the following is a subsidiary ledger containing individual customer accounts?

A. General ledger.

B. Sales ledger.

C. Private ledger.

D. Purchases journal.

6. A purchases ledger mainly records:

A. Cash received from customers.

B. Individual accounts of credit suppliers.

C. Expenses incurred by the business.

D. Goods sold for cash.

7. Which ledger contains the main asset, liability, capital, income and expense accounts?

A. Sales ledger.

B. Purchases ledger.

C. General ledger.

D. Private ledger.

8. The double-entry system requires that:

A. Every transaction is recorded only once.

B. Every transaction affects at least two accounts.

C. All transactions are recorded on the debit side.

D. All transactions are recorded on the credit side.

9. Under the double-entry system, every debit must have:

A. A smaller credit.

B. A larger credit.

C. An equal credit.

D. No corresponding credit.

10. The rule applied to personal accounts is:

A. Debit what comes in and credit what goes out.

B. Debit all expenses and credit all incomes.

C. Debit the receiver and credit the giver.

D. Debit all incomes and credit all expenses.

11. Which of the following is classified as a real account?

A. Rent account.

B. Sales account.

C. Furniture account.

D. Wages account.

12. Which of the following is a nominal account?

A. Cash account.

B. Machinery account.

C. Rent account.

D. Capital account.

13. An increase in an asset is recorded on the:

A. Credit side.

B. Debit side.

C. Balance side.

D. Particulars side.

14. An increase in a liability is recorded on the:

A. Debit side.

B. Credit side.

C. Left side only.

D. Both sides.

15. When the owner introduces cash into a business, the correct entry is:

A. Debit capital and credit cash.

B. Debit cash and credit capital.

C. Debit purchases and credit cash.

D. Debit rent and credit capital.

16. A business purchases goods for cash. Which account is debited?

A. Cash account.

B. Sales account.

C. Purchases account.

D. Capital account.

17. When a business pays rent in cash, the correct entry is:

A. Debit cash and credit rent.

B. Debit rent and credit cash.

C. Debit capital and credit rent.

D. Debit purchases and credit cash.

18. Posting refers to:

A. Preparing advertisements for a business.

B. Transferring transactions from books of original entry into ledger accounts.

C. Calculating employees' salaries only.

D. Preparing a business budget.

19. Balancing off a ledger account involves:

A. Deleting all transactions.

B. Calculating the difference between debit and credit totals.

C. Recording only cash payments.

D. Transferring all transactions to the cash book.

20. The term balance c/d means:

A. Balance brought down.

B. Balance carried down.

C. Bank cash deposit.

D. Business capital deduction.

21. A balance brought down is abbreviated as:

A. Balance c/d.

B. Balance b/d.

C. Balance Dr.

D. Balance Cr.

22. When total debit entries exceed total credit entries, the account has a:

A. Credit balance.

B. Nil balance.

C. Debit balance.

D. Negative capital balance.

23. Which of the following normally has a credit balance?

A. Cash account.

B. Rent account.

C. Purchases account.

D. Capital account.

24. Which of the following normally has a debit balance?

A. Sales account.

B. Capital account.

C. Creditors' account.

D. Furniture account.

25. Which accounting record contains individual accounts of credit customers?

A. Sales ledger.

B. Purchases ledger.

C. Private ledger.

D. General journal.

26. A business owes KSh 15,000 to a supplier. The supplier's account normally has a:

A. Debit balance.

B. Credit balance.

C. Nil balance.

D. Cash balance.

27. Which of the following is an advantage of maintaining ledger accounts?

A. It encourages inaccurate record-keeping.

B. It prevents the business from preparing financial statements.

C. It assists in determining account balances.

D. It eliminates all business expenses.

28. Which of the following is used to check the arithmetical accuracy of ledger balances?

A. Sales invoice.

B. Trial balance.

C. Receipt.

D. Credit note.

29. Which of the following transactions results in a debit to the cash account?

A. Paying rent.

B. Buying goods for cash.

C. Receiving cash from a customer.

D. Paying wages.

30. Proper maintenance of ledger accounts promotes:

A. Financial secrecy and manipulation.

B. Accountability and transparency.

C. Unnecessary expenditure.

D. Poor financial management.

Section B: Short-Answer and Structured Questions

1. Define the term ledger. (2 marks)

2. State six purposes of maintaining a ledger in a business. (6 marks)

3. Explain four characteristics of a ledger account. (8 marks)

4. Identify and explain four types of ledgers used in business record-keeping. (8 marks)

5. a) Define double entry. (2 marks)

b) Explain five principles of the double-entry system. (10 marks)

6. State the three traditional rules of debit and credit. (6 marks)

7. Differentiate between the following types of accounts:

a) Personal accounts and real accounts. (4 marks)

b) Real accounts and nominal accounts. (4 marks)

c) Personal accounts and nominal accounts. (4 marks)

8. Explain five rules that should be followed when posting transactions into ledger accounts. (10 marks)

9. Explain six steps involved in balancing off ledger accounts. (12 marks)

10. Differentiate between the following accounting terms:

a) Balance c/d and balance b/d. (4 marks)

b) Debit balance and credit balance. (4 marks)

c) Sales ledger and purchases ledger. (4 marks)

11. Explain eight roles of ledger accounts in the management of a business. (16 marks)

12. Explain six ways in which maintaining ledger accounts promotes effective financial management in a business. (12 marks)

13. State five advantages of using the double-entry system in business accounting. (5 marks)

14. Explain five limitations of relying only on a balanced trial balance to establish the accuracy of accounting records. (10 marks)

Question 15: Practical Ledger Recording

The following transactions relate to a business operated by Jane in Nakuru during March 2027.

Date	Transaction
March 1	Started business with cash KSh 120,000.
March 3	Purchased furniture for cash KSh 25,000.
March 5	Bought goods for cash KSh 20,000.
March 8	Sold goods for cash KSh 35,000.
March 10	Paid rent KSh 6,000.
March 15	Received commission KSh 4,000.

March 20	Paid wages KSh 8,000.

Required:

a) Identify the accounts affected by each transaction. (7 marks)

b) State the account to be debited and the account to be credited in each transaction. (7 marks)

c) Prepare the cash account. (8 marks)

d) Balance the cash account as at 31 March 2027. (4 marks)

Question 16: Practical Application of Double Entry

A business carried out the following transactions in April 2027:

1. Started business with KSh 150,000 cash.
2. Bought goods for cash KSh 30,000.
3. Purchased goods on credit from ABC Wholesalers KSh 25,000.
4. Sold goods for cash KSh 40,000.
5. Paid rent KSh 10,000.
6. Paid ABC Wholesalers KSh 15,000.
7. Received KSh 12,000 from a debtor.

Required:

a) Identify the accounts affected by each transaction. (7 marks)

b) State the debit and credit entries for each transaction. (7 marks)

c) Prepare the relevant ledger accounts. (12 marks)

d) Balance the cash account. (4 marks)

Key Learning Points and Summary

Concept	Key learning point
Ledger	The principal book in which financial transactions are classified into separate accounts.
Purpose of a ledger	To organise financial transactions and provide account balances.
General ledger	Contains the main asset, liability, capital, income and expense accounts.
Sales ledger	Contains individual accounts of credit customers.
Purchases ledger	Contains individual accounts of credit suppliers.
Private ledger	Contains confidential accounts relating to owners and other sensitive matters.
Double entry	Every transaction affects at least two accounts, with equal debit and credit entries.
Debit	The left-hand side of an account.
Credit	The right-hand side of an account.
Personal account	An account relating to a person or organisation.
Real account	An account relating to assets and property.
Nominal account	An account relating to expenses, losses, income and gains.
Posting	Transferring transactions from books of original entry to ledger accounts.
Balance c/d	The balance carried down to make the two sides equal.
Balance b/d	The balance brought down at the beginning of the next period.
Debit balance	Occurs when total debits exceed total credits.
Credit balance	Occurs when total credits exceed total debits.
Trial balance	A statement of ledger balances used to check arithmetical agreement.

SUB-STRAND 2.2: TRIAL BALANCE

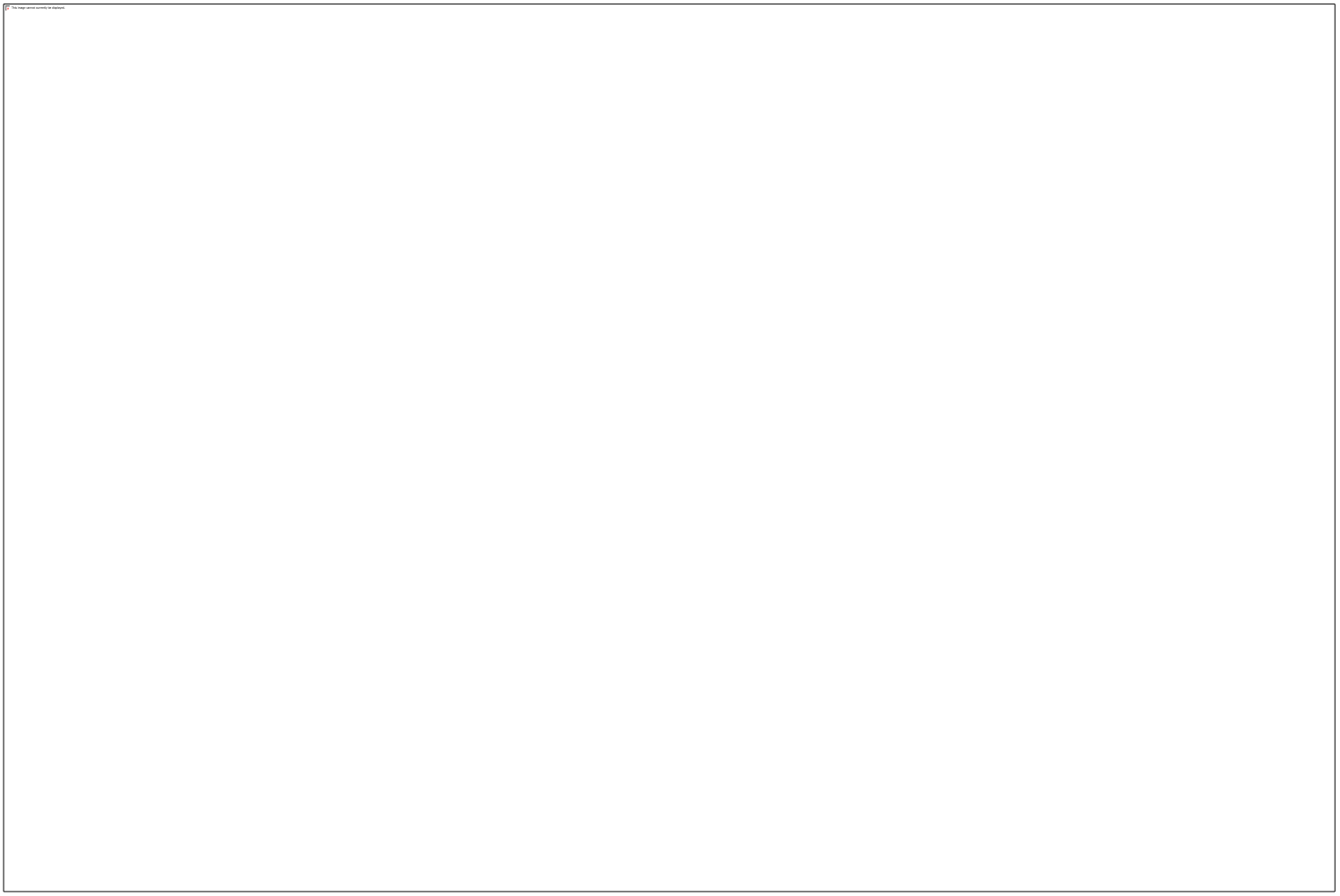
1.0 Introduction to a Trial Balance

In business, financial transactions take place every day. A business may receive money from customers, purchase goods, pay rent, pay employees, acquire equipment or receive money from a bank.

These transactions are first recorded in books of original entry and later posted to the relevant ledger accounts. At the end of an accounting period, the business needs to check whether the ledger accounts have been correctly recorded and balanced.

One of the accounting tools used to carry out this check is a **trial balance**.

A trial balance helps a business to establish whether the total debit balances are equal to the total credit balances in its ledger accounts.



1.1 Meaning of a Trial Balance

A **trial balance** is a statement that lists all the debit and credit balances extracted from the ledger accounts of a business at a particular date to establish whether the total debits are equal to the total credits.

In simple terms, a trial balance is a list of balances from the ledger accounts arranged in two main columns:

1. Debit column.
2. Credit column.

The two columns should have equal totals when the ledger balances have been correctly extracted and added.

Example:

A trader in Kilgoris operates a shop selling foodstuffs and household goods. At the end of the month, the trader extracts balances from the ledger accounts, such as:

- Cash account.
- Capital account.
- Purchases account.
- Sales account.
- Rent account.
- Furniture account.
- Debtors' accounts.
- Creditors' accounts.

The balances are arranged in a trial balance to check whether total debits equal total credits.

1.2 Characteristics of a Trial Balance

A trial balance has the following characteristics:

1. **It is a statement:** It is prepared in a tabular form showing account names and their respective balances.

2. **It is prepared from ledger accounts:** The figures are obtained from the balances of accounts in the ledger.

3. **It has two main money columns:** These are the debit column and the credit column.

4. **It is prepared at a particular date:** It may be prepared at the end of a month, quarter or financial year.

5. **It is based on the double-entry principle:** Every transaction should have equal debit and credit entries.

6. **It checks arithmetical accuracy:** It helps establish whether the total debit balances equal the total credit balances.

7. **It is an internal accounting document:** It is mainly used by the business management and accounting personnel.

8. **It assists in preparing financial statements:** It provides balances required when preparing financial reports.

1.3 Purpose of Preparing a Trial Balance

A trial balance is prepared for several reasons, including:

1. To check whether the total debit balances are equal to the total credit balances.
2. To identify certain errors made when recording and posting transactions.
3. To summarise the balances of ledger accounts.

4. To provide information required when preparing financial statements.
5. To establish whether the double-entry system has been applied arithmetically.
6. To provide a basis for making adjustments to accounting records.
7. To assist in reviewing the financial records of a business.

2.0 Importance of a Trial Balance to a Business Entity

A trial balance is an important accounting document because it helps a business examine the accuracy and completeness of its accounting records.

The following are the main ways in which a trial balance benefits a business entity.

2.1 Checking Arithmetical Accuracy

- A trial balance helps establish whether the total debit balances equal the total credit balances.
- Under the double-entry system, every transaction should have equal debit and credit entries.
- If the two totals differ, it indicates that there may be an error in the accounting records.
- This enables the accountant to investigate the records before preparing financial statements.

Example:

If the debit column totals KSh 250,000 while the credit column totals KSh 240,000, there is a difference of KSh 10,000 that requires investigation.

2.2 Assisting in the Detection of Errors

- A trial balance helps identify certain errors made when recording transactions.
- It can reveal situations where an amount has been posted to one side of an account but not the other.
- It may also reveal errors in adding ledger accounts or extracting balances.
- Detecting errors early helps prevent inaccurate financial reports.

Example:

If KSh 5,000 received from a customer is recorded in the cash account but not posted to the customer's account, the trial balance may fail to balance.

2.3 Providing a Summary of Ledger Balances

- A trial balance brings together the balances of different ledger accounts in one statement.
- It saves time because the accountant does not have to examine every ledger account individually whenever a summary is required.
- It provides an organised overview of the business's accounting records.

Example:

A supermarket in Nakuru can use a trial balance to obtain a summary of its cash, bank, capital, purchases, sales, expenses and other account balances.

2.4 Assisting in the Preparation of Financial Statements

- A trial balance provides information required when preparing financial statements.
- Revenue and expense balances are used when preparing the income statement.
- Asset, liability and capital balances are used when preparing the statement of financial position.
- It therefore provides a starting point for preparing financial reports.

2.5 Facilitating Correction of Errors

- When the debit and credit totals do not agree, the accountant investigates the difference.
- The errors identified are corrected through appropriate accounting entries.
- This improves the reliability of the business's financial records.

2.6 Promoting Accountability

- A trial balance helps management examine the accuracy of accounting information prepared by employees.
- It provides an opportunity to review ledger balances.
- It encourages responsible handling of financial records.
- It can help management identify areas that require further investigation.

2.7 Supporting Financial Decision-Making

- The balances in a trial balance provide useful financial information to management.
- Management can examine the balances of expenses, revenue, assets and liabilities.
- This information contributes to planning and controlling business activities.
- However, a trial balance alone does not provide a complete picture of business performance.

2.8 Saving Time in Accounting Work

- A trial balance presents ledger balances in a single statement.
- It makes it easier to identify accounts with debit and credit balances.
- It reduces the time needed to gather figures when preparing financial statements.
- It also makes accounting records easier to review.

2.9 Improving the Reliability of Financial Records

- A properly prepared trial balance increases confidence in the arithmetical accuracy of accounting records.
- It helps identify differences that could affect financial reports.
- It encourages the maintenance of orderly and accurate accounting records.

Important: A trial balance that balances does not necessarily mean that all accounting records are correct. Some errors do not affect the equality of debit and credit totals.

3.0 Preparation of a Trial Balance

3.1 Meaning of Preparation of a Trial Balance

Preparation of a trial balance refers to the process of extracting the balances of ledger accounts, classifying them as debit or credit balances and arranging them in a statement to determine whether the two totals are equal.

A trial balance is normally prepared after transactions have been recorded in the books of original entry and posted to the ledger accounts.

3.2 Requirements for Preparing a Trial Balance

Before preparing a trial balance, the following should be available:

1. **Books of original entry:** These contain the initial records of business transactions, such as the cash book, sales journal and purchases journal.

2. **Ledger accounts:** These contain transactions posted from the books of original entry.

3. **Balanced ledger accounts:** Ledger accounts should be examined to establish their balances.

4. **A trial balance format:** A statement with columns for account names, debit balances and credit balances.

5. **A calculator or accounting software:** These help in calculating and checking the totals.

3.3 Steps Followed When Preparing a Trial Balance

The following steps are followed:

Step 1: Record all business transactions

- Ensure that all transactions have been recorded in the appropriate books of original entry.
- Examples include cash received, cash paid, credit purchases and credit sales.

Step 2: Post transactions to the ledger

- Transfer information from the books of original entry to the relevant ledger accounts.
- Apply the double-entry principle when posting transactions.
- Every transaction must have corresponding debit and credit entries.

Step 3: Balance the ledger accounts

- Calculate the totals on both sides of each ledger account.
- Determine the difference between the debit and credit sides.
- Identify whether the account has a debit balance, credit balance or nil balance.

Step 4: Extract the ledger balances

- Identify the final balance of each ledger account.
- Separate debit balances from credit balances.
- Do not confuse the balance of an account with its total transactions.

Step 5: Prepare the trial balance heading

The heading should show:

- Name of the business.

- Title of the statement.
- Date on which the trial balance is prepared.

Step 6: Enter the account names

- List the ledger account names in the first column.
- Each account should appear only once.
- The accounts may be arranged in a logical order.

Step 7: Enter debit balances

- Place all debit balances in the debit column.
- Examples include cash, bank balance, purchases, rent, wages, furniture and debtors.

Step 8: Enter credit balances

- Place all credit balances in the credit column.
- Examples include capital, sales, creditors, loans and income received.

Step 9: Add the two columns

- Calculate the total of the debit column.
- Calculate the total of the credit column.
- Compare the two totals.

Step 10: Verify the results

- If the totals are equal, the trial balance is said to agree or balance.
- If the totals are not equal, investigate the accounting records to identify possible errors.
- Remember that agreement does not prove that every transaction has been recorded correctly.

3.4 Format of a Trial Balance

A trial balance is normally presented as follows:

NAME OF BUSINESS

TRIAL BALANCE AS AT .....

Account name	Debit (KSh)	Credit (KSh)
Cash	xxx	–
Bank	xxx	–
Capital	–	xxx
Purchases	xxx	–
Sales	–	xxx
Rent	xxx	–
Furniture	xxx	–
Creditors	–	xxx
Total	xxxx	xxxx

The figures represented by xxx are replaced by the actual ledger balances.

3.5 Classification of Ledger Balances in a Trial Balance

Different ledger accounts have different normal balances. The accountant should understand which balances are normally placed in the debit or credit column.

Account	Normal balance	Trial balance column
Cash in hand	Debit	Debit
Bank balance (favourable)	Debit	Debit
Capital	Credit	Credit
Purchases	Debit	Debit
Sales	Credit	Credit
Rent paid	Debit	Debit
Wages paid	Debit	Debit
Furniture	Debit	Debit
Motor vehicle	Debit	Debit
Debtors	Debit	Debit
Creditors	Credit	Credit

Loan received	Credit	Credit
Commission received	Credit	Credit
Drawings	Debit	Debit
Discount allowed	Debit	Debit
Discount received	Credit	Credit

Note: A bank overdraft is normally a credit balance because it represents an amount owed by the business to the bank.

3.6 Worked Example: Preparation of a Trial Balance

A trader in Narok extracted the following balances from the ledger accounts on 31st December 2026:

Account	Balance (KSh)
Cash	50,000 Dr
Purchases	40,000 Dr
Furniture	20,000 Dr
Rent	10,000 Dr
Wages	15,000 Dr
Capital	80,000 Cr
Sales	45,000 Cr
Creditors	10,000 Cr

Required: Prepare a trial balance as at 31st December 2026.

Solution

First, classify the balances into debit and credit columns.

TRADER'S BUSINESS

TRIAL BALANCE AS AT 31ST DECEMBER 2026

Account name	Debit (KSh)	Credit (KSh)

Cash	50,000	–
Purchases	40,000	–
Furniture	20,000	–
Rent	10,000	–
Wages	15,000	–
Capital	–	80,000
Sales	–	45,000
Creditors	–	10,000
Total	135,000	135,000

Trial balance agrees

Explanation of the solution

1. Cash has a debit balance of KSh 50,000; therefore, it is entered in the debit column.
2. Purchases have a debit balance of KSh 40,000; therefore, they are entered in the debit column.
3. Furniture has a debit balance of KSh 20,000; therefore, it is entered in the debit column.
4. Rent has a debit balance of KSh 10,000; therefore, it is entered in the debit column.
5. Wages have a debit balance of KSh 15,000; therefore, they are entered in the debit column.
6. Capital has a credit balance of KSh 80,000; therefore, it is entered in the credit column.
7. Sales have a credit balance of KSh 45,000; therefore, they are entered in the credit column.
8. Creditors have a credit balance of KSh 10,000; therefore, they are entered in the credit column.

Debit total:

50,000+40,000+20,000+10,000+15,000=135,000

Credit total:

80,000+45,000+10,000=135,000

Since the debit and credit totals are equal, the trial balance agrees.

3.7 Practical Activity: Preparing a Trial Balance

Activity

Learners work in groups to prepare a trial balance using the following balances extracted from the ledger of a small retail shop in Nakuru.

Account	Balance (KSh)
Cash	30,000 Dr
Bank	60,000 Dr
Purchases	45,000 Dr
Furniture	25,000 Dr
Rent	10,000 Dr
Capital	100,000 Cr
Sales	50,000 Cr
Creditors	20,000 Cr

Tasks

1. Identify accounts with debit balances.
2. Identify accounts with credit balances.
3. Prepare the trial balance.
4. Calculate the debit and credit totals.
5. State whether the trial balance agrees.

Teacher's note: The debit total is KSh 170,000 and the credit total is KSh 170,000.

4.0 Errors in a Trial Balance

4.1 Meaning of Errors in Accounting

Errors in accounting refer to mistakes made when recording, classifying, posting, balancing or calculating business transactions in the accounting records.

Errors may arise during the preparation of books of original entry, posting to ledger accounts, balancing ledger accounts or extracting balances for a trial balance.

Some errors cause the trial balance totals to disagree, while others do not affect the agreement of the trial balance.

4.2 Causes of Errors in Accounting Records

Errors may occur due to the following:

1. Carelessness when recording transactions.
2. Lack of accounting knowledge or skills.

3. Incorrect calculations.
4. Posting transactions to the wrong ledger accounts.
5. Omitting transactions from the accounting records.
6. Misreading figures in source documents.
7. Reversing debit and credit entries.
8. Incorrectly balancing ledger accounts.
9. Using incorrect accounting procedures.
10. Failure to review accounting records.

4.3 Types of Errors in Accounting

Errors can be classified into two broad categories:

- Errors that are disclosed by the trial balance.
- Errors that are not disclosed by the trial balance.

4.4 Errors Disclosed by the Trial Balance

These are errors that cause the debit and credit totals of a trial balance to disagree.

The following are common examples.

1. Error of Partial Omission

- This occurs when only one side of a transaction is recorded in the ledger while the corresponding entry is omitted.
- Since double entry requires equal debit and credit entries, the trial balance may fail to balance.

Example:

A business pays KSh 5,000 rent in cash.

Correct entry:

- Debit rent account KSh 5,000.
- Credit cash account KSh 5,000.

If the rent account is debited but the cash account is not credited, the debit column will exceed the credit column by KSh 5,000.

2. Posting an Incorrect Amount on One Side

- This occurs when an amount is correctly entered in one account but incorrectly entered in the corresponding account.
- It creates a difference between total debits and total credits.

Example:

Goods worth KSh 8,000 are purchased for cash.

Correct entry:

- Debit purchases KSh 8,000.
- Credit cash KSh 8,000.

If purchases are debited with KSh 8,000 but cash is credited with KSh 800, the trial balance will have a difference of KSh 7,200.

3. Error in Addition of Ledger Accounts

- This occurs when the debit or credit side of a ledger account is added incorrectly.
- The resulting balance may be incorrect.
- When the balance is extracted into the trial balance, the two columns may fail to agree.

Example:

The debit side of a purchases account contains:

- KSh 10,000.
- KSh 15,000.
- KSh 20,000.

The correct total is KSh 45,000. If it is incorrectly calculated as KSh 40,000, the trial balance may show a difference of KSh 5,000.

4. Posting to the Wrong Side of an Account

- This occurs when a transaction that should be posted on the debit side is posted on the credit side, or vice versa.
- The error may cause the trial balance to disagree.
- The difference may be twice the amount involved if the correct entry is completely reversed.

Example:

KSh 6,000 paid as wages should be debited to the wages account and credited to the cash account.

If wages are credited instead of debited while cash is correctly credited, both entries appear on the credit side. This results in an imbalance of KSh 12,000 compared with the correct treatment.

5. Incorrect Balancing of Ledger Accounts

- This occurs when the balance of a ledger account is calculated incorrectly.
- An incorrect balance may be entered in the trial balance.
- The debit and credit totals may therefore fail to agree.

Example:

If a debtor's account has a correct debit balance of KSh 12,000 but is wrongly balanced at KSh 10,000, the trial balance may have a difference of KSh 2,000.

6. Error in Extracting Ledger Balances

- This occurs when an account balance is incorrectly transferred from the ledger to the trial balance.

- The amount may be omitted, understated or overstated.
- This may cause the trial balance to disagree.

Example:

If the cash account has a debit balance of KSh 20,000 but KSh 2,000 is entered in the trial balance, the debit column will be understated by KSh 18,000.

7. Transposition Error

- This occurs when the positions of digits in a number are accidentally interchanged.
- It may result in the wrong amount being recorded or posted.
- The error may cause the trial balance to disagree if it affects only one side.

Example:

KSh 6,450 may be incorrectly recorded as KSh 6,540.

The difference is KSh 90.

8. Casting Error

- This occurs when figures in a book of original entry or ledger account are added incorrectly.
- The incorrect total may then be posted to the ledger.
- It may cause the trial balance to disagree.

Example:

A purchases journal with a correct total of KSh 75,000 is incorrectly added as KSh 70,000.

The purchases account will be understated by KSh 5,000.

4.5 Errors Not Disclosed by the Trial Balance

These are errors that do not cause the debit and credit totals of the trial balance to disagree.

This is because the double-entry principle may still have been followed even though the wrong accounts or amounts have been used.

The following are common examples.

1. Error of Complete Omission

- This occurs when a transaction is completely left out of the accounting records.
- Neither the debit nor the credit entry is recorded.
- Since both entries are omitted, the trial balance may still balance.

Example:

A business purchases goods worth KSh 10,000 for cash but fails to record the transaction anywhere in its books.

Both purchases and cash are omitted. The trial balance may still agree.

2. Error of Commission

- This occurs when a transaction is posted to the wrong account of the same class.
- The correct amount and debit or credit sides may be used, but the wrong individual account is affected.

Example:

A payment of KSh 5,000 made to John, a creditor, is wrongly posted to James's account instead of John's account.

The debit and credit totals may still agree.

3. Error of Principle

- This occurs when a transaction is recorded in an account that does not follow the accepted accounting principles.
- The correct amount may be recorded on the correct side, but the wrong category of account is used.

Example:

A business purchases a motor vehicle for KSh 800,000 but records it in the purchases account instead of the motor vehicle account.

The trial balance may still agree because the debit and credit entries are equal.

4. Compensating Error

- This occurs when two or more errors cancel out each other's effects.
- The errors may affect different accounts but result in equal and opposite differences.
- The trial balance may therefore agree despite the errors.

Example:

The wages account is understated by KSh 2,000 while the rent account is also understated by KSh 2,000, with corresponding errors on the other sides of the entries.

The effects may cancel out in the trial balance totals.

5. Error of Original Entry

- This occurs when an incorrect amount is recorded in the books of original entry and the same incorrect amount is posted to both affected ledger accounts.
- Since equal amounts are posted on both sides, the trial balance may still agree.

Example:

Goods worth KSh 15,000 are purchased for cash but are recorded as KSh 12,000 in the purchases journal and posted as KSh 12,000 to both purchases and cash accounts.

The trial balance may still balance even though the transaction is understated by KSh 3,000.

6. Complete Reversal of Entries

- This occurs when the correct accounts are used but the debit and credit entries are reversed.
- The same amount is recorded on the wrong sides of the accounts.

- The trial balance may still agree because equal amounts are recorded on both sides.

Example:

A business receives KSh 7,000 cash from a customer.

Correct entry:

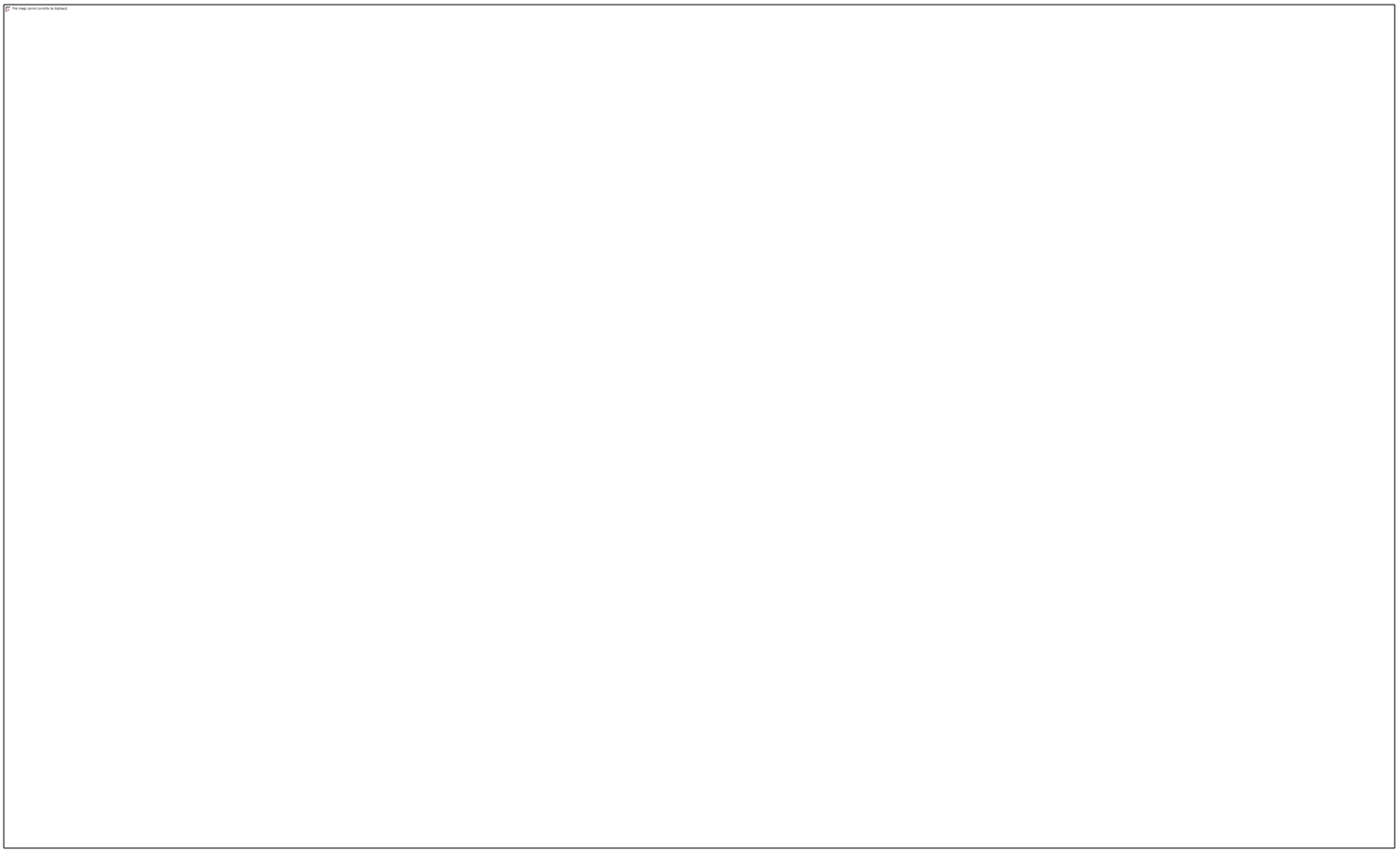
- Debit cash KSh 7,000.
- Credit the customer's account KSh 7,000.

If the cash account is credited and the customer's account is debited, the entries are completely reversed. The trial balance may still balance.

4.6 Summary of Errors Disclosed and Not Disclosed by a Trial Balance

Errors disclosed by trial balance	**Errors not disclosed by trial balance**
Partial omission	Complete omission
Incorrect amount on one side	Error of commission
Incorrect addition	Error of principle
Posting to the wrong side	Compensating error
Incorrect balancing	Error of original entry
Incorrect extraction of balances	Complete reversal of entries
Transposition affecting one side	Some errors involving equal omissions or mispostings

Key point: A trial balance checks the arithmetical equality of debit and credit balances. It does not guarantee that all transactions have been correctly recorded.



5.0 Correction of Errors in a Trial Balance

5.1 Meaning of Correction of Errors

Correction of errors refers to the process of identifying and rectifying mistakes made when recording, posting, balancing or summarising accounting transactions.

Errors should be corrected to ensure that the accounting records show accurate financial information.

5.2 Importance of Correcting Errors

Correcting accounting errors is important because it:

1. Improves the accuracy of accounting records.
2. Ensures that financial statements reflect more reliable information.
3. Helps prevent misleading financial reports.
4. Improves accountability in the business.
5. Enables management to make better financial decisions.
6. Helps identify weaknesses in the accounting system.
7. Supports proper preparation of the income statement.
8. Supports proper preparation of the statement of financial position.
9. Reduces the possibility of making decisions based on incorrect figures.
10. Improves confidence in the business's financial information.

5.3 Methods of Correcting Errors

The method used depends on the type of error and whether the trial balance has already been prepared.

1. Correcting the Original Entry

- This involves checking the source document and correcting an error made when recording a transaction in a book of original entry.
- The correction should be properly authorised and documented.
- The corrected figure should then be posted to the appropriate ledger accounts.

Example:

An invoice shows purchases of KSh 12,000, but the purchases journal incorrectly records KSh 10,000.

The business should correct the entry by recording the missing KSh 2,000 and ensuring that the corresponding ledger postings are correct.

2. Making a Correcting Journal Entry

- A journal entry may be used to rectify errors in ledger accounts.
- The entry identifies the account to be debited and the account to be credited.
- A brief explanation should accompany the entry.

Example:

KSh 5,000 paid for rent was wrongly debited to the wages account.

Correcting journal:

Account	Debit (KSh)	Credit (KSh)
Rent account	5,000	–
Wages account	–	5,000

Explanation: The rent account is debited because it should have received the original debit entry. The wages account is credited to cancel the incorrect debit.

3. Reversing the Incorrect Entry and Recording the Correct Entry

- This method is used when an incorrect entry has been made and needs to be cancelled.
- The incorrect entry is reversed.
- The correct entry is then recorded.

Example:

A business purchases furniture for KSh 20,000 but wrongly records the transaction in the purchases account.

The error can be corrected by:

First entry: Remove the incorrect classification

Account	Debit (KSh)	Credit (KSh)
Furniture account	20,000	–
Purchases account	–	20,000

This transfers the amount from purchases to furniture. The cash or creditor entry remains unchanged if it was correctly recorded.

4. Correcting Errors Through Additional Entries

- This method is used when an account has been understated.
- An additional entry is made to record the missing amount.
- The corresponding account is also adjusted.

Example:

Goods worth KSh 15,000 were purchased for cash but only KSh 10,000 was recorded in both accounts.

The correcting entry is:

Account	Debit (KSh)	Credit (KSh)
Purchases account	5,000	–
Cash account	–	5,000

The additional entry corrects the understatement of KSh 5,000.

5. Using a Suspense Account

Meaning of a Suspense Account

A suspense account is a temporary account opened to record the difference in a trial balance when the cause of the difference has not yet been identified.

It is used temporarily to make the trial balance totals agree while the accountant investigates the errors.

How a suspense account is used

1. Prepare the trial balance.
2. Calculate the difference between the debit and credit totals.
3. Identify the column with the smaller total.
4. Enter the difference in the smaller column using a suspense account.
5. Investigate the errors responsible for the difference.
6. Prepare correcting journal entries.
7. Post the correcting entries to the relevant ledger accounts.

8. Close the suspense account when all the errors affecting it have been corrected.

Example:

A trial balance has the following totals:

- Debit total: KSh 150,000.
- Credit total: KSh 145,000.

Difference:

150,000−145,000=5,000150,000−145,000=5,000

The credit column is smaller by KSh 5,000. A suspense account is temporarily entered in the credit column.

Account	Debit (KSh)	Credit (KSh)
Other ledger balances	150,000	145,000
Suspense account	–	5,000
Total	150,000	150,000

Suppose investigation reveals that a credit sale of KSh 5,000 was correctly credited to the sales account but was not debited to the debtor's account.

Correcting journal:

Account	Debit (KSh)	Credit (KSh)
Debtor's account	5,000	–
Suspense account	–	5,000

After posting this correcting entry, the suspense account is cleared.

Important: A suspense account is temporary. It should not be treated as a normal business income, expense, asset or liability account. It is not a substitute for investigating and correcting errors.

5.4 Correction of Errors That Do Not Affect the Trial Balance

Errors that do not affect the equality of the trial balance must also be corrected.

They are normally corrected by making appropriate journal entries.

Example 1: Error of principle

A business purchases office furniture worth KSh 30,000 but records it in the purchases account.

Correcting entry:

Account	Debit (KSh)	Credit (KSh)

Furniture account	30,000	–
Purchases account	–	30,000

Explanation: Furniture should be treated as a non-current asset rather than purchases of goods for resale.

Example 2: Error of commission

A payment of KSh 4,000 to creditor A is wrongly debited to creditor B.

Correcting entry:

Account	Debit (KSh)	Credit (KSh)
Creditor A	4,000	–
Creditor B	–	4,000

Explanation: The entry corrects the accounts of the two creditors.

Example 3: Complete reversal of entries

A business pays KSh 6,000 for electricity in cash but records:

- Debit cash KSh 6,000.
- Credit electricity expense KSh 6,000.

The correct entry should be:

- Debit electricity expense KSh 6,000.
- Credit cash KSh 6,000.

To correct the error, the accountant may reverse the incorrect entry and record the correct entry.

Account	Debit (KSh)	Credit (KSh)
Electricity expense	12,000	–
Cash	–	12,000

Explanation: The KSh 12,000 correcting entry changes the original reversed posting into the correct posting. It does not mean the business paid KSh 12,000; the actual payment was KSh 6,000.

5.5 Steps Followed When Correcting Errors

1. **Identify the error:** Examine the trial balance, ledger accounts and source documents to establish where the mistake occurred.

2. **Establish the nature of the error:** Determine whether the error involves omission, commission, principle, reversal, incorrect posting or calculation.

3. **Determine the correct accounting treatment:** Identify the account that should have been debited and the account that should have been credited.

4. **Calculate the amount of correction:** Establish the difference between the incorrect and correct entries.

5. **Prepare a correcting journal entry:** Record the necessary debit and credit entries.

6. **Post the correction to the ledger:** Transfer the correcting entries to the relevant accounts.

7. **Review the trial balance:** Recalculate the ledger balances and prepare an updated trial balance.

8. **Verify the corrected records:** Ensure that the correction has been properly recorded and that the relevant errors have been addressed.

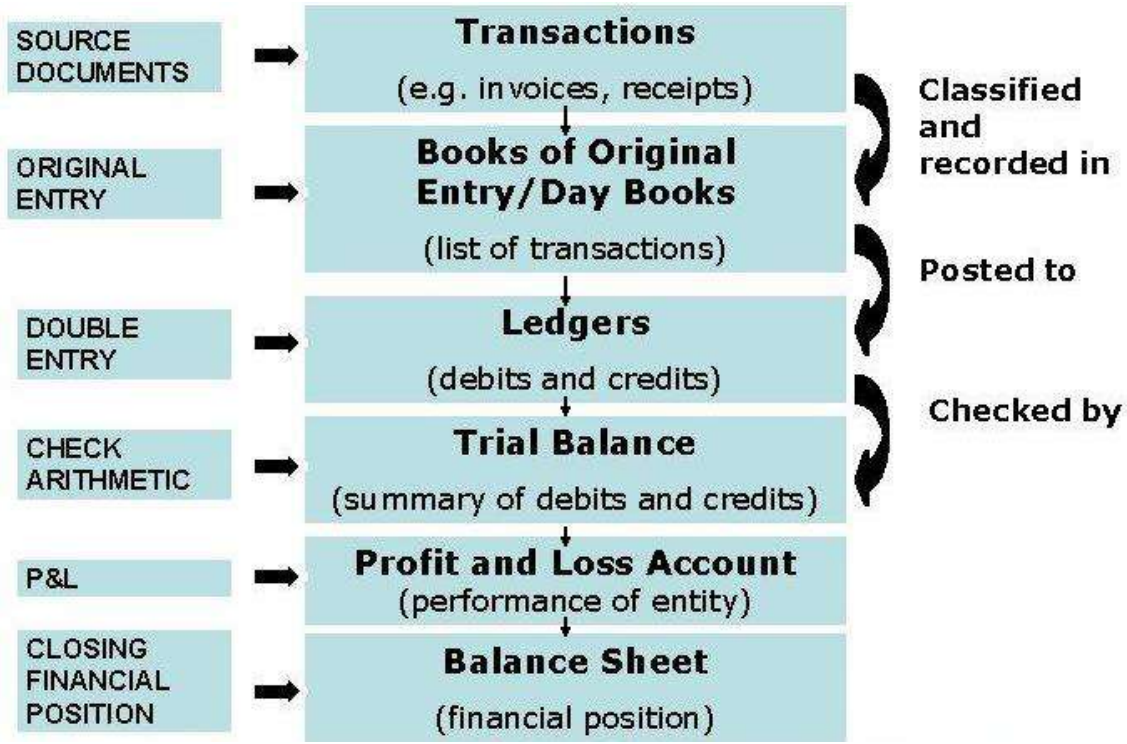
6.0 Difference Between a Trial Balance and a Balance Sheet

A trial balance and a statement of financial position are different accounting documents.

Trial balance	Statement of financial position
Lists balances of all ledger accounts.	Shows the financial position of a business.
Has debit and credit columns.	Shows assets, liabilities and capital/equity.
Checks the arithmetical equality of ledger balances.	Shows what the business owns and owes at a particular date.
Includes income, expenses, assets, liabilities and capital accounts.	Includes assets, liabilities and capital/equity.
Is prepared before financial statements.	Is prepared as part of the financial statements.
Its debit and credit totals should agree.	Its total assets should equal total capital/equity and liabilities.

7.0 Relationship Between the Ledger, Trial Balance and Financial Statements

The accounting process follows an organised sequence.



1. **Source documents:** Evidence of transactions, such as receipts, invoices, bank statements and payment vouchers.

2. **Books of original entry:** Transactions are initially recorded in books such as the cash book, sales journal and purchases journal.
3. **Ledger accounts:** Transactions are posted to the relevant ledger accounts.
4. **Trial balance:** Ledger balances are extracted and arranged to check whether total debits equal total credits.
5. **Adjustments:** Necessary adjustments and corrections are made.
6. **Financial statements:** The income statement and statement of financial position are prepared using the relevant accounting balances.

8.0 Competency-Based Learning Activities

Activity 1: Preparing a Trial Balance

Learning task

Learners are provided with a list of ledger balances from a business operating in their community.

They should:

1. Identify the debit balances.
2. Identify the credit balances.
3. Prepare a trial balance.
4. Calculate the two totals.
5. Explain what it means when the trial balance agrees.

Expected learning outcome: The learner should be able to prepare a trial balance accurately from ledger balances.

Activity 2: Identifying Accounting Errors

Learning task

The teacher provides learners with examples of incorrect accounting entries.

Learners should:

1. Identify the errors.
2. Classify them as errors disclosed or not disclosed by the trial balance.
3. Explain why the errors may or may not affect the trial balance.
4. Suggest appropriate correction methods.

Expected learning outcome: The learner should be able to identify and classify accounting errors.

Activity 3: Correcting Accounting Errors

Learning task

Learners work in pairs to examine an incorrect trial balance and prepare correcting journal entries.

They should:

1. Identify the difference between the debit and credit totals.

2. Investigate the possible causes.
3. Prepare the correcting entries.
4. Post the entries to the relevant ledger accounts.
5. Prepare a corrected trial balance.

Expected learning outcome: The learner should be able to correct accounting errors using appropriate procedures.

Activity 4: Application in a Local Business

Learners visit or interview a small business owner in their community, with permission.

They should establish:

- Whether the business keeps accounting records.
- Whether it maintains ledger accounts.
- Whether it prepares a trial balance.
- How it checks the accuracy of its financial records.
- How it corrects accounting mistakes.

Expected learning outcome: The learner should appreciate the importance of accurate financial records in managing a business.

Revision Questions

Section A: Multiple-Choice Questions

Choose the correct answer from the alternatives provided.

1. A trial balance is best described as a statement that:

A. Shows the daily cash received by a business.

B. Lists the debit and credit balances of ledger accounts.

C. Records all purchases made by a business.

D. Shows the profit earned by a business.

2. The main purpose of preparing a trial balance is to:

A. Calculate the selling price of goods.

B. Determine the amount of cash in hand.

C. Check the arithmetical equality of ledger balances.

D. Calculate the total purchases of a business.

3. Which of the following accounts normally has a debit balance?

A. Capital account.

B. Sales account.

C. Creditors account.

D. Purchases account.

4. Which of the following accounts normally has a credit balance?

A. Rent account.

B. Wages account.

C. Capital account.

D. Drawings account.

5. A trial balance is prepared using information obtained from:

A. Source documents only.

B. Ledger accounts.

C. Business advertisements.

D. Stock records only.

6. Which of the following is entered in the debit column of a trial balance?

A. Capital. B. Sales.

C. Creditors. D. Furniture.

7. A trial balance has debit totals of KSh 80,000 and credit totals of KSh 75,000. The difference is:

A. KSh 3,000.

B. KSh 4,000.

C. KSh 5,000.

D. KSh 10,000.

8. Which of the following errors is disclosed by a trial balance?

A. Complete omission of a transaction.

B. Error of principle.

C. Error of commission.

D. Posting an entry on one side only.

9. An error where a transaction is completely left out of the accounting records is called:

A. Error of commission.

B. Error of complete omission.

C. Error of principle.

D. Compensating error.

10. A motor vehicle purchased by a business is wrongly recorded in the purchases account. This is an example of:

A. Error of principle.

B. Error of partial omission.

C. Transposition error.

D. Casting error.

11. An accountant records KSh 5,600 as KSh 6,500. This is an example of:

A. Error of commission.

B. Complete omission.

C. Transposition error.

D. Error of principle.

12. An error that occurs when a transaction is posted to the wrong personal account is called:

A. Error of commission.

B. Error of principle.

C. Error of complete omission.

D. Compensating error.

13. A suspense account is mainly used to:

A. Record sales of goods.

B. Record business expenses.

C. Temporarily accommodate a trial balance difference.

D. Record cash purchases.

14. Which of the following may not be disclosed by a trial balance?

A. Posting an amount to one side only.

B. Incorrect addition of a ledger account.

C. Error of complete reversal.

D. Incorrect extraction of a ledger balance.

15. Which of the following is a normal credit balance?

A. Cash.

B. Rent.

C. Purchases.

D. Creditors.

16. The difference between a debit total of KSh 120,000 and a credit total of KSh 115,000 is:

A. KSh 2,000.

B. KSh 3,000.

C. KSh 5,000.

D. KSh 10,000.

17. Which of the following is an example of a correcting journal entry?

A. Recording a transaction twice.

B. Transferring an amount from the wrong account to the correct account.

C. Omitting both sides of a transaction.

D. Ignoring an accounting error.

18. When a trial balance agrees, it means that:

A. All accounting errors have been eliminated.

B. The business has made a profit.

C. Total debit balances equal total credit balances.

D. All customers have paid their debts.

19. Which of the following is an important benefit of a trial balance?

A. It replaces all source documents.

B. It assists in preparing financial statements.

C. It determines the market price of goods.

D. It eliminates the need for ledger accounts.

20. A bank overdraft is normally shown in which column of the trial balance?

A. Debit column. B. Credit column. C. Both columns. D. Neither column.

Section B: Short-Answer Questions

1. Define the term trial balance. (2 marks)

2. State four characteristics of a trial balance. (4 marks)

3. Explain five importance of a trial balance to a business entity. (10 marks)

4. Outline six steps followed when preparing a trial balance. (6 marks)

5. Distinguish between errors disclosed by a trial balance and errors not disclosed by a trial balance. (4 marks)

6. State five examples of errors disclosed by a trial balance. (5 marks)

7. Explain five errors that may not be disclosed by a trial balance. (10 marks)

8. Explain four causes of errors in accounting records. (8 marks)

9. State four methods used to correct accounting errors. (4 marks)

10. Explain the purpose of a suspense account in accounting. (4 marks)

Section C: Structured and Practical Questions

11. The following balances were extracted from the ledger accounts of Mwangaza Traders on 31st December 2026.

Account	Balance (KSh)
Cash	25,000 Dr
Purchases	40,000 Dr
Furniture	30,000 Dr
Rent	10,000 Dr
Wages	15,000 Dr
Capital	70,000 Cr
Sales	35,000 Cr
Creditors	15,000 Cr

Required:

a) Identify the accounts with debit balances. (4 marks)

b) Identify the accounts with credit balances. (4 marks)

c) Prepare a trial balance as at 31st December 2026. (8 marks)

d) State whether the trial balance agrees. (2 marks)

12. Explain six errors that may cause the debit and credit totals of a trial balance to disagree. (12 marks)

13. A business prepared a trial balance with the following totals:

- Debit total: KSh 180,000.
- Credit total: KSh 172,000.

Required:

a) Calculate the difference between the two totals. (2 marks)

b) Identify the column with the smaller total. (2 marks)

c) Explain the purpose of a suspense account in this situation. (4 marks)

d) State four steps the accountant should take to investigate the difference. (4 marks)

14. The following errors were discovered in the books of a business:

i. A purchase of goods worth KSh 8,000 was completely omitted.

ii. Furniture worth KSh 25,000 was recorded in the purchases account.

iii. Rent of KSh 4,000 was debited to the wages account.

iv. A cash payment of KSh 6,000 was recorded by debiting cash and crediting wages.

Required:

a) Identify the type of error in each case. (4 marks)

b) Explain whether each error would be disclosed by the trial balance. (4 marks)

c) Prepare correcting journal entries for errors ii and iii. (4 marks)

d) Explain how error iv can be corrected. (3 marks)

15. Explain five ways in which the preparation of a trial balance promotes effective financial management in a business entity. (10 marks)

Summary of the Sub-Strand

Area	Main points

Meaning	A statement listing debit and credit balances from ledger accounts.
Main purpose	To check whether total debit balances equal total credit balances.
Preparation	Extract balances, classify them, enter them in the appropriate columns and calculate totals.
Importance	Detecting certain errors, summarising ledger balances and assisting in preparing financial statements.
Errors disclosed	Partial omission, incorrect posting on one side, casting errors and incorrect extraction.
Errors not disclosed	Complete omission, error of commission, error of principle, compensating errors and complete reversal.
Correction	Correcting journal entries, additional entries, reversing entries and use of a suspense account where appropriate.
Limitation	An agreeing trial balance does not prove that all accounting records are correct.

SUBSTRAND SUMMARY

2.0 FINANCIAL RECORD IN BUSINESS

2.2 TRIAL BALANCE

1. Introduction

A trial balance is a statement that lists the debit and credit balances of all ledger accounts at a particular date. It is used to check whether total debits equal total credits.



2. Meaning of Trial Balance

A trial balance is a list of all ledger accounts showing their debit or credit balances with the aim of ensuring that the total debits are equal to the total credits.

3. Importance for a Business Entity

- Checks arithmetical accuracy of ledger entries.
- Helps to detect errors in recording.
- Provides a summary of account balances.
- Provides a basis for preparing financial statements (income statement and statement of financial position).
- Enhances credibility of financial records.

4. Preparation of a Trial Balance

Steps:

1. Make sure all transactions are posted in the ledger.
2. List all ledger accounts.
3. Write down the debit and credit balances.
4. Add the debit balances and the credit balances.
5. Ensure the two totals are equal.

Example

A business has the following balances:

Account	Dr (KSh)	Cr (KSh)
Cash	50,000	–
Sales	–	120,000
Capital	–	70,000
Purchases	40,000	–
Totals	**90,000**	**90,000**

Trial balance is balanced! ✓

5. Errors in Trial Balance

Errors may occur in a trial balance due to:

1. **Arithmetic errors** – wrong addition or subtraction.
2. **Posting errors** – posting to the wrong account.
3. **Omission errors** – leaving out an entry.
4. **Transposition errors** – reversing digits (e.g. 610 instead of 1006).
5. **Double posting** – recording the same entry twice.
6. **Wrong balance** brought down.

6. Correction of Errors in Trial Balance

Methods:

1. Arithmetic errors – Recalculate totals.
2. Posting errors – Make a correcting entry (e.g. debit the correct account and credit the wrong account).
3. Omission errors – Post the missing entry.
4. **Transposition errors** – Correct the figures.
5. **Double posting** – Reverse the excess entry.
6. **Wrong balance b/d** – Adjust to the correct balance.

7. Key Takeaways

- ✓ A trial balance is a vital checking tool.
- ✓ It must balance: Total Dr = Total Cr.
- ✓ It helps detect and correct errors.
- ✓ It is essential before preparing financial statements.

8. Revision Questions

A. Multiple Choice Questions

1. What is a trial balance?
   A. A list of assets B. A list of ledger balances
   C. A sales record D. A cash book
2. When total debits equal total credits, the trial balance is said to be _____.
   A. in error B. balanced C. incorrect D. incomplete

B. Short Answer Questions

3. State three purposes of a trial balance. (3 marks)
4. List four common errors in a trial balance. (4 marks)
5. Explain how you would correct a posting error. (4 marks)

Remember:

A well-prepared trial balance gives confidence that the financial records are correct and reliable!



SUB-STRAND 2.3: CASH BOOKS

1.0 Introduction to Cash Books

Businesses receive and spend money every day. They receive money from cash sales, debtors, loans and capital contributions. They also spend money on purchases, rent, wages, transport, electricity, water and other operating expenses.

For a business to manage its finances effectively, it must keep proper records of all cash and bank transactions. One of the important accounting records used for this purpose is the cash book.

A cash book helps a business monitor money received and money paid out. It also assists in controlling cash, managing bank transactions and identifying differences between the business's records and the bank statement.

1.1 Meaning of a Cash Book

A **cash book** is a book of original entry used to record all cash and bank transactions of a business, showing money received and money paid out.

It records transactions involving:

1. Cash received from customers.
2. Cash paid to suppliers.
3. Money deposited into the bank.
4. Money withdrawn from the bank.
5. Payments made through cheques.
6. Money received through bank transfers.
7. Cash discounts allowed to customers.
8. Cash discounts received from suppliers.

A cash book serves two accounting purposes:

- **Book of original entry:** It is used to record cash and bank transactions when they first occur.
- **Ledger account:** It maintains cash and bank balances, showing the amount of money available to the business or owed to the bank.

1.2 Meaning of Cash

Cash refers to money available to a business for making payments and settling financial obligations.

Cash may include:

- Notes and coins held by the business.
- Money held in a cash box or cash register.
- Money received from customers and not yet banked.

1.3 Meaning of Bank Transactions

Bank transactions are financial activities involving money held in a business's bank account.

Examples include:

- Depositing cash into the bank.
- Receiving payments directly into the bank account.
- Paying suppliers using cheques.
- Making electronic funds transfers (EFT).

- Receiving money through mobile banking.
- Paying bills through bank transfers.
- Withdrawing money from the bank.

Kenyan business examples:

A retail shop in Nakuru may receive payments through cash, M-Pesa and bank transfers. A school in Kilgoris may receive school fees through bank deposits and mobile money payments. These transactions should be properly recorded in the appropriate accounting records.

2.0 Purpose of Cash Books in Financial Management

2.1 Meaning of Financial Management

Financial management refers to the process of planning, organising, controlling and monitoring the financial resources of a business to achieve its objectives.

It involves ensuring that money is obtained, used and controlled effectively.

A cash book supports financial management by providing information about the movement of money into and out of a business.

2.2 Purposes of Cash Books in Financial Management

1. Recording Cash Receipts

- A cash book records all money received by a business.
- It shows the date, source and amount of money received.
- It helps the business establish how much money has been collected over a given period.

Example: A shop records KSh 15,000 received from cash sales in its cash book.

2. Recording Cash Payments

- A cash book records all payments made by a business.
- It provides details of money spent on purchases, expenses and other obligations.
- It helps management monitor how money is being used.

Example: A business records KSh 8,000 paid as monthly rent.

3. Monitoring Cash Flow

- A cash book shows money entering and leaving the business.
- It helps management determine whether the business has enough money to meet its daily expenses.
- It assists in identifying periods when the business may experience cash shortages.

4. Controlling Business Expenditure

- A cash book provides details of payments made by a business.
- Management can examine expenses and identify unnecessary expenditure.
- It helps prevent irresponsible spending.

5. Determining Cash and Bank Balances

- A cash book helps the business establish the amount of cash available.
- It also shows the amount held in the bank account.
- This information helps management plan payments and other financial activities.

6. Supporting Budget Preparation

- Cash book records provide information about previous receipts and payments.
- Management can use this information when estimating future cash needs.

- It assists in preparing cash budgets.

7. Detecting Errors and Fraud

- A cash book provides a record against which receipts and payments can be checked.
- It helps identify missing amounts, incorrect entries and unauthorised payments.
- It promotes accountability among employees handling money.

8. Facilitating Bank Reconciliation

- A cash book provides the business's record of bank transactions.
- Its bank column can be compared with the bank statement.
- This helps identify outstanding cheques, deposits in transit and errors.

9. Supporting Financial Reporting

- Cash book balances provide information needed when preparing financial statements.
- They help establish cash and bank balances at the end of an accounting period.
- They contribute to the preparation of reliable financial reports.

10. Improving Financial Decision-Making

- Management uses cash book information to understand the business's cash position.
- It helps determine whether the business can afford new purchases or investments.
- It supports decisions on borrowing, saving and expenditure.

3.0 Types of Cash Books Used in Bookkeeping

There are three main types of cash books commonly studied in bookkeeping:

1. Single-column cash book.
2. Double-column cash book.
3. Three-column cash book.

The type of cash book used depends on the accounting information that a business wants to record.

3.1 Single-Column Cash Book

Meaning of a Single-Column Cash Book

A **single-column cash book** is a cash book that has only one amount column on each side for recording cash receipts and cash payments.

It records cash transactions only.

It does not have a separate bank column or discount columns.

Structure of a Single-Column Cash Book

A single-column cash book has two main sides:

- Debit side: Records cash received.
- Credit side: Records cash paid.

The debit side is the left-hand side, while the credit side is the right-hand side.

Format of a Single-Column Cash Book

NAME OF BUSINESS

SINGLE-COLUMN CASH BOOK

Date	Particulars	Folio	Amount (KSh)
	Debit side – Receipts		
	Credit side – Payments		

The actual cash book is drawn with two facing sides as shown below.

Debit side – Receipts			**Credit side – Payments**		
Date	Particulars	Amount	Date	Particulars	Amount
Jan 1	Capital	50,000	Jan 3	Rent	8,000
Jan 2	Cash sales	20,000	Jan 4	Purchases	12,000

Features of a Single-Column Cash Book

1. It has only one amount column on each side.
2. It records cash receipts and cash payments.
3. The left side records money received.
4. The right side records money paid.
5. It is suitable for small businesses that mainly transact in cash.
6. It does not separately record bank transactions.
7. Its cash balance is normally a debit balance or nil.

Entries in a Single-Column Cash Book

A. Debit Side: Cash Receipts

The following transactions are entered on the debit side:

1. Cash introduced by the owner as capital.
2. Cash sales.
3. Cash received from debtors.
4. Loans received in cash.
5. Commission received in cash.
6. Rent received in cash.
7. Cash received from other sources.

B. Credit Side: Cash Payments

The following transactions are entered on the credit side:

1. Cash purchases.
2. Rent paid.
3. Wages paid.
4. Salaries paid.
5. Transport expenses paid.
6. Electricity bills paid.
7. Cash drawings by the owner.

8. Cash paid to creditors.

How to Prepare a Single-Column Cash Book

1. Draw the cash book with debit and credit sides.
2. Write the date of each transaction.
3. Enter the account or source of the transaction in the particulars column.
4. Record cash received on the debit side.
5. Record cash paid on the credit side.
6. Add the debit and credit columns.
7. Calculate the closing cash balance.
8. Carry the balance forward to the next accounting period.

Worked Example: Single-Column Cash Book

The following transactions took place in the business of Mwangaza Traders during January 2027.

Date	Transaction	Amount (KSh)
Jan 1	Owner introduced cash as capital	50,000
Jan 2	Cash sales	20,000
Jan 3	Paid rent	8,000
Jan 4	Purchased goods for cash	12,000
Jan 5	Received cash from a debtor	10,000
Jan 6	Paid wages	5,000
Jan 7	Cash sales	15,000
Jan 8	Paid transport	3,000

Required: Prepare a single-column cash book.

Solution

MWANGAZA TRADERS

SINGLE-COLUMN CASH BOOK FOR JANUARY 2027

Date	Particulars	Amount (KSh)	Date	Particulars	Amount (KSh)
Jan 1	Capital	50,000	Jan 3	Rent	8,000
Jan 2	Sales	20,000	Jan 4	Purchases	12,000
Jan 5	Debtor	10,000	Jan 6	Wages	5,000
Jan 7	Sales	15,000	Jan 8	Transport	3,000
			Jan 31	Balance c/d	67,000
Total		**95,000**	**Total**		**95,000**
Feb 1	Balance b/d	**67,000**			

Explanation

Total cash receipts:

$$50{,}000 + 20{,}000 + 10{,}000 + 15{,}000 = 95{,}000$$

Total cash payments:

$$8{,}000 + 12{,}000 + 5{,}000 + 3{,}000 = 28{,}000$$

Closing cash balance:

$$95{,}000 - 28{,}000 = \boxed{67{,}000}$$

The business has KSh 67,000 cash remaining at the end of January 2027.

Important accounting terms

- **Balance c/d:** Balance carried down at the end of an accounting period.
- **Balance b/d:** Balance brought down at the beginning of the next accounting period.

3.2 Double-Column Cash Book

Meaning of a Double-Column Cash Book

A **double-column cash book** is a cash book that has two amount columns on each side, usually one for cash and the other for bank transactions.

It records both cash and bank receipts and payments.

The two amount columns are:

1. Cash column.
2. Bank column.

Structure of a Double-Column Cash Book

MWANGAZA TRADERS

DOUBLE-COLUMN CASH BOOK

Date	Particu-lars	Cash (KSh)	Bank (KSh)	Date	Particu-lars	Cash (KSh)	Bank (KSh)
	Debit side – Receipts				**Credit side – Payments**		

Features of a Double-Column Cash Book

1. It has two amount columns on each side.
2. It records both cash and bank transactions.
3. The cash column records money received and paid in cash.
4. The bank column records money deposited into or withdrawn from the bank.
5. It helps monitor both cash-in-hand and bank balances.
6. It is suitable for businesses that make both cash and bank transactions.
7. It may contain contra entries involving transfers between cash and bank.

Entries in a Double-Column Cash Book

A. Debit Side

The debit side records cash and bank receipts.

Examples include:

- Cash sales.
- Cash received from debtors.
- Capital introduced in cash.
- Cheques received from customers and deposited directly into the bank.
- Bank transfers received from customers.
- Cash withdrawn from the bank for business use.

B. Credit Side

The credit side records cash and bank payments.

Examples include:

- Cash purchases.
- Rent paid in cash.
- Wages paid in cash.
- Cheques issued to suppliers.
- Payments made through bank transfers.
- Cash deposited into the bank.
- Cash withdrawn by the owner for personal use.

Understanding Contra Entries

A **contra entry** is an entry that records a transfer of money between the cash account and the bank account of the same business.

It affects both the cash and bank columns of the cash book.

Contra entries are identified using the letter **C** in the folio column.

There are two main types:

1. Cash deposited into the bank

- Cash decreases because money is removed from the cash box.
- Bank increases because money is deposited into the bank account.
- The cash column is credited.
- The bank column is debited.

Example: A business deposits KSh 10,000 cash into its bank account.

Account column	Entry
Cash	Credit KSh 10,000
Bank	Debit KSh 10,000

2. Cash withdrawn from the bank for office use

- Bank decreases because money is withdrawn.
- Cash increases because the business receives the money.
- The bank column is credited.
- The cash column is debited.

Example: A business withdraws KSh 5,000 from its bank account for office use.

Account column	Entry
Cash	Debit KSh 5,000
Bank	Credit KSh 5,000

Worked Example: Double-Column Cash Book

The following transactions took place in the business of Tumaini Traders during March 2027.

Date	Transaction	Amount (KSh)
Mar 1	Cash balance brought forward	20,000
Mar 1	Bank balance brought forward	50,000
Mar 2	Cash sales	15,000
Mar 3	Paid rent in cash	5,000
Mar 4	Deposited cash into the bank	10,000
Mar 5	Received a cheque from a customer and banked it	12,000
Mar 6	Paid a supplier by cheque	8,000
Mar 7	Withdrew cash from the bank for office use	4,000
Mar 8	Paid wages in cash	3,000

Required: Prepare a double-column cash book.

Solution

TUMAINI TRADERS

DOUBLE-COLUMN CASH BOOK FOR MARCH 2027

Date	Particu-lars	Cash (KSh)	Bank (KSh)	Date	Particu-lars	Cash (KSh)	Bank (KSh)
Mar 1	Balance b/d	20,000	50,000	Mar 3	Rent	5,000	–
Mar 2	Sales	15,000	–	Mar 4	Bank (C)	10,000	–
Mar 5	Debtor	–	12,000	Mar 6	Creditor	–	8,000
Mar 7	Bank (C)	4,000	–	Mar 7	Cash (C)	–	4,000
				Mar 8	Wages	3,000	–
				Mar 31	Balance c/d	21,000	50,000
Total		**39,000**	**62,000**	**Total**		**39,000**	**62,000**
Apr 1	Balance b/d	21,000	50,000				

Explanation of the cash column

Cash receipts:

$$20{,}000 + 15{,}000 + 4{,}000 = 39{,}000$$

Cash payments before balancing:

$$5{,}000 + 10{,}000 + 3{,}000 = 18{,}000$$

Closing cash balance:

$$39{,}000 - 18{,}000 = \boxed{21{,}000}$$

Explanation of the bank column

Bank receipts:

$$50{,}000 + 12{,}000 = 62{,}000$$

Bank payments:

$$8{,}000 + 4{,}000 = 12{,}000$$

Closing bank balance:

$$62{,}000 - 12{,}000 = \boxed{50{,}000}$$

The business has KSh 21,000 cash-in-hand and KSh 50,000 in the bank at the end of March 2027.

3.3 Three-Column Cash Book

Meaning of a Three-Column Cash Book

A **three-column cash book** is a cash book that has three amount columns on each side for recording cash, bank and discount transactions.

The three columns are:

1. Cash column.
2. Bank column.
3. Discount column.

The discount column is used to record cash discounts allowed and cash discounts received.

Meaning of Cash Discount

A cash discount is a reduction in the amount payable or receivable when a customer settles an amount promptly or within an agreed period.

There are two types of cash discounts:

1. Discount Allowed

- This is a reduction in the amount a business allows its customer when the customer pays promptly.
- It is an expense or loss to the business.
- It is recorded on the debit side of the three-column cash book.

Example:

A customer owes a business KSh 10,000. The business allows the customer a cash discount of KSh 500 when settling the debt.

The customer pays:

$$10{,}000 - 500 = 9{,}500$$

The business records:

- Debit cash or bank: KSh 9,500.
- Debit discount allowed: KSh 500.
- Credit debtor: KSh 10,000.

2. Discount Received

- This is a reduction in the amount a business pays to its supplier when it settles a debt promptly.
- It is an income or gain to the business.
- It is recorded on the credit side of the three-column cash book.

Example:

A business owes a supplier KSh 12,000. The supplier allows a discount of KSh 1,000.

The business pays:

$$12{,}000 - 1{,}000 = 11{,}000$$

The business records:

- Debit creditor: KSh 12,000.
- Credit cash or bank: KSh 11,000.
- Credit discount received: KSh 1,000.

Structure of a Three-Column Cash Book

NAME OF BUSINESS

THREE-COLUMN CASH BOOK

Date	Par-ticulars	Discount (KSh)	Cash (KSh)	Bank (KSh)	Date	Par-ticulars	Discount (KSh)	Cash (KSh)	Bank (KSh)
	Debit side – Re-ceipts					**Credit side – Pay-ments**			

Features of a Three-Column Cash Book

1. It has three amount columns on each side.
2. It records cash receipts and payments.
3. It records bank receipts and payments.
4. It records discounts allowed to customers.
5. It records discounts received from suppliers.
6. It helps the business monitor cash and bank balances.
7. It provides information about discounts granted and received.
8. It is suitable for businesses that frequently offer and receive cash discounts.

Entries in a Three-Column Cash Book

A. Debit Side

The debit side records:

- Cash received.

- Cheques received and banked.
- Cash withdrawn from the bank for business use.
- Discount allowed to debtors.

B. Credit Side

The credit side records:

- Cash paid.
- Cheques issued.
- Cash deposited into the bank.
- Discount received from creditors.

Important Rules for the Three-Column Cash Book

Item	Where it is recorded
Cash received	Debit cash column
Cash paid	Credit cash column
Bank deposits received	Debit bank column
Payments by cheque	Credit bank column
Discount allowed	Debit discount column
Discount received	Credit discount column
Cash deposited into bank	Contra entry
Cash withdrawn from bank for office use	Contra entry

Important: Discount columns are totalled but are not balanced like cash and bank columns. The totals are normally posted to the respective discount allowed and discount received ledger accounts.

Worked Example: Three-Column Cash Book

The following transactions took place in the business of Upendo Traders during April 2027.

Date	Transaction	Amount (KSh)
Apr 1	Cash balance	15,000
Apr 1	Bank balance	40,000
Apr 2	Cash sales	20,000
Apr 3	Received KSh 9,500 from a debtor and allowed a discount of KSh 500	10,000
Apr 4	Paid a creditor KSh 7,800 by cheque and received a discount of KSh 200	8,000
Apr 5	Paid rent in cash	5,000
Apr 6	Deposited cash into the bank	10,000
Apr 7	Received a cheque of KSh 12,000 from a customer and banked it	12,000
Apr 8	Paid wages by cheque	4,000

Required: Prepare a three-column cash book.

Solution

UPENDO TRADERS

THREE-COLUMN CASH BOOK FOR APRIL 2027

Date	Par-ticulars	Discount allowed (KSh)	Cash (KSh)	Bank (KSh)	Date	Par-ticulars	Discount received (KSh)	Cash (KSh)	Bank (KSh)
Apr 1	Bal-ance b/d	–	15,000	40,000	Apr 4	Credi-tor	200	–	7,800
Apr 2	Sales	–	20,000	–	Apr 5	Rent	–	5,000	–
Apr 3	Debtor	500	–	9,500	Apr 6	Bank (C)	–	10,000	–
Apr 6	Bank (C)	–	–	10,000	Apr 8	Wages	–	–	4,000
Apr 7	Debtor	–	–	12,000	Apr 30	Bal-ance c/d	–	20,000	59,700
Total		**500**	**35,000**	**71,500**	**Total**		**200**	**35,000**	**71,500**
May 1	Bal-ance b/d	–	20,000	59,700					

Explanation

Cash receipts:

$$15{,}000 + 20{,}000 = 35{,}000$$

Cash payments:

$$5{,}000 + 10{,}000 = 15{,}000$$

Closing cash balance:

$$35{,}000 - 15{,}000 = \boxed{20{,}000}$$

Bank receipts:

$$40{,}000 + 9{,}500 + 10{,}000 + 12{,}000 = 71{,}500$$

Bank payments:

$$7{,}800 + 4{,}000 = 11{,}800$$

Closing bank balance:

$$71{,}500 - 11{,}800 = \boxed{59{,}700}$$

Discount allowed = KSh 500.

Discount received = KSh 200.

Important clarification: The KSh 500 discount allowed is recorded in the debit discount column because it is a reduction granted to the debtor. The KSh 200 discount received is recorded in the credit discount column because it is a reduction granted by the supplier.

4.0 Comparison of the Three Types of Cash Books

Feature	Single-column	Double-column	Three-column
Number of amount columns on each side	One	Two	Three
Records cash transactions	Yes	Yes	Yes
Records bank transactions separately	No	Yes	Yes
Records discounts allowed	No	No	Yes
Records discounts received	No	No	Yes
Suitable for	Mainly cash businesses	Businesses using cash and banks	Businesses using cash, banks and discounts
Complexity	Simple	Moderate	More detailed

4.1 Choosing the Appropriate Cash Book

A business should select a cash book depending on its financial activities.

1. **Single-column cash book:** Suitable for a small roadside shop that mainly receives and pays cash.
2. **Double-column cash book:** Suitable for a retail shop that receives cash and bank payments.
3. **Three-column cash book:** Suitable for a wholesale business that frequently deals with debtors, creditors and cash discounts.

5.0 Bank Reconciliation Statement

5.1 Meaning of a Bank Reconciliation Statement

A **bank reconciliation statement** is a statement prepared by a business to explain and reconcile the difference between the bank balance shown in its cash book and the balance shown in the bank statement on a particular date.

It helps the business establish why the two balances may differ and determine the correct bank position.

5.2 Meaning of a Bank Statement

A bank statement is a document issued by a bank showing the transactions that have taken place in a customer's bank account over a given period.

It normally shows:

- Money deposited into the account.
- Cheques paid.
- Bank transfers received.
- Bank charges.
- Standing orders.
- Direct debits.

- Interest credited.
- Bank overdrafts, where applicable.

5.3 Purpose of a Bank Reconciliation Statement in Financial Management

A bank reconciliation statement is prepared to:

1. Explain Differences Between Bank Balances

- The bank statement balance may differ from the bank balance in the cash book.
- A bank reconciliation statement explains the reasons for the differences.
- It helps the business establish the correct position of its bank account.

2. Identify Unpresented Cheques

- These are cheques issued by a business to suppliers or other parties but not yet presented to the bank for payment.
- The business records the payment in its cash book immediately after issuing the cheque.
- However, the bank records the payment only when the cheque is presented and processed.
- This creates a temporary difference between the two records.

Example: A business issues a cheque of KSh 8,000 to a supplier on 28th June. The supplier presents it to the bank on 3rd July. At the end of June, the cheque may not yet appear in the bank statement.

3. Identify Deposits in Transit

- These are amounts deposited by a business and recorded in its cash book but not yet reflected in the bank statement.
- They may occur when deposits are made near the end of a banking day or when bank processing takes time.
- They cause the cash book balance to differ from the bank statement balance.

Example: A shop deposits KSh 15,000 into its bank account on 30th September. The bank processes the deposit on 1st October.

4. Identify Bank Charges

- Banks may deduct charges for maintaining accounts or processing transactions.
- These charges may appear in the bank statement before the business records them in its cash book.
- Bank reconciliation helps identify such deductions.

Example: A bank deducts KSh 300 as monthly bank charges.

5. Identify Direct Deposits

- A customer may deposit money directly into the business's bank account.
- The bank may record the deposit before the business becomes aware of it.
- Reconciliation helps identify and record the amount in the cash book.

6. Detect Errors Made by the Business

- The business may make errors when recording amounts in the cash book.
- It may record incorrect amounts or omit transactions.
- Bank reconciliation helps identify such mistakes.

7. Detect Errors Made by the Bank

- A bank may occasionally make errors when processing transactions.
- It may debit or credit the wrong account or record an incorrect amount.

- Reconciliation helps the business identify and report such errors to the bank.

8. Improve Cash and Bank Control

- Bank reconciliation enables management to monitor money held in the bank.
- It helps identify unexplained transactions.
- It improves accountability and control of financial resources.

9. Detect Possible Fraud

- Unauthorised withdrawals or suspicious bank transactions may be identified during reconciliation.
- This enables management to investigate unusual transactions.
- It strengthens internal financial controls.

10. Support Accurate Financial Reporting

- Reconciliation helps establish an accurate bank balance.
- This improves the reliability of financial statements.
- It prevents incorrect bank balances from being reported.

6.0 Reasons Why the Cash Book Balance May Differ from the Bank Statement Balance

The cash book and bank statement are prepared by different parties:

- The cash book is maintained by the business.
- The bank statement is maintained by the bank.

They may therefore show different balances at a particular date.

6.1 Unpresented Cheques

- These are cheques issued and recorded by the business but not yet presented to the bank for payment.
- The cash book shows a reduction in the bank balance.
- The bank statement has not yet recorded the payment.
- Therefore, the bank statement balance may be higher than the cash book balance.

6.2 Uncredited Deposits

- These are deposits recorded in the cash book but not yet reflected in the bank statement.
- The cash book shows an increase in the bank balance.
- The bank statement does not yet show the deposit.
- Therefore, the bank statement balance may be lower than the cash book balance.

6.3 Bank Charges

- Banks deduct charges for services provided.
- These charges may appear in the bank statement before the business records them.
- The bank statement balance becomes lower than the cash book balance.

6.4 Direct Deposits by Customers

- Customers may deposit money directly into a business's bank account.
- The bank records the deposit, but the business may not immediately record it in its cash book.
- This makes the bank statement balance higher than the cash book balance.

6.5 Standing Orders

- A standing order is an instruction given by a bank customer authorising the bank to make regular payments to a specified recipient.
- Examples include regular payments for rent, loan repayments and insurance premiums.
- The bank may make the payment before the business records it in the cash book.

6.6 Direct Debits

- A direct debit is an arrangement allowing an organisation to collect payments from a customer's bank account with prior authorisation.
- Examples include payments for utilities, insurance and subscriptions.
- Such payments may appear in the bank statement before being recorded in the cash book.

6.7 Dishonoured Cheques

- A dishonoured cheque is a cheque that the bank refuses to pay.
- This may happen because of insufficient funds, incorrect details or other banking reasons.
- If a business had previously recorded the cheque as money received, the cash book must be adjusted when the cheque is dishonoured.

6.8 Interest Credited by the Bank

- A bank may credit interest to a business's account.
- The bank records the interest, but the business may not immediately enter it in the cash book.
- The bank statement balance becomes higher than the cash book balance.

6.9 Errors in the Cash Book

- The business may incorrectly record deposits or payments.
- It may enter an amount twice or omit a transaction.
- This causes differences between the two records.

6.10 Errors in the Bank Statement

- The bank may wrongly debit or credit an account.
- The error may affect the bank statement balance.
- The business should notify the bank and request correction.

7.0 Preparation of a Bank Reconciliation Statement

7.1 Meaning of Preparing a Bank Reconciliation Statement

Preparing a bank reconciliation statement refers to the process of comparing the cash book bank balance with the bank statement balance, identifying differences and adjusting the records where necessary to establish the reconciled balance.

7.2 Information Required

The following documents and information are required:

1. Cash book.
2. Bank statement.
3. Records of deposits made.

4. Cheque counterfoils or cheque records.
5. Payment vouchers.
6. Receipts.
7. Records of direct deposits and withdrawals.
8. Details of bank charges and other bank transactions.

7.3 Steps in Preparing a Bank Reconciliation Statement

Step 1: Obtain the cash book and bank statement

- Obtain the business's cash book and the bank statement for the same period.
- Confirm that both documents relate to the same bank account and date.

Step 2: Compare the two records

- Compare deposits recorded in the cash book with deposits shown in the bank statement.
- Compare payments recorded in the cash book with payments shown in the bank statement.

Step 3: Identify unrecorded transactions

Look for transactions appearing in the bank statement but missing from the cash book.

Examples include:

- Bank charges.
- Interest credited.
- Direct deposits.
- Standing orders.
- Direct debits.
- Dishonoured cheques.

Step 4: Update the cash book

- Record transactions appearing in the bank statement but not yet entered in the cash book.
- Correct errors made by the business.
- Calculate the adjusted cash book balance.

Step 5: Identify timing differences

Look for transactions already recorded in the cash book but not yet appearing in the bank statement.

Examples include:

- Unpresented cheques.
- Uncredited deposits.

Step 6: Prepare the bank reconciliation statement

- Start with the adjusted cash book bank balance.
- Add or deduct the outstanding items as appropriate.
- Calculate the reconciled bank statement balance.

Step 7: Verify the result

- Check the calculations.
- Confirm that the adjusted cash book balance reconciles with the bank statement after considering timing differences and any bank errors.

- Investigate any remaining unexplained difference.

8.0 Preparation of an Adjusted Cash Book

Before preparing a bank reconciliation statement, it is often necessary to update the cash book for transactions that appear in the bank statement but have not yet been recorded by the business.

8.1 Items That Require Adjustment in the Cash Book

The following are common items:

Transaction	Cash book treatment
Bank charges	Credit bank column
Interest charged by bank	Credit bank column
Direct deposit by customer	Debit bank column
Interest received	Debit bank column
Standing order paid	Credit bank column
Direct debit paid	Credit bank column
Dishonoured cheque previously recorded as received	Credit bank column
Error made by the business	Correct the affected entry

Important: Unpresented cheques and uncredited deposits are not normally entered as new items in the adjusted cash book because they have already been recorded there. They are dealt with in the bank reconciliation statement.

8.2 Worked Example: Adjusted Cash Book

The following information was extracted from the records of Tumaini Traders on 31st May 2027.

The cash book showed a favourable bank balance of KSh 45,000.

The bank statement revealed the following transactions that had not been recorded in the cash book:

- Bank charges KSh 500.
- Interest received KSh 300.
- A customer deposited KSh 8,000 directly into the bank.
- A standing order of KSh 2,000 was paid.

Required: Prepare the adjusted cash book bank column.

Solution

TUMAINI TRADERS

ADJUSTED CASH BOOK – BANK COLUMN

Debit side – Receipts	Amount (KSh)	Credit side – Payments	Amount (KSh)
Balance b/d	45,000	Bank charges	500
Interest received	300	Standing order	2,000
Direct deposit	8,000	Balance c/d	50,800
Total	**53,300**	**Total**	**53,300**
		Balance b/d	**50,800**

Adjusted bank balance:

$$45{,}000 + 300 + 8{,}000 - 500 - 2{,}000$$

$$= \boxed{50{,}800}$$

The adjusted cash book shows a favourable bank balance of KSh 50,800.

9.0 Preparation of a Bank Reconciliation Statement Using an Adjusted Cash Book

After preparing the adjusted cash book, the business identifies timing differences and any bank errors that remain.

9.1 Items Added When Starting with the Adjusted Cash Book Balance

The following items are normally added:

1. **Unpresented cheques:** The business has already deducted these payments in the cash book, but the bank has not yet deducted them.
2. **Bank errors that have wrongly reduced the bank statement balance:** These are added when reconciling the adjusted cash book balance to the bank statement.

9.2 Items Deducted When Starting with the Adjusted Cash Book Balance

The following items are normally deducted:

1. **Uncredited deposits:** The business has already added these receipts in the cash book, but the bank has not yet credited them.
2. **Bank errors that have wrongly increased the bank statement balance:** These are deducted when reconciling the adjusted cash book balance to the bank statement.

9.3 Worked Example: Bank Reconciliation Statement

The following information relates to Upendo Traders as at 30th June 2027.

The cash book showed a favourable bank balance of KSh 60,000.

The bank statement showed a favourable balance of KSh 48,000.

The following differences were discovered:

- Bank charges of KSh 1,000 had not been entered in the cash book.
- A customer deposited KSh 5,000 directly into the bank, but this was not recorded in the cash book.
- A standing order of KSh 2,000 had not been entered in the cash book.

- A cheque of KSh 10,000 issued to a supplier had not yet been presented to the bank.
- A deposit of KSh 4,000 made on 30th June had not yet been credited by the bank.

Required:

a) Prepare the adjusted cash book.

b) Prepare a bank reconciliation statement as at 30th June 2027.

Solution A: Adjusted Cash Book

UPENDO TRADERS

ADJUSTED CASH BOOK – BANK COLUMN

Debit side – Receipts	Amount (KSh)	Credit side – Payments	Amount (KSh)
Balance b/d	60,000	Bank charges	1,000
Direct deposit	5,000	Standing order	2,000
		Balance c/d	62,000
Total	**65,000**	**Total**	**65,000**
		Balance b/d	**62,000**

Adjusted cash book balance:

$$60{,}000 + 5{,}000 - 1{,}000 - 2{,}000$$

$$= \boxed{62{,}000}$$

Solution B: Bank Reconciliation Statement

UPENDO TRADERS

BANK RECONCILIATION STATEMENT AS AT 30TH JUNE 2027

Particulars	Amount (KSh)
Adjusted cash book balance	62,000
Add: Unpresented cheque	10,000
	72,000
Less: Uncredited deposit	4,000
Balance as per bank statement	**68,000**

The figures above illustrate the reconciliation procedure; they are not consistent with the stated bank statement balance of KSh 48,000. The correct bank statement balance implied by the adjusted cash book and outstanding items is KSh 68,000. This difference must be investigated rather than forced to agree.

Teaching point: A bank reconciliation statement must reconcile to the actual bank statement balance. If the figures do not agree, there may be another missing transaction, an error or an incomplete set of information.

10.0 Another Worked Example: Bank Reconciliation Statement

The following information was obtained from the books of Baraka Enterprises on 31st August 2027.

- Adjusted cash book balance: KSh 75,000 favourable.

- Unpresented cheques: KSh 12,000.
- Uncredited deposits: KSh 7,000.
- Bank statement error: The bank had wrongly debited KSh 3,000 to the business account.

Required: Prepare a bank reconciliation statement as at 31st August 2027.

Solution

BARAKA ENTERPRISES

BANK RECONCILIATION STATEMENT AS AT 31ST AUGUST 2027

Particulars	Amount (KSh)
Adjusted cash book balance	75,000
Add: Unpresented cheques	12,000
Add: Bank error (wrong debit)	3,000
	90,000
Less: Uncredited deposits	7,000
Balance as per bank statement	**83,000**

Explanation

- The unpresented cheques are added because they have already reduced the cash book balance but have not reduced the bank statement balance.
- The bank error is added because the bank wrongly deducted KSh 3,000 from the business account.
- The uncredited deposits are deducted because they have increased the cash book balance but have not yet increased the bank statement balance.

The reconciled bank statement balance is KSh 83,000.

11.0 Importance of Cash Books in Financial Management

Cash books play an important role in the effective management of financial resources.

11.1 Promotes Proper Cash Control

- Cash books provide records of all money received and paid.
- They help management monitor cash movements.
- They reduce the risk of losing track of business money.

11.2 Helps Prevent Misuse of Funds

- Cash books provide evidence of payments made.
- Management can compare payments with supporting documents.
- This makes it easier to identify unauthorised expenditure.

11.3 Facilitates Cash Budgeting

- Cash book records provide information about past receipts and payments.
- This helps management estimate future cash needs.
- It supports the preparation of realistic cash budgets.

11.4 Helps Maintain Adequate Cash Balances

- A business can monitor how much cash is available.
- Management can plan when to deposit or withdraw money.
- This helps prevent cash shortages.

11.5 Supports Bank Reconciliation

- The bank column provides information for comparison with bank statements.
- It helps identify unrecorded transactions and timing differences.
- It improves the accuracy of bank records.

11.6 Provides Evidence of Financial Transactions

- Cash book entries can be supported by receipts, invoices and payment vouchers.
- These documents provide evidence of financial activities.
- They assist during internal and external audits.

11.7 Assists in Preparing Financial Statements

- Cash and bank balances are required when preparing financial statements.
- Cash book records help establish these balances.
- They contribute to the accuracy of financial reports.

11.8 Helps Evaluate Business Performance

- The records help management examine cash receipts and expenditure.
- They provide information about the movement of money.
- They can help identify excessive spending and weak cash collection.

11.9 Supports Accountability

- Employees handling business money can be required to explain recorded receipts and payments.
- This promotes responsible management of financial resources.
- It improves transparency.

11.10 Facilitates Business Planning

- Cash book information helps management plan payments and purchases.
- It helps establish whether the business can meet its financial obligations.
- It supports decisions on expansion and investment.

12.0 Precautions When Maintaining Cash Books

For cash books to provide reliable financial information, the following practices should be observed:

1. Record every cash and bank transaction promptly.
2. Use receipts, invoices and payment vouchers as supporting documents.
3. Record transactions under the correct dates.
4. Use the correct amount columns.
5. Avoid recording the same transaction more than once.
6. Ensure that all entries have proper explanations.
7. Balance cash and bank columns regularly.
8. Keep cash book records secure.
9. Reconcile bank balances regularly.

10. Investigate unexplained differences immediately.
11. Ensure that payments are authorised.
12. Restrict access to cash and accounting records to authorised personnel.
13. Use accounting software carefully where applicable.
14. Keep records of electronic and mobile money transactions where they form part of business receipts and payments.

13.0 Differences Between a Cash Book and a Bank Statement

Cash book	Bank statement
Prepared by the business.	Prepared by the bank.
Records the business's cash and bank transactions.	Records transactions processed through the bank account.
Updated by the business.	Updated by the bank.
Records cash and bank transactions.	Mainly records transactions affecting the bank account.
Used to monitor cash and bank balances.	Used to monitor the bank's record of the customer's account.
Forms part of the business's accounting records.	Issued by the bank as a statement of account.

14.0 Differences Between a Cash Book and a Bank Reconciliation Statement

Cash book	Bank reconciliation statement
Records cash and bank transactions.	Explains differences between the cash book and bank statement balances.
Prepared regularly as transactions occur.	Prepared periodically, often at the end of a month.
Contains debit and credit entries.	Contains reconciling items and a calculated balance.
Used to record business receipts and payments.	Used to check and reconcile bank records.
Is a book of original entry and a ledger account.	Is a statement prepared for reconciliation purposes.

15.0 Competency-Based Learning Activities

Activity 1: Preparing a Single-Column Cash Book

Task: Learners are provided with a list of cash transactions from a small retail shop.

They should:

1. Identify cash receipts.
2. Identify cash payments.
3. Draw a single-column cash book.
4. Enter the transactions correctly.
5. Calculate the closing cash balance.

Expected learning outcome: The learner should be able to record cash receipts and payments in a single-column cash book.

Activity 2: Preparing a Double-Column Cash Book

Task: Learners work in groups to record transactions involving cash and bank payments.

They should:

1. Identify cash transactions.
2. Identify bank transactions.
3. Identify contra entries.
4. Prepare a double-column cash book.
5. Balance the cash and bank columns.

Expected learning outcome: The learner should be able to record cash and bank transactions accurately.

Activity 3: Preparing a Three-Column Cash Book

Task: Learners are given transactions involving cash, bank and discounts.

They should:

1. Identify cash receipts and payments.
2. Identify bank receipts and payments.
3. Identify discounts allowed.
4. Identify discounts received.
5. Prepare and balance the three-column cash book.

Expected learning outcome: The learner should be able to prepare a three-column cash book accurately.

Activity 4: Bank Reconciliation

Task: Learners are provided with a sample cash book and bank statement.

They should:

1. Compare the two records.
2. Identify unpresented cheques.
3. Identify uncredited deposits.
4. Identify bank charges and direct deposits.
5. Prepare an adjusted cash book where necessary.
6. Prepare a bank reconciliation statement.

Expected learning outcome: The learner should be able to reconcile the cash book bank balance with the bank statement balance.

Activity 5: Application in a Kenyan Business

Learners visit or interview a businessperson in their community, with permission.

They should investigate:

- The type of cash book used.
- How cash receipts are recorded.
- How payments are authorised.
- How the business records mobile and bank transactions.
- How often bank reconciliation is carried out.

- How the business prevents misuse of cash.

Expected learning outcome: The learner should appreciate the importance of maintaining accurate financial records in a business.

Revision Questions

Section A: Multiple-Choice Questions

Choose the correct answer from the alternatives provided.

1. A cash book is primarily used to record:

A. Credit purchases only.

B. Cash and bank transactions.

C. Stock movements only.

D. Credit sales only.

2. A cash book serves as:

A. A book of original entry only.

B. A ledger account only.

C. Both a book of original entry and a ledger account.

D. A financial statement only.

3. Which of the following is recorded on the debit side of a single-column cash book?

A. Rent paid. B. Wages paid.

C. Cash sales. D. Purchases paid in cash.

4. A single-column cash book records:

A. Cash and bank transactions separately.

B. Cash transactions only.

C. Cash and discounts only.

D. Bank transactions only.

5. Which of the following is a feature of a double-column cash book?

A. It has one amount column on each side.

B. It records cash, bank and discount transactions.

C. It has cash and bank amount columns on each side.

D. It records credit sales only.

6. A three-column cash book contains:

A. Cash, purchases and sales columns.

B. Cash, bank and discount columns.

C. Cash, creditors and debtors columns.

D. Sales, purchases and bank columns.

7. Discount allowed is recorded on the:

A. Credit discount column.

B. Debit discount column.

C. Debit bank column only.

D. Credit cash column.

8. Discount received is recorded on the:

A. Debit discount column.

B. Credit discount column.

C. Debit cash column.

D. Credit bank column only.

9. When cash is deposited into the bank, the transaction is recorded as:

A. Debit cash and credit bank.

B. Debit bank and credit cash.

C. Debit purchases and credit cash.

D. Debit bank and credit capital.

10. An entry involving the transfer of money between the cash and bank accounts is called:

A. A journal entry. B. A contra entry.

C. A closing entry. D. An adjustment entry.

11. Which of the following is recorded on the credit side of a cash book?

A. Cash received from customers.

B. Capital introduced in cash.

C. Rent paid in cash.

D. Cash sales.

12. A bank reconciliation statement is prepared to:

A. Calculate the total sales of a business.

B. Explain differences between the cash book and bank statement balances.

C. Determine the value of closing stock.

D. Calculate gross profit.

13. A cheque issued by a business but not yet presented to the bank is called:

A. An uncredited deposit.

B. A dishonoured cheque.

C. An unpresented cheque.

D. A direct debit.

14. A deposit recorded in the cash book but not yet shown in the bank statement is called:

A. An unpresented cheque.

B. An uncredited deposit.

C. A standing order.

D. A bank charge.

15. Bank charges are normally entered in the cash book on the:

A. Debit side of the bank column.

B. Credit side of the bank column.

C. Debit side of the cash column.

D. Credit side of the discount column.

16. Which of the following is an example of a direct deposit?

A. A business paying rent in cash.

B. A customer depositing money directly into the business's bank account.

C. A business withdrawing cash from its bank account.

D. A business paying wages by cheque.

17. A standing order is:

A. An instruction to make regular payments through a bank.

B. A cash receipt from customers.

C. A record of credit purchases.

D. A payment made using cash only.

18. Which of the following is a purpose of bank reconciliation?

A. To determine the selling price of goods.

B. To identify bank errors and unrecorded transactions.

C. To calculate depreciation.

D. To determine the amount of closing stock.

19. A business receives KSh 10,000 from a debtor and allows a discount of KSh 500. The amount received is:

A. KSh 9,000. B. KSh 9,500.

C. KSh 10,500. D. KSh 11,000.

20. Which of the following is an important benefit of maintaining a cash book?

A. It eliminates all business expenses.

B. It replaces the need for source documents.

C. It helps monitor cash and bank transactions.

D. It guarantees that a business makes a profit.

Section B: Short-Answer Questions

1. Define the term cash book. (2 marks)

2. State four purposes of a cash book in financial management. (4 marks)

3. Identify the three main types of cash books used in bookkeeping. (3 marks)

4. State four features of a single-column cash book. (4 marks)

5. Explain four features of a double-column cash book. (8 marks)

6. State five features of a three-column cash book. (5 marks)

7. Differentiate between discount allowed and discount received. (4 marks)

8. Explain the meaning of a contra entry and give two examples. (4 marks)

9. Define a bank reconciliation statement. (2 marks)

10. State five reasons why a cash book balance may differ from a bank statement balance. (5 marks)

11. Explain five purposes of preparing a bank reconciliation statement. (10 marks)

12. State five items that may require adjustment in the cash book during bank reconciliation. (5 marks)

13. Distinguish between unpresented cheques and uncredited deposits. (4 marks)

14. Explain five ways in which cash books promote effective financial management. (10 marks)

Section C: Structured and Practical Questions

15. Single-Column Cash Book

The following transactions took place in the business of Baraka Traders during January 2027.

Date	Transaction	Amount (KSh)
Jan 1	Owner introduced cash as capital	60,000
Jan 2	Cash sales	15,000
Jan 3	Paid rent	8,000
Jan 4	Bought goods for cash	12,000
Jan 5	Received cash from a debtor	10,000
Jan 6	Paid wages	5,000
Jan 7	Cash sales	20,000
Jan 8	Paid transport	4,000

Required:

a) Prepare a single-column cash book for January 2027. (10 marks)

b) Calculate the closing cash balance. (2 marks)

c) State two advantages of maintaining a single-column cash book. (2 marks)

16. Double-Column Cash Book

The following transactions took place in the business of Tumaini Enterprises during February 2027.

Date	Transaction	Amount (KSh)
Feb 1	Cash balance	25,000

Date	Transaction	Amount (KSh)
Feb 1	Bank balance	50,000
Feb 2	Cash sales	15,000
Feb 3	Paid rent in cash	5,000
Feb 4	Deposited cash into bank	10,000
Feb 5	Received a cheque from a customer and banked it	12,000
Feb 6	Paid a supplier by cheque	8,000
Feb 7	Withdrew cash from the bank for office use	5,000
Feb 8	Paid wages in cash	4,000

Required:

a) Prepare a double-column cash book. (12 marks)

b) Identify the contra entries. (2 marks)

c) Calculate the closing cash and bank balances. (4 marks)

17. Three-Column Cash Book

The following transactions took place in the business of Amani Traders during March 2027.

Date	Transaction	Amount (KSh)
Mar 1	Cash balance	20,000
Mar 1	Bank balance	40,000
Mar 2	Cash sales	15,000
Mar 3	Received KSh 9,500 from a debtor in full settlement of KSh 10,000	
Mar 4	Paid a creditor KSh 7,800 by cheque in full settlement of KSh 8,000	
Mar 5	Paid rent in cash	5,000
Mar 6	Deposited cash into bank	10,000
Mar 7	Paid wages by cheque	4,000

Required:

a) Prepare a three-column cash book. (12 marks)

b) Calculate the total discount allowed. (2 marks)

c) Calculate the total discount received. (2 marks)

d) Determine the closing cash and bank balances. (4 marks)

18. Bank Reconciliation

The following information relates to the business of Mwangaza Traders on 31st October 2027.

- Cash book bank balance: KSh 80,000 favourable.
- Bank charges not recorded in the cash book: KSh 500.

- Direct deposit by a customer not recorded in the cash book: KSh 6,000.
- Standing order not recorded in the cash book: KSh 2,000.
- Unpresented cheques: KSh 12,000.
- Uncredited deposits: KSh 8,000.

Required:

a) Prepare an adjusted cash book. (6 marks)

b) Calculate the adjusted cash book balance. (2 marks)

c) Prepare a bank reconciliation statement. (6 marks)

d) Explain why the cash book and bank statement balances may differ. (4 marks)

19. A business maintains a three-column cash book.

a) Explain the meaning of the three columns. (6 marks)

b) State four transactions recorded on the debit side. (4 marks)

c) State four transactions recorded on the credit side. (4 marks)

d) Explain the importance of contra entries. (4 marks)

20. Explain six ways in which a properly maintained cash book contributes to effective financial management in a business entity. (12 marks)

SUBSTRAND SUMMARY

GRADE 11 BUSINESS STUDIES

STRAND 3.0: BUSINESS AND MONEY MANAGEMENT

SUB-STRAND 3.1: SAVINGS AND INVESTMENTS

1.0 INTRODUCTION TO SAVINGS AND INVESTMENTS

Money is an important resource in business and personal life. Individuals, households, businesses and governments require money to meet their current needs and prepare for future financial obligations.

However, earning money alone does not guarantee financial stability. People must learn how to manage the money they receive by spending wisely, saving regularly and investing in productive activities.

Savings and investments are important aspects of financial management because they help individuals and businesses achieve financial security, expand economic activities and improve their standards of living.

In Kenya, people save and invest through various channels, including commercial banks, SACCOs, mobile financial services, government securities, shares, businesses, land, livestock and agricultural enterprises.

2.0 MEANING OF KEY TERMS

2.1 Meaning of savings

Savings refer to the portion of income that an individual, household or business does not spend immediately but sets aside for future use.

Savings arise when income exceeds current expenditure.

In simple terms, savings are money kept aside instead of being spent immediately.

Examples:

1. A learner receives KSh 500 as pocket money and sets aside KSh 100 for future use.
2. A teacher receives a monthly salary of KSh 45,000 and saves KSh 5,000.
3. A shopkeeper earns KSh 20,000 in a week and sets aside KSh 3,000 for future business needs.
4. A farmer sells maize and keeps part of the proceeds to purchase seeds and fertiliser for the next planting season.

Formula for calculating savings:

Savings=Total Income−Total ExpenditureSavings=Total Income−Total Expenditure

Example:

A businessperson receives KSh 60,000 in one month and spends KSh 42,000.

Savings:

60,000−42,000=KSh 18,000

The businessperson saves KSh 18,000.

2.2 Meaning of investment

Investment refers to the process of committing money, time or other resources to an activity, asset or financial instrument with the expectation of generating future income, profit or an increase in value.

Investment involves sacrificing some resources today to obtain financial or economic benefits in the future.

Examples of investments in Kenya:

1. Purchasing shares in a listed company.
2. Purchasing government Treasury bills or Treasury bonds.
3. Investing money in a SACCO.
4. Purchasing land for future development.
5. Starting a retail shop.
6. Establishing a poultry farming enterprise.
7. Purchasing machinery for a manufacturing business.
8. Investing in rental houses.
9. Establishing a dairy farming project.
10. Investing in a money market fund.

2.3 Meaning of financial management

Financial management refers to the process of planning, organising, directing and controlling the acquisition and use of financial resources to achieve specific financial objectives.

It involves making decisions concerning:

- How money is earned.
- How money is spent.
- How much money should be saved.
- Where money should be invested.
- How financial risks should be controlled.
- How financial records should be maintained.

Example:

A school managing its finances must prepare a budget, collect revenue, pay employees, purchase learning materials, save for future projects and account for all expenditure.

2.4 Meaning of income

Income refers to money received by an individual, household or business from various economic activities over a given period.

Examples:

- Salaries and wages.
- Business profits.

- Rental income.
- Agricultural proceeds.
- Professional fees.
- Dividends.
- Interest earned on savings.
- Income from investments.

2.5 Meaning of expenditure

Expenditure refers to money spent by an individual, household or business to acquire goods and services or meet financial obligations.

Examples include:

- Food.
- Transport.
- Rent.
- School fees.
- Electricity and water bills.
- Business stock.
- Employees' salaries.
- Medical expenses.

2.6 Difference between savings and investments

Savings	**Investments**
Involve setting aside unspent income.	Involve committing resources to assets or activities to generate future returns.
Usually focus on preserving money and providing access to funds.	Usually focus on growing wealth or generating income.
May involve relatively low financial risk depending on the method used.	May involve varying levels of financial risk.
Often suitable for short-term financial goals.	Often suitable for medium- and long-term goals.
Examples include bank deposits and savings accounts.	Examples include shares, bonds, property and businesses.

Important: Savings can provide money that is later used to make investments. Savings and investments therefore complement one another in financial management.

3.0 IMPORTANCE OF SAVINGS

Saving money is an important financial habit that enables individuals, households and businesses to prepare for future needs.

The following are the major reasons why saving is important.

3.1 Provides financial security

- Savings provide money that can be used when unexpected financial difficulties arise.
- They reduce dependence on borrowing during emergencies.
- They help individuals and families maintain their normal lives when income is interrupted.

Example: A household with emergency savings can meet food and transport expenses when the breadwinner temporarily loses employment.

3.2 Helps individuals meet future financial needs

- People save to meet expenses that may arise in the future.
- Savings enable individuals to prepare for planned financial obligations.
- They reduce the pressure of meeting large expenses using borrowed money.

Examples:

- Saving for school fees.
- Saving for university education.
- Saving for purchasing a vehicle.
- Saving for building a house.
- Saving for medical expenses.

3.3 Promotes investment and business expansion

- Savings provide capital that can be used to start or expand businesses.
- They enable entrepreneurs to purchase equipment, machinery and stock.
- They reduce overdependence on loans from financial institutions.

Example: A shopkeeper may save profits for several months to open another branch of the business.

3.4 Reduces dependence on borrowing

- People who save regularly can finance some of their needs using their own money.
- Savings reduce the need to obtain loans for every financial requirement.
- They help avoid excessive interest payments and debt accumulation.

3.5 Encourages financial discipline

- Saving requires individuals to control unnecessary expenditure.
- It encourages people to distinguish between needs and wants.
- It promotes responsible use of available financial resources.
- It develops a habit of planning before spending.

3.6 Helps individuals achieve financial goals

- Savings enable people to work towards specific financial targets.
- They provide a systematic way of accumulating money over time.
- Regular savings make large financial goals easier to achieve.

Example: A person who saves KSh 3,000 every month accumulates KSh 36,000 in one year, excluding interest.

3.7 Provides retirement security

- Savings help individuals prepare for life after retirement.
- They provide financial resources when regular employment income stops.
- They can supplement pension benefits and other retirement income.

3.8 Promotes economic development

- Savings deposited in financial institutions provide funds that can be channelled into lending and investment activities.
- They support business expansion and productive economic activities.
- They contribute to capital formation in the economy.

3.9 Helps individuals take advantage of investment opportunities

- People with savings can respond quickly when suitable investment opportunities arise.
- Savings can provide initial capital for purchasing assets or starting enterprises.
- They reduce delays caused by searching for external financing.

3.10 Helps manage seasonal income

- Some economic activities generate income at particular times of the year.
- Savings help individuals manage their finances during periods when income is low.
- This is particularly important for farmers, seasonal workers and small-scale traders.

Example: A maize farmer can save part of the income earned after harvesting to meet household and farm expenses during the next planting season.

3.11 Promotes independence and self-reliance

- Savings enable individuals to meet some of their financial needs without depending on relatives or friends.
- They improve confidence in handling financial challenges.
- They promote personal responsibility.

3.12 Protects against income uncertainty

- Some people experience irregular income due to the nature of their employment or businesses.
- Savings help them continue meeting essential expenses during periods of low income.

- They reduce the effects of temporary business losses.

3.13 Improves access to credit

- A consistent savings history may help an individual establish a financial relationship with a bank or SACCO.
- Some financial institutions consider savings behaviour when assessing loan applications.
- Savings may also be used as security where the institution's rules allow.

3.14 Helps individuals cope with inflation

- Savings provide funds for future purchases.
- However, money kept without earning a reasonable return may lose purchasing power when prices increase.
- Choosing appropriate savings products can help reduce this effect.

4.0 ROLE OF INVESTMENTS IN FINANCIAL MANAGEMENT

Investment is an important component of financial management because it enables individuals and businesses to use available financial resources productively.

Rather than allowing all available money to remain idle, individuals and businesses can invest some of it in activities and assets that may generate future returns.

4.1 Wealth creation

- Investments enable individuals to accumulate assets over time.
- Some assets increase in value, creating capital gains.
- Investment returns can be reinvested to support further wealth creation.

Example: Purchasing land in an area experiencing economic growth may result in an increase in its market value over time. However, appreciation is not guaranteed.

4.2 Generation of additional income

- Investments can provide income in addition to regular earnings.
- Income may be generated through interest, dividends, rent or business profits.
- Additional income improves financial stability.

Examples:

- Rental income from residential houses.
- Dividends from company shares.
- Interest from government securities.
- Profits from a retail business.

4.3 Preservation of wealth

- Certain investments help individuals preserve the value of their financial resources.
- They provide opportunities to hold wealth in assets other than cash.
- Some investments may offer protection against inflation, depending on their performance.

4.4 Business growth and expansion

- Businesses invest in machinery, equipment, technology and additional branches.
- Such investments may increase production capacity.
- They can improve efficiency and profitability.

Example: A bakery purchases modern baking equipment to increase daily production.

4.5 Provision for future financial needs

- Long-term investments help individuals prepare for future obligations.
- They may support retirement, education and housing goals.
- They encourage long-term financial planning.

4.6 Employment creation

- Investments in productive activities create employment opportunities.
- New businesses require workers to operate and manage their activities.
- Expansion of existing businesses may also increase demand for labour.

Example: Establishing a dairy processing plant creates employment for machine operators, drivers, accountants and salespersons.

4.7 Promotion of economic development

- Investments increase productive capacity in an economy.
- They support infrastructure development and industrialisation.
- They encourage the production of goods and services.
- They contribute to national income and economic growth.

4.8 Diversification of income sources

- Investments enable individuals to earn money from different activities.
- They reduce overdependence on one source of income.
- They can reduce the financial impact of poor performance in one economic activity.

Example: A teacher may earn a salary, operate a poultry project and receive rental income.

4.9 Improvement of living standards

- Profitable investments can increase disposable income.
- Additional income can support better housing, healthcare and education.
- Investments may improve the long-term financial position of households.

4.10 Promotion of innovation and technology

- Investments provide capital for research, development and acquisition of modern technology.
- They encourage businesses to introduce improved products and production methods.
- They improve competitiveness in the market.

5.0 METHODS OF SAVINGS

There are several methods through which individuals, households and businesses can save money.

The choice of a savings method depends on accessibility, security, financial objectives, costs, convenience and the expected return.

5.1 Saving through commercial banks



Commercial banks are financial institutions that accept deposits from customers and provide various financial services.

Individuals can open savings accounts and deposit money regularly.

How it works:

1. An individual opens a savings account with a bank.
2. The individual deposits money into the account.
3. The bank records the deposits.
4. The money can earn interest depending on the account terms.
5. The customer can withdraw money subject to the account conditions.

Advantages:

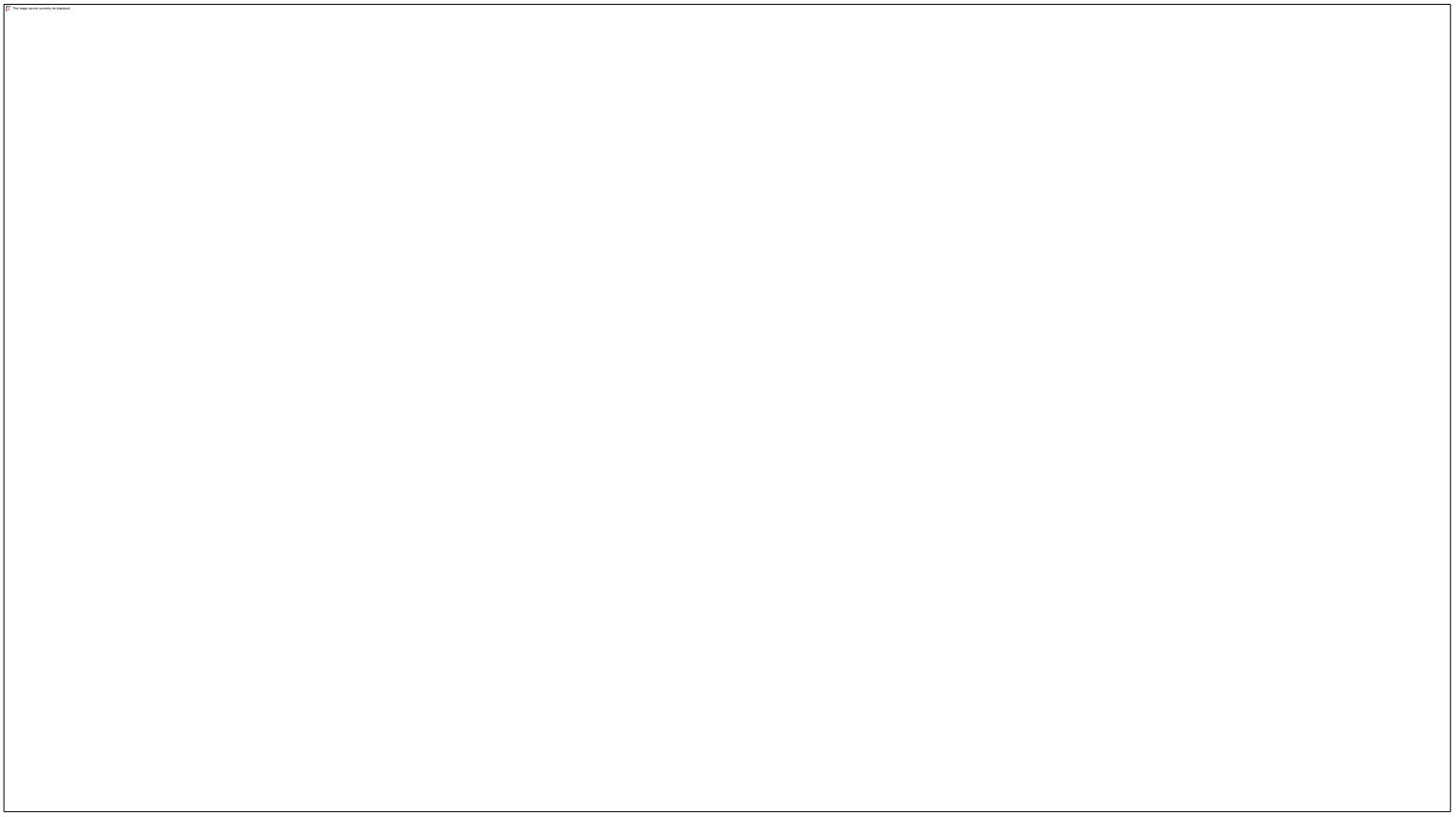
- Provides a formal and organised way of saving.
- Offers security compared with keeping large amounts of cash at home.
- Enables customers to monitor their balances.

- Some accounts earn interest.
- Supports electronic banking services.
- Provides financial records showing savings transactions.

Limitations:

- Some accounts have minimum balance requirements.
- Certain transactions attract charges.
- Interest earned may be low.
- Inflation may reduce the purchasing power of savings.

5.2 Saving through SACCOs



A Savings and Credit Cooperative Society (SACCO) is a member-owned financial cooperative that encourages members to save and may provide credit to them according to its rules.

Members contribute savings regularly and may qualify for loans based on their savings, income and the SACCO's lending policies.

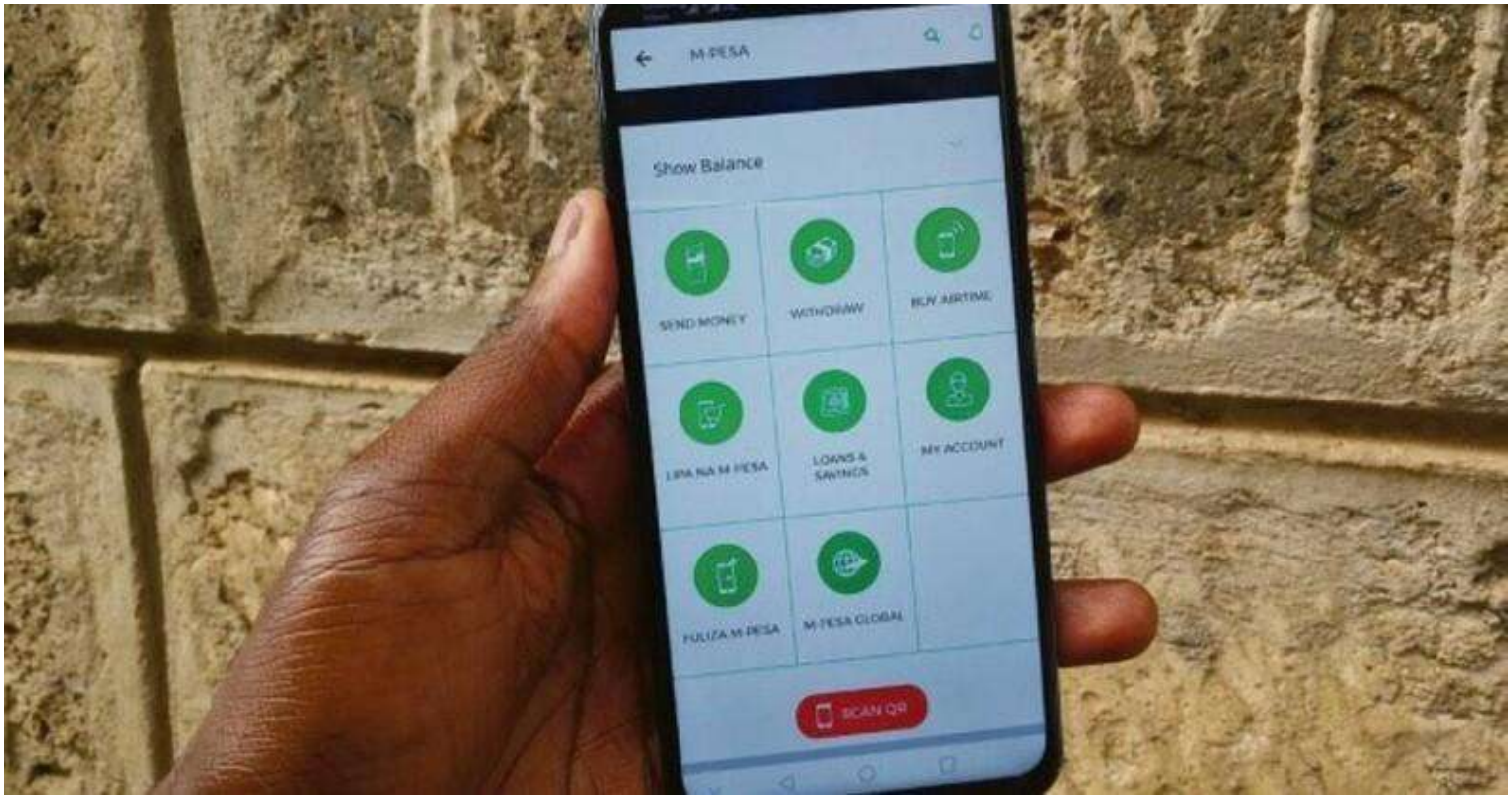
Advantages:

- Encourages regular saving among members.
- Promotes a culture of financial discipline.
- May provide access to affordable credit.
- Encourages cooperation and mutual support.
- Some SACCOs distribute dividends or interest on eligible member funds.

Limitations:

- Some SACCOs have withdrawal restrictions.
- Membership may require registration fees and regular contributions.
- Poor management can expose members to financial losses.
- Loan repayment obligations may create financial pressure.

5.3 Saving through mobile financial services



Mobile financial services enable individuals to save and manage money using mobile phones.

In Kenya, mobile financial services have increased access to financial products, especially among people who may not have easy access to physical bank branches.

Examples:

- M-PESA-linked savings products.
- Mobile banking applications.
- Bank-linked mobile savings accounts.
- Digital savings platforms offered by regulated providers.

Advantages:

- Convenient and accessible.
- Enables saving from different locations.
- Reduces the need to visit banking halls.
- Makes it easier to monitor transactions.
- Encourages frequent saving, including small amounts.

Limitations:

- Requires access to a suitable mobile device and network.
- Fraudsters may target unsuspecting users.
- Transaction charges may apply.
- Loss of a phone or disclosure of security details may expose accounts to unauthorised access.

5.4 Saving through fixed deposit accounts

A fixed deposit account is a bank deposit in which money is placed for an agreed period at an agreed interest rate or under specified interest terms.

How it works:

1. A customer deposits a specified amount with a bank.
2. The customer agrees on a deposit period.
3. The bank applies the agreed interest terms.
4. The money is withdrawn at maturity or according to the account conditions.

Advantages:

- Encourages long-term saving.
- May offer higher interest than ordinary savings accounts.
- Provides predictable returns where the interest rate is fixed.
- Discourages unnecessary withdrawals.

Limitations:

- Early withdrawal may attract penalties or loss of interest.
- Money may not be readily accessible during the agreed period.
- Returns may be affected by inflation.

5.5 Saving through money market funds

A money market fund is a collective investment scheme that pools money from many investors and invests mainly in short-term money market instruments.

Although money market funds are commonly used for short-term cash management, they are investments rather than ordinary bank savings accounts.

Characteristics:

- Investors contribute money to a pooled fund.
- The fund is managed by a professional fund manager.
- Investments may include short-term government securities, bank deposits and other permitted money market instruments.
- Returns fluctuate according to the performance of the underlying investments and applicable costs.

Advantages:

- Provides access to professionally managed investments.
- May offer competitive returns compared with ordinary savings accounts.
- Can provide relatively convenient access to funds, subject to the fund's terms.
- Enables individuals to participate with relatively small amounts.

Limitations:

- Returns are not guaranteed.
- Fund management and other charges may apply.
- Withdrawal processing may take time.
- Investors face investment and liquidity risks.

5.6 Saving through informal savings groups

These are groups formed by individuals who agree to contribute money regularly for collective or individual financial purposes.

Examples include:

- Chamas.
- Merry-go-round groups.
- Table banking groups.
- Village savings groups.
- Community self-help groups.



Advantages:

- Encourages collective saving.
- Promotes social cooperation.
- Provides access to pooled financial resources.
- May support small business activities.
- Can be accessible to people with limited access to formal financial institutions.

Limitations:

- Mismanagement of group funds may occur.
- Members may fail to make agreed contributions.
- Disagreements may affect group operations.
- Informal groups may have weak accountability systems.

5.7 Saving through a pension scheme

A pension scheme is an arrangement through which money is contributed and invested to provide income or benefits to members during retirement or other qualifying circumstances.

In Kenya, individuals may participate in occupational pension schemes, individual pension arrangements and other approved retirement benefit arrangements.

Advantages:

- Encourages long-term saving.
- Helps prepare for retirement.
- Contributions may benefit from applicable tax incentives.
- Some schemes involve employer contributions.
- Professional fund management may support long-term accumulation.

Limitations:

- Access to funds is restricted by applicable rules.
- Investment returns may fluctuate.
- Inflation may affect the future purchasing power of retirement benefits.

5.8 Saving through physical cash at home

This involves keeping money in a safe place at home for future use.

Advantages:

- Money is easily accessible.
- No formal account opening is required.
- It may be convenient for small emergency amounts.

Limitations:

- Money can be stolen.
- It may be destroyed by fire, floods or other disasters.
- It does not normally earn interest.
- It may encourage unnecessary spending.
- Inflation reduces its purchasing power over time.

5.9 Saving through purchasing valuable assets

Some individuals set aside part of their income to purchase assets that may retain or increase their value.

Examples include:

- Gold.
- Land.
- Livestock.
- Certain durable assets.

This method is better understood as asset accumulation or investment rather than conventional savings.

Limitations:

- Assets may be difficult to convert into cash quickly.
- Their market values may decline.
- Storage, maintenance and security costs may arise.
- Land and livestock require proper management.

6.0 METHODS OF INVESTMENT

Investments can be classified into financial investments and real or productive asset investments.

6.1 Investment in shares



Shares represent units of ownership in a company.

When an individual purchases shares in a company, the individual becomes a shareholder and may benefit from the company's financial performance.

In Kenya, shares of listed companies can be traded through the Nairobi Securities Exchange (NSE), subject to applicable requirements.

Ways of earning from shares:

1. **Dividends:** A company may distribute part of its profits to shareholders.
2. **Capital gains:** An investor may sell shares at a higher price than the purchase price.

Advantages:

- Provides an opportunity to earn dividends.
- Shares may increase in value over time.
- Allows individuals to own part of established companies.
- Provides an opportunity to participate in the capital market.

Limitations:

- Share prices can rise or fall.
- Dividends are not guaranteed.
- Investors may lose part or all of their invested capital.
- Requires knowledge of company performance and market conditions.

6.2 Investment in government securities

Government securities are financial instruments issued by the government to raise money from investors.

In Kenya, government securities include Treasury bills and Treasury bonds.



(a) Treasury bills

Treasury bills are short-term government securities issued at a discount and redeemed at face value on maturity.

Characteristics:

- They have relatively short maturity periods.
- They are issued by the government.
- They are generally considered to have relatively low credit risk in local currency compared with many private investments.
- Investors earn the difference between the purchase price and the amount received at maturity.

(b) Treasury bonds

Treasury bonds are medium- or long-term government debt instruments.

Characteristics:

- They are issued to raise government funds.
- They normally pay interest according to specified terms.
- They have stated maturity dates.
- They may be tradable in the secondary market, subject to market conditions.

Advantages of government securities:

- They provide an opportunity to earn investment income.
- They support government financing.
- They offer different investment periods.
- They can help investors diversify their financial portfolios.

Limitations:

- Interest rate changes may affect the market value of existing bonds.
- Inflation may reduce real returns.
- Selling before maturity may result in a gain or loss.
- Investors face sovereign and other market-related risks.

6.3 Investment in real estate



Real estate investment involves purchasing, developing or improving land and buildings to generate income or benefit from possible increases in value.

Examples:

- Residential rental houses.
- Commercial buildings.
- Shops.
- Warehouses.
- Agricultural land.

- Rental apartments.

Sources of returns:

1. Rental income.
2. Capital appreciation.
3. Income from property development and resale.

Advantages:

- May generate regular rental income.
- Property may appreciate in value.
- Can provide long-term wealth accumulation.
- Land and buildings may serve as collateral where acceptable to lenders.

Limitations:

- Requires substantial initial capital.
- Property may remain vacant.
- Maintenance costs can be high.
- Land ownership disputes and fraudulent transactions may occur.
- Property may be difficult to sell quickly.

6.4 Investment in business enterprises



This involves committing money to establish or expand a business with the intention of generating profits.

Examples:

- Retail shops.
- Wholesale businesses.
- Restaurants.
- Transport businesses.
- Salons and barber shops.

- Cyber cafés.
- Manufacturing enterprises.
- Digital service businesses.

Advantages:

- May generate business profits.
- Creates employment opportunities.
- Encourages innovation and entrepreneurship.
- Provides opportunities for expansion.
- May create a long-term source of income.

Limitations:

- Businesses may make losses.
- Competition may reduce profits.
- Some enterprises require substantial capital.
- Poor management may lead to business failure.

6.5 Investment in agriculture



Agricultural investment involves committing resources to crop production, livestock keeping, fisheries, forestry or agricultural processing.

Examples:

- Dairy farming.
- Poultry keeping.
- Greenhouse farming.
- Maize production.
- Horticultural farming.

- Fish farming.
- Bee keeping.
- Agro-processing.

Advantages:

- Provides income through the sale of agricultural products.
- Supports food security.
- Creates employment.
- Supplies raw materials to industries.
- Can contribute to rural development.

Limitations:

- Production may be affected by drought and floods.
- Pests and diseases may cause losses.
- Market prices may fluctuate.
- Production costs may be high.
- Some agricultural products are perishable.

6.6 Investment in SACCOs

Individuals may invest through eligible SACCO products, including member shares and other permitted investment arrangements.

Benefits:

- Encourages collective financial participation.
- May provide dividends or other returns according to performance and applicable rules.
- Supports access to member financial services.
- Promotes financial cooperation.

Risks:

- Poor governance.
- Liquidity challenges.
- Loan defaults within the SACCO.
- Inadequate financial controls.

6.7 Investment in unit trusts and collective investment schemes

A unit trust is a form of collective investment in which money from different investors is pooled and invested in a portfolio of assets managed by a professional fund manager.

Investors purchase units representing their proportionate interest in the fund.

Examples of collective investment fund categories:

- Money market funds.

- Equity funds.
- Bond funds.
- Balanced funds.
- Specialised funds.

Advantages:

- Professional management.
- Diversification of investments.
- Access to different financial markets.
- Some funds allow individuals to start investing with relatively small amounts.

Limitations:

- Returns are not guaranteed.
- Management fees and other costs may apply.
- The value of units may fluctuate.
- Investors depend on the competence and integrity of fund managers.

6.8 Investment in education and skills development

This involves spending money on education, professional training and skills development with the expectation of improving future earning capacity.

Examples:

- Paying university fees.
- Undertaking professional courses.
- Learning computer programming.
- Acquiring technical and vocational skills.
- Attending entrepreneurship training.

Advantages:

- Improves knowledge and competence.
- Increases employment opportunities.
- May improve earning potential.
- Supports innovation and productivity.
- Enhances career development.

6.9 Investment in livestock



This involves purchasing and keeping animals for income generation and future economic benefits.

Examples:

- Dairy cattle.
- Goats.
- Sheep.
- Poultry.
- Pigs.
- Rabbits.

Sources of returns:

- Sale of milk.
- Sale of eggs.
- Sale of meat.
- Sale of breeding animals.
- Sale of hides and skins.
- Sale of manure.

Limitations:

- Animals may die from diseases.
- Feed costs may be high.

- Theft may occur.
- Market prices may fluctuate.
- Livestock requires proper care and management.

6.10 Investment in digital and technology-based enterprises

This involves committing resources to businesses that use digital technology to provide goods and services.

Examples:

- E-commerce.
- Software development.
- Digital marketing.
- Online education platforms.
- Graphic design businesses.
- Digital payment services.

Advantages:

- Can reach customers beyond geographical boundaries.
- May reduce certain operating costs.
- Encourages innovation.
- Provides opportunities for employment and self-employment.

Limitations:

- Cybersecurity threats.
- Changing technology.
- Strong competition.
- Internet and equipment costs.
- Digital fraud and data protection risks.

7.0 EFFECTIVE FINANCIAL MANAGEMENT

7.1 Meaning of effective financial management

Effective financial management refers to the proper planning, allocation, utilisation and control of financial resources to achieve personal, household or business objectives.

It involves making informed decisions about earning, spending, saving, borrowing and investing money.

Effective financial management ensures that available resources are used efficiently without unnecessary wastage.

7.2 Principles of effective financial management

1. Financial planning

- Financial planning involves identifying financial needs and setting clear objectives.
- It helps individuals determine how much money they need and how they will obtain it.
- It provides direction for spending, saving and investing.
- It enables people to prepare for future financial obligations.

Example: A learner plans to save KSh 200 every month towards purchasing a laptop.

2. Budgeting

- Budgeting involves preparing an estimate of expected income and expenditure over a given period.
- It helps individuals control spending.
- It ensures that essential needs are prioritised.
- It helps identify areas where expenditure can be reduced.

Example of a monthly personal budget:

Item	Amount (KSh)
Monthly income	30,000
Food	7,000
Transport	3,000
Rent	6,000
Utilities	2,000
Education	2,000
Savings	5,000
Other expenses	5,000
Total expenditure and savings	30,000

3. Setting financial goals

Financial goals are specific targets that individuals or businesses intend to achieve using their financial resources.

Examples:

- Saving KSh 20,000 within six months.
- Purchasing a motor vehicle within three years.

- Starting a poultry business.
- Building a residential house.
- Preparing for retirement.

Financial goals should be SMART:

- **Specific:** Clearly state what is to be achieved.
- **Measurable:** The goal should have a measurable target.
- **Achievable:** It should be realistic.
- **Relevant:** It should support the individual's needs.
- **Time-bound:** It should have a deadline.

4. Prioritising needs over wants

- Needs are essential goods and services required for survival and normal living.
- Wants are goods and services that provide additional satisfaction but may not be essential.
- Effective financial management requires individuals to meet important needs before spending money on non-essential wants.

Examples of needs:

- Food.
- Shelter.
- Clothing.
- Healthcare.
- Education.

Examples of wants:

- Expensive entertainment.
- Luxury accessories.
- Unnecessary electronic gadgets.
- Frequent recreational shopping.

5. Regular saving

- Individuals should develop a habit of saving consistently.
- Savings should be included in the monthly budget.
- Saving regularly helps accumulate money gradually.
- It reduces the temptation to spend all available income.

6. Wise investment decisions

- Individuals should investigate investment opportunities before committing money.
- They should consider expected returns, risks, costs and investment periods.

- They should select investments that match their financial goals.
- They should avoid opportunities that promise unrealistic returns.

7. Maintaining financial records

- Financial records show how money is received and spent.
- They help individuals monitor financial progress.
- They support accountability and transparency.
- They help identify unnecessary expenditure.

Examples of financial records include:

- Cashbooks.
- Receipts.
- Bank statements.
- Payment records.
- Budgets.
- Savings statements.
- Investment statements.

8. Controlling debt

- Individuals should borrow only when there is a genuine financial need.
- They should understand loan interest rates and repayment conditions.
- They should avoid borrowing beyond their repayment ability.
- They should repay loans according to agreed schedules.

9. Diversification of investments

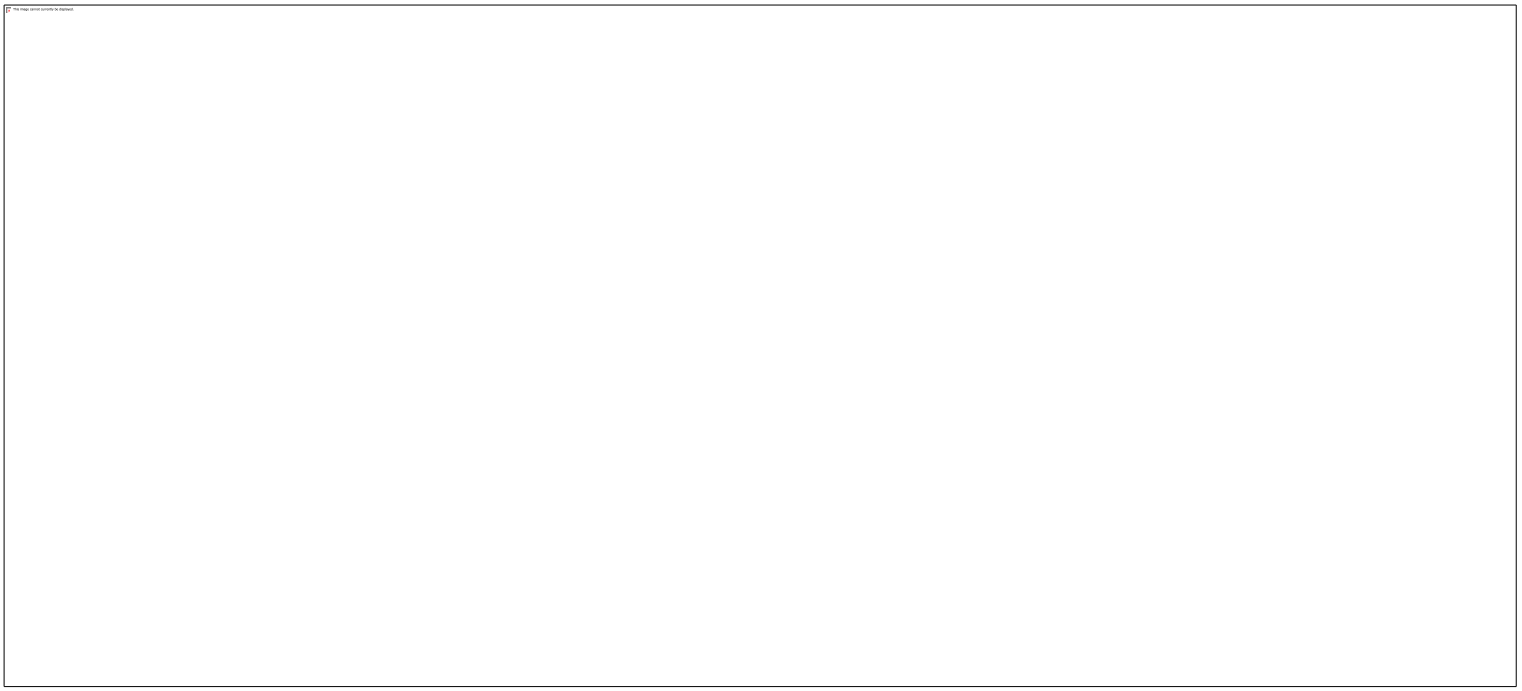
- Diversification involves spreading investments across different assets or economic activities.
- It reduces overdependence on a single investment.
- It can reduce the impact of poor performance in one investment.

Example: An individual may invest in government bonds, a SACCO and an agricultural enterprise instead of putting all available funds into one business.

10. Reviewing financial performance

- Individuals should regularly evaluate their financial progress.
- They should compare actual expenditure with planned expenditure.
- They should assess whether savings targets are being achieved.
- They should adjust financial plans when circumstances change.

7.3 Steps in effective financial management



1. Identify financial needs.
2. Determine available income.
3. Set realistic financial goals.
4. Prepare a budget.
5. Prioritise essential expenditure.
6. Set aside money for savings.
7. Identify suitable investment opportunities.
8. Evaluate financial risks.
9. Implement the financial plan.
10. Monitor and review financial performance.

8.0 FACTORS INFLUENCING SAVINGS AND INVESTMENT DECISIONS IN AN ECONOMY

Individuals and businesses do not make savings and investment decisions in isolation. Their decisions are influenced by personal circumstances, economic conditions, government policies and the availability of financial services.

The following factors influence savings and investment decisions in Kenya.

8.1 Level of income

- Individuals with higher disposable incomes may have more money available for savings and investments.
- People with low incomes may spend most of their earnings on basic needs.
- Irregular income may make it difficult to save consistently.

Example: A salaried employee earning KSh 60,000 may be able to save more than a casual worker whose income varies from week to week.

8.2 Interest rates

- Interest rates determine the cost of borrowing and the return earned on certain savings and investment products.
- Higher savings interest rates may encourage individuals to save more.
- High borrowing rates may discourage businesses from taking loans to finance investments.
- Low interest rates may encourage borrowing for productive investment.

8.3 Inflation

Inflation refers to a sustained increase in the general price level of goods and services over time.

- High inflation reduces the purchasing power of money.
- It may discourage people from keeping large amounts of money in accounts earning very low interest.
- It may encourage investment in assets that investors believe can preserve value.
- It increases the cost of operating businesses.

Example: If the price of a 2 kg packet of flour increases from KSh 150 to KSh 180, consumers require more money to purchase the same quantity.

8.4 Level of financial literacy

- Financial literacy refers to the knowledge and skills required to make informed financial decisions.
- People with good financial knowledge are more likely to understand savings products and investment opportunities.
- Financial literacy helps individuals identify fraudulent investment schemes.
- Lack of financial knowledge may lead to poor investment decisions.

8.5 Availability of financial institutions

- The presence of banks, SACCOs and other regulated financial institutions influences saving behaviour.
- Accessible financial services encourage individuals to save formally.
- Limited access to financial institutions may discourage formal saving and investment.
- Digital financial services can improve access in remote areas.

8.6 Government policies and regulations

- Government policies influence the financial environment in which people save and invest.
- Tax policies may affect the returns earned from different investments.
- Regulations influence the operations of banks, SACCOs, fund managers and other financial institutions.
- Stable and predictable policies may encourage investment.

8.7 Political stability

- Political stability creates a more predictable business environment.
- Political uncertainty may discourage long-term investment.
- Political disturbances can disrupt business operations and reduce investor confidence.
- Investors generally prefer environments where property rights and the rule of law are protected.

8.8 Employment opportunities

- People with stable employment may have more predictable income for saving.
- Unemployment reduces the ability of households to save.
- Secure employment may encourage long-term financial planning.
- Self-employed individuals may save according to the performance of their businesses.

8.9 Family responsibilities

- Individuals with large family responsibilities may spend a greater proportion of income on household needs.
- School fees, medical expenses and housing costs may reduce the amount available for saving.
- People with fewer financial responsibilities may have greater capacity to save.

8.10 Personal financial goals

- Individuals save and invest according to the objectives they want to achieve.
- Short-term goals may encourage saving in accessible accounts.
- Long-term goals may encourage investment in pension schemes, property and other long-term assets.

8.11 Risk tolerance

Risk tolerance refers to the level of financial uncertainty or potential loss an individual is willing and able to accept when making investment decisions.

- Risk-averse individuals prefer investments with relatively predictable returns and lower risk.
- Individuals with higher risk tolerance may consider investments with greater potential returns and greater uncertainty.
- Age, income, financial obligations and investment experience may influence risk tolerance.

8.12 Expected returns

- Investors consider the income or profit they expect to receive.
- Higher expected returns may attract investors.
- However, expected returns should be assessed alongside the risks involved.
- Unrealistically high promised returns may indicate fraudulent schemes.

8.13 Access to technology

- Digital platforms make it easier to access some financial services.
- Mobile banking enables individuals to deposit and transfer money.
- Online investment platforms can improve access to financial markets.
- Poor internet access and limited digital skills may restrict participation.

8.14 Business opportunities

- The availability of profitable business opportunities encourages investment.
- Growing markets may attract entrepreneurs.
- Limited market demand may discourage business expansion.
- Access to raw materials, transport and labour influences investment decisions.

8.15 Cultural and social influences

- Some communities encourage collective saving through groups and cooperatives.
- Family traditions may influence spending and saving habits.
- Peer pressure may encourage unnecessary expenditure.
- Social expectations may influence investment choices.

8.16 Access to credit

- Availability of affordable credit may encourage business expansion.
- High borrowing costs may discourage investment.
- Excessive borrowing may increase financial risks.
- Credit facilities may help individuals acquire productive assets.

8.17 Economic growth

- A growing economy may create employment and business opportunities.
- Increased business activity can improve income levels.
- Economic uncertainty may discourage long-term investment.
- Economic performance influences investor confidence.

8.18 Availability of infrastructure

- Good roads reduce transportation costs.
- Reliable electricity supports industrial and commercial activities.
- Internet connectivity supports digital businesses.
- Water supply supports agriculture and manufacturing.
- Poor infrastructure may discourage investment in certain areas.

9.0 RISKS ASSOCIATED WITH SAVINGS AND INVESTMENTS

9.1 Meaning of risk

Risk refers to the possibility that an individual or business may experience an unexpected loss, reduced income or an unfavourable financial outcome when saving or investing money.

All financial decisions involve some level of risk. However, the type and degree of risk differ depending on the financial product or investment.

9.2 Types of risks in savings and investments

1. Inflation risk

- Inflation risk is the possibility that rising prices will reduce the purchasing power of money.
- Savings that earn low interest may lose real value when inflation is high.
- Investors may receive returns that are insufficient to compensate for rising prices.

Example: A person saves KSh 10,000 in an account earning 2% annually while prices increase by 6%. The money increases in nominal value but loses purchasing power.

2. Market risk

- Market risk refers to the possibility of financial losses due to changes in market prices.
- It affects investments such as shares and bonds.
- Market prices may change due to economic conditions, company performance and investor behaviour.

Example: A person purchases shares worth KSh 20,000, but their market value later falls to KSh 15,000.

3. Credit or default risk

- This is the possibility that a borrower may fail to repay borrowed money or interest as agreed.
- It affects lenders and investors in debt instruments.
- It may result in loss of capital or delayed payments.

Example: A business obtains a loan from a SACCO but fails to repay it, affecting the SACCO's financial position.

4. Liquidity risk

- Liquidity risk is the possibility that an investment cannot be converted into cash quickly without suffering a significant loss.
- It is common in some property and business investments.
- It may make it difficult to meet urgent financial needs.

Example: A person owns land but cannot find a buyer quickly when emergency funds are needed.

5. Interest rate risk

- Interest rate risk refers to the possibility of financial loss caused by changes in market interest rates.
- It is particularly relevant to fixed-income investments such as bonds.
- When market interest rates rise, the market price of existing fixed-rate bonds may fall.

6. Business risk

- Business risk is the possibility that a business may fail to generate the expected profits.
- It may arise from poor management, competition, high costs or reduced demand.
- It can result in loss of invested capital.

Example: A retail shop experiences declining sales because a new competitor opens nearby.

7. Political risk

- Political risk arises from changes in government policies, political instability or political disturbances.
- It may affect business operations and investment returns.
- It can discourage investors from committing resources to long-term projects.

8. Fraud and scam risk

- This involves the possibility of losing money through dishonest individuals or organisations.
- Fraudsters may advertise fake investment opportunities.
- Some schemes promise unusually high returns to attract unsuspecting investors.

Example: An individual transfers KSh 50,000 to an online investment platform that disappears without paying the promised returns.

9. Operational risk

- Operational risk arises from failures in internal processes, systems or human activities.
- It may involve errors, theft, poor record keeping and system failures.
- It can affect banks, businesses and investment institutions.

10. Cybersecurity risk

- This involves financial losses caused by cyberattacks, hacking, identity theft and unauthorised access to digital accounts.
- It is increasingly relevant to digital savings and investment platforms.
- Weak passwords and sharing security codes can increase exposure.

11. Legal and regulatory risk

- Legal and regulatory risk arises when laws, regulations or compliance requirements change or are not followed.
- An investment may be affected if the operator lacks the required authorisation.
- Legal disputes may result in financial losses.

12. Environmental and climate risk

- Environmental risks arise from natural events and environmental changes that affect economic activities.
- Droughts, floods, fires and other disasters may damage investments.
- Agricultural, tourism and property investments may be particularly exposed.

13. Currency or foreign exchange risk

- This is the possibility of financial loss caused by changes in the exchange rate between currencies.
- It affects people and businesses investing or trading internationally.
- A weakening of one currency may reduce the value of foreign investment returns when converted into local currency.

14. Concentration risk

- Concentration risk occurs when an individual invests too much money in one asset, business or economic sector.
- Poor performance of that investment may result in substantial losses.
- It arises from failure to diversify.

10.0 RISK MITIGATION STRATEGIES IN SAVINGS AND INVESTMENTS

10.1 Meaning of risk mitigation

Risk mitigation refers to the measures taken to reduce the likelihood or impact of potential financial losses.

Individuals and businesses should identify possible risks and take appropriate precautions before making savings and investment decisions.

10.2 Strategies for mitigating savings and investment risks

1. Diversification

- Diversification involves spreading money across different investments.
- It reduces dependence on one investment.
- Losses in one investment may be offset by better performance in another.
- It helps reduce concentration risk.

Example: An investor distributes money among government securities, a regulated collective investment scheme and a farming enterprise.

2. Conducting proper research

- Individuals should investigate an investment before committing money.
- They should understand how the investment operates.
- They should examine expected returns, risks, charges and withdrawal conditions.
- They should verify the credibility of the institution.

3. Investing through regulated institutions

- Individuals should use financial institutions and investment providers authorised by the relevant regulatory authorities.
- This helps reduce exposure to fraudulent and illegal operators.
- Investors should verify licences and regulatory status rather than relying on advertisements.

Relevant Kenyan regulatory institutions include:

- Central Bank of Kenya (CBK).
- Capital Markets Authority (CMA).
- Sacco Societies Regulatory Authority (SASRA).
- Retirement Benefits Authority (RBA).
- Insurance Regulatory Authority (IRA).

4. Maintaining emergency savings

- Individuals should maintain accessible savings for unexpected expenses.
- Emergency savings reduce the need to sell long-term investments at unfavourable prices.
- They also reduce dependence on high-cost borrowing.

5. Avoiding unrealistic investment promises

- Individuals should be cautious about schemes promising unusually high or guaranteed returns.
- They should investigate how the promised income is generated.
- They should avoid rushing into investments due to pressure from promoters.

6. Understanding investment terms and conditions

- Investors should read agreements before signing.
- They should understand interest rates, fees, penalties and withdrawal conditions.
- They should seek clarification when information is unclear.
- They should retain copies of relevant documents.

7. Keeping proper financial records

- Records help investors monitor their contributions and returns.
- They support accountability.
- They help identify irregular transactions.
- They provide evidence when resolving disputes.

8. Using secure digital financial services

- Individuals should use strong passwords and secure devices.
- They should never share PINs or one-time passwords.
- They should avoid clicking suspicious financial links.
- They should report suspicious transactions promptly.

- They should use official applications and websites.

9. Obtaining professional financial advice

- Individuals should seek guidance from qualified and appropriately authorised financial professionals.
- Professional advice helps investors understand risks and select suitable financial products.
- Investors should independently verify the credentials of advisers.

10. Taking appropriate insurance

- Insurance helps protect individuals and businesses against specified financial losses.
- It can cover property damage, theft, fire and other insured events.
- It reduces the financial impact of covered risks.

Example: A farmer insures eligible livestock against specified risks.

11. Regularly reviewing investments

- Investors should monitor the performance of their investments.
- They should assess whether investments remain suitable for their financial goals.
- They should respond appropriately to changing economic conditions.

12. Matching investments to financial goals

- Short-term financial goals should generally be supported by relatively accessible and lower-volatility financial arrangements.
- Long-term goals may accommodate investments with longer time horizons and varying levels of risk.
- Investment decisions should consider the investor's ability to withstand losses.

13. Avoiding excessive borrowing

- Investors should avoid borrowing excessively to finance uncertain investments.
- High debt obligations may create financial pressure.
- Borrowing should be based on realistic repayment capacity.

14. Practising proper business management

- Entrepreneurs should prepare budgets and business plans.
- They should monitor expenditure and revenue.
- They should maintain stock and sales records.
- They should control unnecessary operating costs.

10.3 Relationship between risks and mitigation strategies

Risk	Appropriate mitigation strategy

Inflation risk	Consider investments with returns that may preserve purchasing power.
Market risk	Diversify investments and understand market fluctuations.
Credit risk	Assess borrowers and use credible financial institutions.
Liquidity risk	Maintain emergency savings and assess withdrawal conditions.
Fraud risk	Verify licences and avoid unrealistic promises.
Cybersecurity risk	Use strong passwords and protect confidential information.
Business risk	Conduct market research and prepare a business plan.
Political risk	Diversify investments across suitable assets and sectors.
Environmental risk	Use insurance and appropriate environmental management practices.
Concentration risk	Spread investments across different asset classes.

11.0 ETHICAL AND UNETHICAL ISSUES IN SAVINGS AND INVESTMENT DECISIONS IN KENYA

11.1 Meaning of Ethics

Ethics refers to the moral principles and values that guide individuals and organisations in determining what is right or wrong when carrying out activities.

In savings and investments, ethics involves acting honestly, fairly, responsibly and transparently when handling money and making financial decisions.

Ethical financial behaviour builds trust between investors, financial institutions, businesses and the public.

11.2 Ethical Issues in Savings and Investment Decisions

1. Honesty and Transparency

- Individuals and financial institutions should provide accurate financial information.
- Investment promoters should explain the risks associated with their products.
- Customers should receive truthful information about interest rates, charges and expected returns.
- Important information should not be deliberately concealed.

2. Accountability

- Individuals and organisations should take responsibility for financial decisions.
- Financial institutions should account for customers' deposits and investments.
- Business owners should maintain proper financial records.
- Leaders of savings groups should explain how members' contributions are used.

3. Fair Treatment of Investors

- Investors should be treated equally and without discrimination.
- Financial institutions should apply their policies fairly.
- Customers should receive appropriate information before making financial commitments.
- Financial services should be provided without exploitation.

4. Confidentiality of Financial Information

- Financial institutions should protect customers' personal and financial information.
- Employees should not disclose customers' account details without lawful authority.
- Investors should protect their own passwords, PINs and financial documents.
- Personal information should be handled responsibly.

5. Responsible Borrowing and Lending

- Borrowers should provide truthful information when applying for loans.
- They should repay debts according to agreed conditions.
- Lenders should explain borrowing costs clearly.
- Financial institutions should assess borrowers fairly and responsibly.

6. Compliance with Laws and Regulations

- Individuals and businesses should follow applicable financial laws.
- Financial institutions should obtain the required authorisations.
- Investors should use lawful investment channels.
- Tax obligations should be fulfilled honestly.

7. Avoidance of Conflicts of Interest

- Financial advisers should recommend products based on customers' needs and suitability.
- They should disclose situations where personal interests may influence their recommendations.
- Individuals responsible for managing group funds should avoid using them for personal gain.

8. Social Responsibility

- Businesses should invest in activities that respect people and communities.
- Investors should consider the social consequences of their investments.

- Financial decisions should avoid supporting harmful or exploitative activities.

9. Environmental Responsibility

- Investors should consider environmental effects when financing economic activities.
- Businesses should follow environmental requirements.
- Investments should support responsible use of natural resources.

10. Protection of Customers

- Financial institutions should provide clear information about products.
- They should establish mechanisms for handling complaints.
- Customers should be protected from misleading financial practices.
- Institutions should apply appropriate safeguards to customer funds.

11.3 Unethical Issues in Savings and Investment Decisions

1. Fraudulent Investment Schemes

- Some individuals establish fake investment companies to steal money from the public.
- They may promise unrealistic profits to attract investors.
- They may use money from new members to pay earlier participants instead of generating legitimate investment returns.

Example: A fraudulent scheme promises investors that KSh 10,000 will become KSh 30,000 within one month without explaining any genuine business activity.

2. Corruption

- Corruption involves using entrusted authority for personal gain.
- It may involve demanding bribes to approve financial transactions.
- It can lead to misuse of public and private funds.
- It undermines investor confidence.

3. Money Laundering

- Money laundering involves disguising the illegal origin of money to make it appear legitimate.
- It may involve complex financial transactions.
- It undermines the integrity of financial institutions and the economy.

4. Insider Trading

- Insider trading involves using confidential, price-sensitive information that is not available to the public to gain an unfair advantage when trading securities.
- It undermines fairness in financial markets.

- It disadvantages investors who do not have access to the information.

5. Misappropriation of Funds

- This occurs when individuals use money entrusted to them for unauthorised personal purposes.
- It may occur in businesses, SACCOs, chamas and other organisations.
- It reduces trust and may cause financial losses.

6. False Financial Reporting

- Some businesses may deliberately provide incorrect financial statements.
- They may exaggerate profits or hide losses.
- This misleads investors and lenders.
- It may lead to poor investment decisions.

7. Exploitation of Vulnerable Investors

- Some promoters target people with limited financial knowledge.
- They may use pressure, fear or misleading information to obtain money.
- They may conceal important risks and charges.

8. Bribery and Favouritism

- Some individuals may offer or demand bribes to influence investment decisions.
- Financial opportunities may be allocated unfairly.
- Such practices undermine transparency and accountability.

9. Tax Evasion

- Tax evasion involves deliberately avoiding the payment of legally due taxes through unlawful means.
- It reduces government revenue.
- It creates unfair competition among businesses.

10. Theft and Embezzlement

- Theft involves taking money or assets without lawful permission.
- Embezzlement occurs when a person misuses funds entrusted to them.
- Both practices may destroy savings and investment institutions.

11. Insider Misuse of Customer Information

- Employees may misuse confidential financial information for personal benefit.
- They may share customer details with unauthorised persons.
- This exposes customers to fraud and identity theft.

12. Ponzi and Pyramid Schemes

Ponzi scheme

A Ponzi scheme is a fraudulent arrangement in which returns to earlier investors are paid using money collected from new investors rather than genuine investment profits.

Pyramid scheme

A pyramid scheme is a fraudulent or unsustainable arrangement that relies heavily on recruiting new participants who pay money into the scheme.

Participants are encouraged to recruit more members to earn rewards.

Both schemes can collapse when recruitment or new contributions decline, resulting in losses for participants.

11.4 Differences Between Ethical and Unethical Financial Practices

Ethical practices	Unethical practices
Honesty in financial transactions.	Dishonesty and deception.
Proper use of funds.	Misappropriation of funds.
Accurate financial reporting.	Falsification of records.
Protection of customer information.	Unauthorised disclosure of information.
Fair treatment of investors.	Exploitation of investors.
Compliance with financial laws.	Tax evasion and illegal transactions.
Transparency in investment decisions.	Concealment of important information.
Responsible financial advice.	Misleading investment recommendations.

11.5 Importance of Ethical Practices in Savings and Investments

1. **Builds public confidence:** Ethical conduct increases public trust in financial institutions and investment opportunities.
2. **Protects investors:** It reduces the possibility of exploitation and dishonest financial practices.
3. **Promotes transparency:** It encourages the provision of accurate information about financial products and transactions.
4. **Encourages accountability:** Individuals and institutions become responsible for the use of financial resources.
5. **Attracts investment:** Ethical financial systems encourage local and foreign investors.
6. **Reduces financial fraud:** Honesty and proper controls help prevent fraudulent activities.

7. **Promotes fair competition:** Businesses compete fairly without using bribery or deception.
8. **Strengthens the financial system:** Ethical conduct improves the reliability of financial institutions.
9. **Encourages responsible use of financial resources:** Funds are used for their intended purposes.
10. **Promotes sustainable economic development:** Responsible investment supports long-term economic growth.
11. **Protects business reputation:** Ethical institutions maintain good relationships with customers and investors.

12.0 DEVELOPING A SAVINGS AND INVESTMENT PLAN

A savings and investment plan is a written guide showing how an individual or business intends to save money and invest available financial resources to achieve specific financial goals.

It helps individuals organise their finances, control expenditure, accumulate savings and identify suitable investment opportunities.

12.1 Importance of a Savings and Investment Plan

1. **Provides financial direction:** It guides individuals on how to use their income to achieve financial objectives.
2. **Encourages regular saving:** It establishes a consistent savings routine.
3. **Promotes financial discipline:** It helps individuals control unnecessary spending.
4. **Helps achieve financial goals:** It provides a clear path towards meeting short-term and long-term objectives.
5. **Promotes investment:** It identifies suitable opportunities for using accumulated savings productively.
6. **Reduces financial uncertainty:** It encourages preparation for emergencies and future obligations.
7. **Helps monitor financial progress:** It enables individuals to compare actual performance with planned targets.
8. **Encourages responsible financial decisions:** It promotes research and consideration of investment risks.
9. **Reduces unnecessary borrowing:** Individuals can use accumulated savings to meet some financial needs.
10. **Promotes wealth creation:** Consistent saving and appropriate investment may increase financial resources over time.

12.2 Steps in Preparing a Savings and Investment Plan

1. Assess current financial position

- Identify all sources of income.
- Calculate regular expenditure.
- Identify existing debts.

- Determine the amount of money available for saving and investing.

2. Set financial goals

- Identify what you want to achieve.
- Decide whether each goal is short-term, medium-term or long-term.
- Set a specific financial target and deadline.

3. Prepare a budget

- Estimate expected income.
- List essential and non-essential expenditure.
- Allocate money for savings.
- Ensure that planned expenditure does not exceed available income.

4. Determine the amount to save

- Decide how much money should be saved regularly.
- Choose a realistic amount based on income and financial obligations.
- Make saving a regular part of the budget.

5. Select suitable savings methods

- Compare available savings methods.
- Consider security, accessibility, charges and interest.
- Choose an appropriate savings institution or product.

6. Identify suitable investment opportunities

- Research available investment opportunities.
- Consider the expected returns and possible risks.
- Choose investments that support the financial goals.

7. Assess and manage risks

- Identify possible financial losses.
- Consider diversification.
- Verify the credibility and regulatory status of financial providers.
- Avoid investment opportunities that promise unrealistic returns.

8. Implement the plan

- Begin saving according to the agreed schedule.
- Make investment contributions as planned.
- Keep records of all financial transactions.

9. Monitor progress

- Check savings balances regularly.
- Monitor investment performance.
- Compare actual progress with the original targets.

10. Review and adjust the plan

- Review the plan when income or expenditure changes.
- Adjust savings contributions when necessary.
- Replace unsuitable financial arrangements where appropriate.
- Set new goals after achieving previous ones.

12.3 Sample Personal Savings and Investment Plan

Name: Sample Learner

Main goal: To save money for further education and start a small poultry project.

Monthly income: KSh 10,000

Item	Monthly amount (KSh)
Monthly income	10,000
Food and personal needs	3,000
Transport	1,000
Learning materials	1,000
Other expenses	1,000
Savings for education	2,000
Savings for poultry project	2,000
Total allocation	10,000

Savings targets

Savings purpose	Monthly savings (KSh)	Savings after 12 months (KSh)
Further education	2,000	24,000
Poultry project	2,000	24,000
Total	4,000	48,000

The example assumes that the learner makes all planned contributions and does not withdraw the money. It excludes interest, investment returns, charges and changes in income or expenditure.

12.4 Qualities of a Good Savings and Investment Plan

1. It should have clear financial objectives.
2. It should be realistic and achievable.
3. It should be based on the individual's income and expenditure.
4. It should prioritise essential needs.
5. It should provide for regular savings.
6. It should identify appropriate investment opportunities.
7. It should consider possible financial risks.
8. It should allow regular monitoring and evaluation.
9. It should be flexible enough to accommodate changes in circumstances.
10. It should encourage proper financial record keeping.

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. Which of the following best describes savings?

A. Money borrowed from a financial institution.

B. The portion of income set aside for future use.

C. Money spent on luxury goods.

D. Money invested in business activities only.

2. Which formula is used to calculate savings?

A. Total expenditure − Total income.

B. Total income + Total expenditure.

C. Total income − Total expenditure.

D. Total income × Total expenditure.

3. A trader receives KSh 50,000 and spends KSh 35,000. How much does the trader save?

A. KSh 10,000.

B. KSh 15,000.

C. KSh 20,000.

D. KSh 25,000.

4. Which of the following is an example of an investment?

A. Keeping money under a mattress.

B. Purchasing shares in a company.

C. Spending money on entertainment.

D. Paying for daily transport.

5. Which financial institution is owned by its members and encourages regular savings?

A. SACCO.

B. Supermarket.

C. Manufacturing company.

D. Transport company.

6. One importance of savings is that they:

A. Increase unnecessary expenditure.

B. Encourage excessive borrowing.

C. Provide financial security during emergencies.

D. Eliminate all financial risks.

7. Which of the following is an example of mobile financial services?

A. Keeping money in a wooden box.

B. Using a mobile banking application.

C. Purchasing agricultural land.

D. Buying livestock.

8. A fixed deposit account involves:

A. Depositing money for an agreed period.

B. Spending money immediately.

C. Borrowing money without repayment.

D. Purchasing goods on credit.

9. Which of the following is a limitation of keeping cash at home?

A. It always earns interest.

B. It is protected from all risks.

C. It may be stolen or destroyed.

D. It automatically increases in value.

10. A money market fund is best described as:

A. A group of people selling agricultural products.

B. A collective investment scheme that invests mainly in short-term financial instruments.

C. A method of borrowing from relatives.

D. A business that sells household goods.

11. Shares represent:

A. Units of ownership in a company.

B. Loans obtained from friends.

C. Government taxes.

D. Household expenditure.

12. Which institution operates the Nairobi Securities Exchange market?

A. A school.

B. A financial cooperative.

C. The Nairobi Securities Exchange.

D. A county assembly.

13. Treasury bills are generally:

A. Long-term business loans.

B. Short-term government securities.

C. Shares in private companies.

D. Agricultural products.

14. Income earned from renting out residential houses is known as:

A. Salary income.

B. Rental income.

C. Dividend income.

D. Transport allowance.

15. Which of the following is an advantage of investing in agriculture?

A. It eliminates all production risks.

B. It guarantees fixed market prices.

C. It can generate income through the sale of agricultural products.

D. It does not require management.

16. What does budgeting involve?

A. Preparing an estimate of income and expenditure.

B. Spending all available income.

C. Borrowing money every month.

D. Avoiding financial records.

17. Which of the following is a SMART financial goal?

A. I want to become rich someday.

B. I will save KSh 2,000 every month for six months.

C. I will spend more money next year.

D. I will borrow as much money as possible.

18. Which of the following is a need?

A. Luxury jewellery.

B. Expensive entertainment.

C. Food.

D. Unnecessary electronic gadgets.

19. Diversification involves:

A. Investing all money in one business.

B. Spreading investments across different assets.

C. Avoiding all financial institutions.

D. Spending savings immediately.

20. Which factor may reduce an individual's ability to save?

A. High disposable income.

B. Stable employment.

C. High family responsibilities.

D. Financial discipline.

21. Inflation refers to:

A. A sustained increase in the general price level.

B. A reduction in all household expenditure.

C. An increase in savings accounts only.

D. A decrease in the amount of money in circulation only.

22. Which risk arises when an investment cannot be converted into cash quickly without a significant loss?

A. Political risk.

B. Liquidity risk.

C. Operational risk.

D. Currency risk.

23. Which of the following is an example of market risk?

A. A fall in the market price of shares.

B. A learner losing a textbook.

C. A business changing its location.

D. A farmer buying fertiliser.

24. Which action helps reduce cybersecurity risk?

A. Sharing passwords with strangers.

B. Using weak passwords.

C. Sharing one-time passwords.

D. Using strong passwords and protecting confidential information.

25. Which Kenyan institution regulates the capital markets?

A. Capital Markets Authority.

B. Kenya National Examinations Council.

C. Kenya National Library Service.

D. National Transport and Safety Authority.

26. Which of the following is an ethical financial practice?

A. Misappropriation of funds.

B. False financial reporting.

C. Honesty and transparency.

D. Insider trading.

27. The use of confidential price-sensitive information to gain an unfair advantage when trading securities is called:

A. Diversification.

B. Insider trading.

C. Budgeting.

D. Financial planning.

28. A Ponzi scheme pays earlier participants using:

A. Genuine profits from productive activities only.

B. Money collected from new investors.

C. Government grants only.

D. Bank interest only.

29. Which of the following is an important reason for maintaining financial records?

A. To hide business transactions.

B. To increase unnecessary expenditure.

C. To monitor financial progress and promote accountability.

D. To avoid preparing budgets.

30. The first step in preparing a savings and investment plan is to:

A. Borrow money.

B. Assess the current financial position.

C. Purchase shares immediately.

D. Spend all available income.

SECTION B: STRUCTURED QUESTIONS

31.

(a) Define the term savings. (2 marks)

(b) Explain four reasons why savings are important to individuals and businesses. (8 marks)

(c) A businessperson receives KSh 85,000 in one month and spends KSh 62,500.

Calculate the amount saved. (2 marks)

32.

(a) Define investment. (2 marks)

(b) Explain five roles of investments in financial management. (10 marks)

(c) State three examples of investments commonly undertaken in Kenya. (3 marks)

33.

(a) What is a SACCO? (2 marks)

(b) Explain four advantages of saving through SACCOs. (8 marks)

(c) State three limitations of saving through informal savings groups. (3 marks)

34.

(a) Distinguish between Treasury bills and Treasury bonds. (4 marks)

(b) Explain four advantages of investing in government securities. (8 marks)

(c) State three limitations of investing in shares. (3 marks)

35.

(a) Define effective financial management. (2 marks)

(b) Explain five principles of effective financial management. (10 marks)

(c) State three examples of financial records used by businesses. (3 marks)

36.

Explain six factors that influence savings and investment decisions in Kenya. (12 marks)

37.

(a) Define financial risk. (2 marks)

(b) Explain five risks associated with savings and investments. (10 marks)

(c) State three ways of reducing fraud and scam risks. (3 marks)

38.

(a) Explain the meaning of risk mitigation. (2 marks)

(b) Describe six strategies that individuals can use to reduce risks associated with savings and investments. (12 marks)

39.

(a) Define ethics in financial management. (2 marks)

(b) Explain five ethical practices that should be observed when making savings and investment decisions. (10 marks)

(c) State three examples of unethical financial practices. (3 marks)

40.

(a) What is a savings and investment plan? (2 marks)

(b) Explain six steps involved in preparing a savings and investment plan. (12 marks)

(c) State three qualities of a good savings and investment plan. (3 marks)

SECTION C: APPLICATION

41. Case Study: Financial Planning

Amina is a Grade 11 learner whose family operates a small retail shop. The family earns approximately KSh 70,000 monthly. They spend KSh 55,000 on household and business expenses. Amina's parents would like to save money for school fees and invest in poultry farming.

(a) Calculate the amount the family can save monthly if income and expenditure remain constant. (2 marks)

(b) Explain four benefits of preparing a savings and investment plan for the family. (8 marks)

(c) Suggest three appropriate ways the family can save money. (3 marks)

(d) State three risks that the family may face when investing in poultry farming. (3 marks)

42. Case Study: Investment Decisions

A group of young entrepreneurs in Narok County has accumulated KSh 300,000 through regular contributions. They are considering investing in a retail shop, purchasing government securities or starting a poultry project.

(a) Explain three factors the group should consider before choosing an investment. (6 marks)

(b) Describe three advantages of diversifying the group's investments. (6 marks)

(c) State three ethical practices the group should observe when managing members' contributions. (3 marks)

43. Case Study: Financial Fraud

A group of people in a local community is invited to join an online investment scheme. The promoters promise that every member who contributes KSh 10,000 will receive KSh 30,000 after one month. Members are also encouraged to recruit other people.

(a) Identify the possible unethical financial scheme described above. (2 marks)

(b) Explain four warning signs that the group should investigate before investing. (8 marks)

(c) State three measures that can help protect individuals from fraudulent investment schemes. (3 marks)

44. Practical Activity: Preparing a Personal Savings and Investment Plan

Assume that you receive KSh 5,000 monthly from various sources.

Prepare a personal savings and investment plan showing:

(a) Your monthly income. (1 mark)

(b) Four expenditure items and their estimated amounts. (4 marks)

(c) The amount you intend to save monthly. (2 marks)

(d) Two suitable investment opportunities you would consider. (2 marks)

(e) Three measures you would take to reduce investment risks. (3 marks)

STRAND 3.0: BUSINESS AND MONEY MANAGEMENT

SUB-STRAND 3.2: FINANCIAL MARKETS





1.0 INTRODUCTION TO FINANCIAL MARKETS

Financial markets play an important role in the economic development of a country. They provide platforms and systems through which individuals, businesses, financial institutions and governments exchange financial assets and raise funds for various economic activities.

In a modern economy, people and organisations have different financial needs. Some individuals and organisations have surplus funds that they wish to save or invest, while others require funds to establish businesses, expand production or finance development projects.

Financial markets connect those who have surplus funds with those who need funds. They facilitate the movement of money from savers and investors to productive economic activities.

In Kenya, financial markets support economic activities through institutions and platforms such as the Nairobi Securities Exchange, government securities markets, commercial banks, investment banks, insurance companies and other regulated financial institutions.

Financial markets also enable investors to buy and sell financial assets such as shares, bonds and other securities.

1.1 Meaning of financial markets

Financial markets refer to systems, institutions and arrangements through which financial assets and securities are issued, bought and sold between investors, businesses, governments and other participants.

They facilitate the mobilisation, allocation and transfer of financial resources within an economy.

In simple terms, financial markets are places or organised systems where people and organisations trade financial instruments such as shares and bonds.

Examples of financial markets in Kenya include:

1. Nairobi Securities Exchange (NSE).
2. Government Treasury bills market.
3. Government Treasury bonds market.
4. Corporate bonds market.
5. Foreign exchange market.
6. Money market.
7. Equity market.

1.2 Main participants in financial markets

Financial markets involve different participants who perform various roles.

1. Investors

- Investors are individuals or organisations that commit money to financial assets with the expectation of earning returns.
- They purchase shares, bonds and other investment products.
- They provide funds to businesses and governments.

Examples: Individuals, pension funds, insurance companies and investment funds.

2. Issuers of securities

- Issuers are organisations or institutions that create and offer securities to raise funds.
- They may include companies and governments.
- They receive funds from investors in exchange for issuing financial instruments.

Examples: The Government of Kenya issues Treasury bonds, while companies may issue shares to raise capital.

3. Stockbrokers

- Stockbrokers are licensed market intermediaries who facilitate the buying and selling of securities on behalf of investors.
- They execute orders from clients.
- They provide information and guidance on securities transactions within their authorised roles.

4. Investment banks

- Investment banks assist organisations in raising funds through capital markets.
- They may advise companies on issuing shares and bonds.
- They support capital-raising transactions and corporate financial activities.

5. Fund managers

- Fund managers manage pooled investment funds on behalf of investors.

- They select financial assets according to the fund's investment objectives.
- They monitor the performance of investments.

6. Regulators

- Regulators supervise financial market activities.
- They establish rules and standards for market participants.
- They help protect investors and promote market integrity.

Examples in Kenya:

- Capital Markets Authority (CMA).
- Central Bank of Kenya (CBK).

7. Custodians and central securities depository institutions

- Custodians safeguard financial assets and related records on behalf of investors.
- Central securities depository systems maintain electronic records of securities ownership and facilitate settlement.
- They support safe and organised securities transactions.

2.0 IMPORTANCE OF FINANCIAL MARKETS IN AN ECONOMY

Financial markets contribute significantly to economic growth, investment, employment creation and financial stability.

The following are the major benefits of financial markets to an economy.

2.1 Mobilisation of savings

- Financial markets encourage individuals and organisations to channel surplus money into financial investments.
- They provide opportunities for people to invest their savings in shares, bonds and other financial instruments.
- They help transform idle funds into resources that can finance productive economic activities.

Example: Kenyans may invest their savings in government Treasury bonds, enabling the government to obtain funds for development expenditure.

2.2 Capital formation

- Financial markets facilitate the accumulation of financial resources for investment.
- They enable businesses to raise funds for purchasing machinery, equipment and other productive assets.
- They support the establishment and expansion of enterprises.
- They contribute to increased productive capacity in an economy.

Example: A manufacturing company may issue shares to raise money for constructing a new production plant.

2.3 Promotion of economic growth

- Financial markets direct financial resources towards productive sectors.
- They support investment in agriculture, manufacturing, transport, housing and technology.
- They enable businesses to expand their operations.
- Increased investment can lead to higher production of goods and services.

2.4 Creation of employment opportunities

- Financial markets support the growth and expansion of businesses.
- Expanding companies require additional workers.
- Financial market activities also create direct employment for brokers, analysts, accountants, fund managers and other professionals.
- Increased business activity creates indirect employment in supporting industries.

2.5 Facilitating government financing

- Governments require money to finance public expenditure and development projects.
- Financial markets enable governments to raise funds by issuing securities such as Treasury bills and Treasury bonds.
- The funds may support infrastructure, education, healthcare and other public services.
- This provides an alternative source of financing besides taxation and other government revenues.

Example: The Government of Kenya may issue Treasury bonds to raise funds for financing infrastructure projects.

2.6 Providing investment opportunities

- Financial markets provide different investment products to individuals and institutions.
- Investors can choose financial assets according to their objectives and risk tolerance.
- They provide opportunities for earning interest, dividends and capital gains.
- They allow investors to participate in the growth of businesses and the economy.

2.7 Providing liquidity

- Liquidity refers to the ease with which an asset can be converted into cash without a significant loss in value.
- Financial markets provide platforms through which investors can sell eligible securities.
- This enables investors to access funds when they need them.
- Active secondary markets make it easier to transfer ownership of securities.

2.8 Promoting efficient allocation of resources

- Financial markets direct funds towards individuals, businesses and governments that require financing.
- They enable investors to compare different investment opportunities.
- They help channel capital towards activities that investors consider productive.

- This supports efficient utilisation of financial resources.

2.9 Determining the prices of financial assets

- Financial markets provide mechanisms through which the prices of securities are determined.
- Prices are influenced by demand and supply.
- Company performance, economic conditions and investor expectations also influence prices.
- Price information helps investors make informed decisions.

2.10 Promoting entrepreneurship

- Financial markets enable businesses to access capital for starting and expanding operations.
- They support entrepreneurs who require funds to implement business ideas.
- They provide opportunities for business ownership through share investments.
- They encourage innovation and the development of new enterprises.

2.11 Promoting transparency and accountability

- Regulated financial markets require issuers and other participants to comply with established rules.
- Listed companies are subject to disclosure and reporting requirements.
- Investors can access relevant financial information when making decisions.
- These requirements promote responsible financial management.

2.12 Encouraging foreign investment

- Well-developed financial markets can attract foreign investors.
- Foreign investment can provide additional capital to the economy.
- It may promote technology transfer and improved business practices.
- It can strengthen economic relationships between countries.

2.13 Supporting financial stability

- Well-regulated financial markets promote orderly financial transactions.
- They provide mechanisms for managing and transferring financial risks.
- They improve the availability of information about financial assets.
- Effective supervision helps reduce misconduct and market abuse.

2.14 Supporting infrastructure development

- Governments and businesses can raise funds through financial markets to finance infrastructure.
- Funds may support roads, railways, electricity, water supply and communication networks.
- Improved infrastructure supports business operations and economic productivity.

2.15 Encouraging long-term financial planning

- Financial markets provide investment opportunities for retirement and other long-term goals.
- Pension schemes and institutional investors participate in financial markets.
- Individuals can invest for future financial security.
- They encourage a culture of financial planning.

3.0 STOCK EXCHANGE







3.1 Meaning of a stock exchange

A **stock exchange** is an organised and regulated marketplace where eligible securities, such as shares and certain other financial instruments, are bought and sold according to established rules and procedures.

It provides a platform through which investors trade securities issued by companies and other eligible entities.

A stock exchange brings together buyers and sellers of securities through authorised market participants and electronic trading systems.

Example in Kenya: The Nairobi Securities Exchange (NSE) is the country's principal securities exchange.

3.2 Meaning of a share

A share is a unit of ownership in a company.

When an individual purchases shares in a company, the individual becomes a shareholder and acquires certain ownership rights according to the type of shares held and the company's rules.

Example:

If a company has 1,000,000 ordinary shares and an investor purchases 10,000 shares, the investor owns 1% of the company's issued ordinary shares, assuming the figures refer to the same class of shares.

3.3 Meaning of a shareholder

A shareholder is an individual or organisation that owns shares in a company.

Rights and benefits of shareholders may include:

1. Receiving dividends when declared.
2. Voting on certain company matters where voting rights apply.

3. Receiving relevant company information.
4. Participating in annual general meetings according to applicable rules.
5. Benefiting from capital appreciation when share prices increase.
6. Receiving a proportionate share of remaining assets upon liquidation after creditors and other priority claims have been settled, where applicable.

3.4 Characteristics of a stock exchange

1. It is an organised marketplace for trading eligible securities.
2. It operates under established rules and regulations.
3. It facilitates the buying and selling of securities.
4. It promotes transparency in securities transactions.
5. It provides information about securities and market prices.
6. It uses authorised intermediaries and trading participants.
7. It provides mechanisms for clearing and settlement.
8. It supports investor protection through market regulation.
9. It enables companies to raise capital through securities issuance.
10. It facilitates the transfer of securities ownership.

3.5 Primary and secondary markets

Financial markets include primary and secondary markets.

A. Primary market

A primary market is a market in which newly issued securities are offered to investors for the first time.

In this market, the issuer receives the funds raised from the sale of securities, subject to applicable transaction arrangements.

Examples:

- A company offering new shares to the public through an Initial Public Offering (IPO).
- The Government of Kenya issuing a new Treasury bond.
- A company issuing new corporate bonds.

Importance of the primary market:

1. Enables companies to raise new capital.
2. Enables governments to obtain funds.
3. Promotes business expansion.

4. Supports infrastructure development.
5. Provides new investment opportunities.
6. Encourages capital formation.

B. Secondary market

A secondary market is a market in which previously issued securities are bought and sold among investors.

In this market, the seller transfers ownership of securities to another investor. The original issuer does not normally receive the proceeds of these resale transactions.

Example: An investor purchases shares in a listed Kenyan company from another shareholder through the NSE.

Importance of the secondary market:

1. Provides liquidity to investors.
2. Facilitates the transfer of ownership.
3. Helps determine the market prices of securities.
4. Provides opportunities for investors to sell their holdings.
5. Encourages participation in the primary market.
6. Supports continuous investment activity.

3.6 Differences between primary and secondary markets

Primary market	Secondary market
Deals with newly issued securities.	Deals with previously issued securities.
The issuer raises new funds.	Investors trade among themselves.
Securities are offered for the first time.	Securities already issued are transferred.
Supports direct capital mobilisation.	Supports liquidity and price discovery.
Includes IPOs and new bond issues.	Includes resale of listed shares and tradable bonds.

4.0 FUNCTIONS OF A STOCK EXCHANGE IN THE ECONOMY

A stock exchange performs important functions that facilitate investment, business financing and economic development. It provides an organised marketplace where investors trade securities and businesses access capital.

The following are the major functions of a stock exchange.

4.1 Mobilisation of capital

- A stock exchange enables companies to raise funds by issuing shares to investors.
- It brings together businesses requiring capital and individuals or institutions with surplus funds.
- The funds raised can be used to expand business operations.
- It reduces excessive dependence on borrowing from financial institutions.

Example: A Kenyan manufacturing company may issue additional shares to raise money for purchasing modern machinery.

4.2 Providing a market for securities

- A stock exchange provides an organised platform for buying and selling eligible securities.
- It enables investors to trade shares and other listed instruments.
- It facilitates the transfer of ownership from one investor to another.
- It promotes orderly transactions through established trading procedures.

4.3 Providing liquidity to investors

- A stock exchange enables investors to sell securities when they need money.
- It makes it easier to convert eligible investments into cash.
- It encourages people to participate in securities markets.
- It reduces the difficulty of finding buyers independently.

Example: An investor who owns shares in a listed company may place a sell order through a licensed stockbroker.

4.4 Determination of securities prices

- A stock exchange facilitates price determination through demand and supply.
- Prices change depending on the number of buyers and sellers.
- Company performance and economic conditions may influence market prices.
- This helps investors assess the market value of their investments.

4.5 Encouraging savings and investments

- Stock exchanges provide individuals with opportunities to invest their savings.
- They encourage people to consider long-term financial planning.
- They provide opportunities to participate in the ownership of companies.
- They promote a savings and investment culture.

4.6 Promoting transparency

- Stock exchanges operate under established rules and disclosure requirements.
- Listed companies are required to provide relevant financial information.
- Investors can access information that assists them in making decisions.
- Transparency reduces information gaps between companies and investors.

4.7 Promoting corporate governance

- Stock exchanges require listed companies to comply with applicable corporate governance requirements.
- They encourage responsible management of companies.
- They promote accountability among directors and company executives.
- They support protection of shareholders' interests.

4.8 Encouraging foreign investment

- Stock exchanges provide organised investment opportunities for local and foreign investors.
- They facilitate participation in the country's capital markets.
- Foreign investment can increase the availability of capital.
- It may strengthen economic relationships with other countries.

4.9 Supporting economic growth

- Stock exchanges facilitate the financing of business expansion.
- They support investment in productive economic activities.
- They promote capital formation.
- They indirectly support employment creation and increased production.

4.10 Providing investment information

- Stock exchanges publish information about securities traded in their markets.
- They provide information about share prices and trading activities.
- They help investors monitor market developments.
- They support informed financial decision-making.

4.11 Facilitating ownership transfer

- A stock exchange facilitates the transfer of securities between investors.
- It provides organised procedures for completing transactions.
- Electronic systems support the recording of changes in ownership.
- This improves the efficiency of securities trading.

4.12 Supporting government privatisation

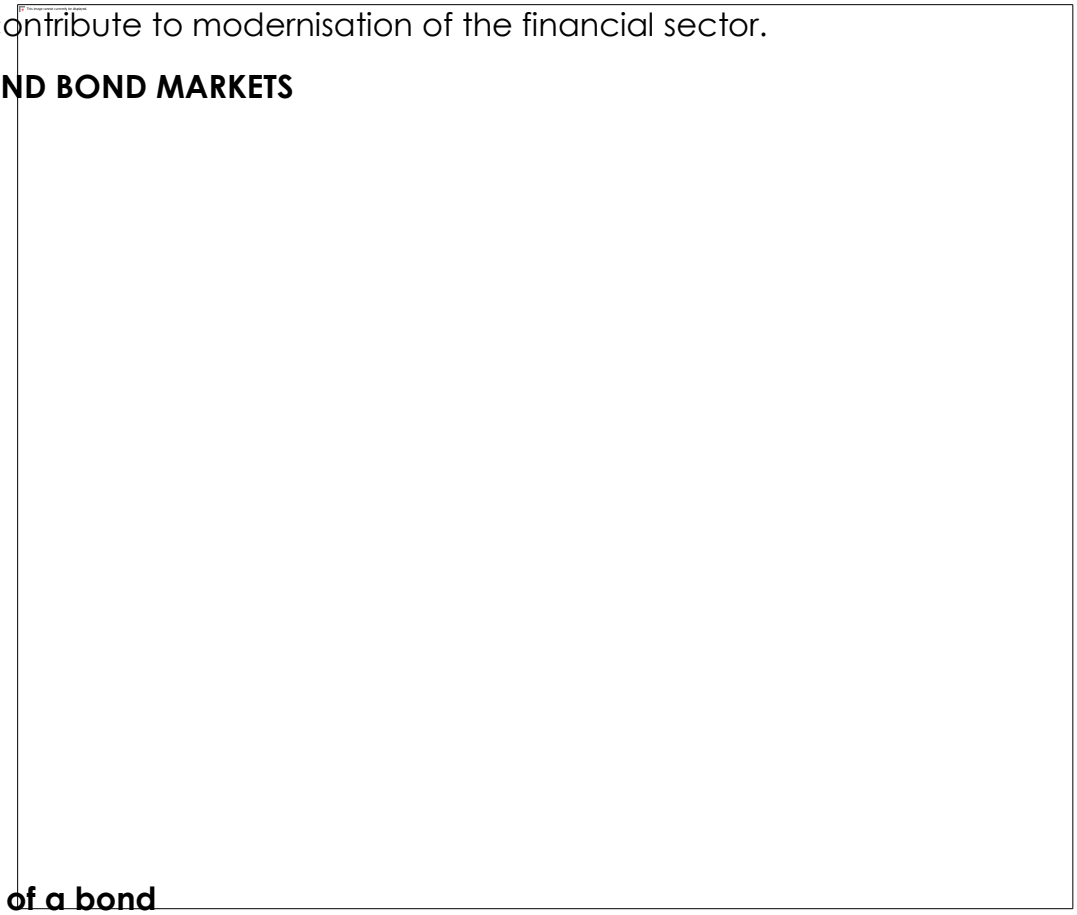
- Governments may use stock exchanges to sell shares in state-owned enterprises.
- This allows members of the public and institutional investors to acquire ownership.
- It can broaden public participation in business ownership.
- It may support government efforts to restructure enterprises.

4.13 Promoting financial innovation

- Stock exchanges support the introduction and trading of different financial products.

- They encourage improvements in trading and settlement systems.
- They support the development of capital market services.
- They contribute to modernisation of the financial sector.

5.0 BONDS AND BOND MARKETS



5.1 Meaning of a bond

A **bond** is a debt security issued by a government, company or other eligible organisation to borrow money from investors for a specified period.

When an investor purchases a bond, the investor lends money to the issuer.

The issuer agrees to repay the principal amount according to the bond's terms and may pay interest at specified intervals.

Example:

The Government of Kenya issues a Treasury bond to raise money from investors. An individual purchases the bond and receives interest according to its terms.

5.2 Main parties involved in bond transactions

1. Bond issuer

- The issuer is the organisation that borrows money by issuing bonds.
- It is responsible for making interest payments where applicable.
- It is required to repay the principal according to the bond agreement.

Examples: National governments, companies and other eligible institutions.

2. Bondholder

- A bondholder is an individual or institution that owns a bond.
- The bondholder provides money to the issuer.

- The bondholder receives payments according to the bond's terms.

3. Bond underwriter or arranger

- An underwriter or arranger assists an issuer in structuring and distributing a bond issue.
- It may advise on pricing and market requirements.
- It helps facilitate the process of raising funds.

4. Bond trustee

- A bond trustee acts in accordance with the trust deed to protect bondholders' collective interests.
- The trustee monitors compliance with relevant bond conditions.
- It may take specified actions when the issuer fails to meet its obligations.

5.3 Characteristics of bonds

1. Bonds represent borrowed funds.
2. They have an issuer.
3. They normally have a stated principal or face value.
4. They have specified maturity dates, except for certain perpetual instruments.
5. They may pay interest known as a coupon.
6. They have stated contractual conditions.
7. Some bonds can be traded in secondary markets.
8. Their prices may change before maturity.
9. They carry different levels of credit risk.
10. They may be issued by governments or companies.

5.4 Important terms used in bond investments

A. Face value

Face value is the principal amount of a bond that the issuer is required to repay at maturity, subject to the bond's terms.

Example: A bond with a face value of KSh 100,000 has a stated principal amount of KSh 100,000.

B. Coupon rate

The coupon rate is the stated annual interest rate used to calculate the interest payable on a bond's face value.

Example:

A bond has:

- Face value: KSh 100,000.
- Annual coupon rate: 10%.

Annual interest:

$$100{,}000 \times \frac{10}{100}$$

=KSh 10,000

The bond pays KSh 10,000 annually if the coupon is payable annually and the terms remain unchanged.

C. Maturity date

The maturity date is the date on which a bond reaches the end of its agreed term and the principal becomes due for repayment.

D. Principal amount

This refers to the original amount borrowed by the bond issuer and represented by the bond.

E. Yield

Yield refers to the return an investor earns from a bond based on its price and income, calculated using an appropriate yield measure.

Yield is not necessarily the same as the coupon rate.

F. Bond price

Bond price refers to the amount at which a bond is purchased or sold in the market.

A bond may trade:

- At par: At its face value.
- At a premium: Above its face value.
- At a discount: Below its face value.

5.5 Types of bonds

1. Government bonds

These are debt securities issued by the government to raise funds for public expenditure and development projects.

Examples in Kenya:

- Treasury bonds.
- Infrastructure bonds.

Characteristics:

- Issued by the government.
- Have specified terms and conditions.
- May pay interest periodically.
- May have different maturity periods.
- Carry sovereign credit risk.

2. Corporate bonds

These are debt securities issued by companies to raise funds for business activities.

Uses of funds include:

- Purchasing machinery.
- Expanding production.
- Financing infrastructure.
- Refinancing existing debts.
- Supporting working capital.

Example: A manufacturing company may issue corporate bonds to raise funds for establishing another factory.

3. Infrastructure bonds

These are government bonds issued specifically to raise funds for financing infrastructure development.

Examples of projects that may be financed include:

- Roads.
- Bridges.
- Energy projects.
- Water supply systems.
- Public infrastructure.

4. Fixed-rate bonds

These are bonds that pay interest at a predetermined rate throughout the specified coupon period.

Example: A bond with a fixed annual coupon rate of 9% continues paying interest at that rate according to its terms.

5. Floating-rate bonds

These are bonds whose interest rates change according to a specified benchmark or reference rate.

- Their coupon payments may increase or decrease.
- They are affected by movements in the reference interest rate.
- They may provide some protection against changes in market interest rates, depending on the structure.

6. Zero-coupon bonds

These are bonds that do not make periodic interest payments.

- They are usually issued at a discount.
- The investor receives the face value at maturity.
- The return is based on the difference between the purchase price and the maturity payment.

7. Perpetual bonds

These are bonds that do not have a fixed maturity date.

- They may provide periodic interest payments.
- The principal is not scheduled for repayment on a normal maturity date.
- Their market value may fluctuate.

5.6 Advantages of bonds to investors

1. They provide an opportunity to earn interest income.
2. Some bonds provide predictable income streams.
3. They can support long-term financial planning.
4. They provide opportunities for investment diversification.
5. Some bonds can be sold in secondary markets.
6. Government bonds may have relatively low credit risk compared with many private debt investments.
7. They provide an alternative to investing in company shares.

5.7 Limitations of bonds to investors

1. Inflation may reduce the purchasing power of interest income.
2. Issuers may fail to meet their payment obligations.
3. Bond prices may fall when market interest rates rise.
4. Some bonds may have limited secondary-market liquidity.
5. Early sale may result in a capital loss.
6. Long-term bonds may expose investors to greater interest rate risk.
7. Reinvestment risk may arise when interest payments are reinvested at lower rates.

6.0 BOND MARKETS

6.1 Meaning of a bond market

A bond market is a financial market where debt securities are issued, bought and sold by governments, companies and investors.

It enables organisations to borrow money from investors and provides investors with opportunities to earn returns through bond investments.

Bond markets are important because they facilitate long-term and short-term borrowing and investment.

6.2 Types of bond markets

A. Primary bond market

- This is the market where newly issued bonds are offered to investors.
- The issuer receives funds raised from the bond issue.

- Bonds may be issued through public offers or other approved arrangements.
- It enables governments and companies to raise new capital.

Example: The Government of Kenya offers a new Treasury bond to investors.

B. Secondary bond market

- This is the market where previously issued bonds are bought and sold among investors.
- It provides opportunities for investors to dispose of bonds before maturity.
- The original issuer does not normally receive proceeds from these resale transactions.
- Market prices may change depending on interest rates and investor demand.

6.3 Functions of bond markets in the economy

1. Raising funds for governments

- Governments issue bonds to finance public expenditure.
- Funds can support infrastructure development.
- Bond financing provides an additional source of government funding.

2. Financing business operations

- Companies issue bonds to obtain funds for expansion.
- They may finance the purchase of equipment and machinery.
- Bond financing may provide an alternative to issuing additional shares.

3. Promoting long-term investment

- Bond markets provide investment products with different maturity periods.
- They enable investors to plan for future financial needs.
- Pension funds and other institutional investors may use bonds to support long-term financial objectives.

4. Providing investment opportunities

- Investors can purchase government and corporate bonds.
- They may earn interest according to the bond terms.
- Bond markets provide opportunities for diversifying investment portfolios.

5. Facilitating price discovery

- Bond trading provides information about the prices and yields of debt securities.
- Prices respond to demand, supply and interest rate expectations.
- This information supports investment decisions.

6. Supporting monetary policy

- Government securities are important instruments in the financial system.
- The Central Bank of Kenya uses government securities in implementing monetary policy operations.

- These activities can influence liquidity and interest rate conditions in the economy.

7. Supporting financial stability

- Bond markets provide alternative sources of financing.
- They reduce overdependence on bank lending.
- They facilitate the management of investment portfolios.

8. Encouraging capital market development

- Bond markets encourage the growth of investment banks, brokers, custodians and other financial intermediaries.
- They promote the development of financial expertise.
- They support innovation in financial products and services.

9. Promoting economic development

- Funds raised through bonds may finance productive activities.
- They support infrastructure and industrial development.
- They may contribute to improved economic productivity.

10. Supporting public participation in national development

- Individuals and institutions can invest in government bonds.
- This enables investors to participate in financing eligible public projects.
- It encourages domestic investment.

7.0 SECURITIES

7.1 Meaning of securities

Securities are financial instruments that represent ownership, a creditor relationship or certain financial rights in an organisation or other legal entity.

They can be issued, transferred or traded according to applicable laws and regulations.

Securities enable governments and companies to raise funds and provide investors with opportunities to participate in financial markets.

7.2 Types of securities

1. Equity securities

Equity securities represent ownership interests in a company.

Example: Ordinary shares and preference shares.

Characteristics:

- Represent ownership in a company.
- May provide voting rights depending on the class of shares.
- May provide dividends.
- May increase or decrease in market value.

- Shareholders generally rank behind creditors when a company is liquidated.

2. Debt securities

Debt securities represent money borrowed by an issuer from investors.

Examples:

- Treasury bills.
- Treasury bonds.
- Corporate bonds.

Characteristics:

- Represent a borrowing arrangement.
- Have contractual payment terms.
- May pay interest.
- Usually specify a maturity date.
- Carry credit risk.

3. Derivative securities

Derivatives are financial contracts whose value is derived from an underlying asset, rate, index or other reference variable.

Examples:

- Futures.
- Options.
- Swaps.

Uses:

- Managing financial risks.
- Hedging against price changes.
- Speculation.
- Managing exposure to interest rates and currencies.

Derivatives can be complex and may expose investors to substantial losses.

4. Collective investment scheme units

These are units representing an investor's participation in a pooled investment fund.

Examples:

- Money market fund units.
- Equity fund units.
- Balanced fund units.
- Bond fund units.

Characteristics:

- Investors pool money together.
- The fund is managed according to stated objectives.
- Returns depend on the performance of the underlying investments.
- Investors hold units representing their interests in the fund.

7.3 Differences between shares and bonds

Shares	Bonds
Represent ownership in a company.	Represent money lent to an issuer.
Shareholders are owners.	Bondholders are creditors.
Dividends are not guaranteed.	Interest payments are contractual according to bond terms.
Shares generally have no maturity date.	Most bonds have maturity dates.
Share prices fluctuate.	Bond prices also fluctuate.
Shareholders generally rank after creditors during liquidation.	Bondholders generally have priority over shareholders, subject to the bond's ranking and applicable law.
May provide voting rights.	Normally do not provide company ownership voting rights.

8.0 PROCESS OF BUYING AND SELLING SECURITIES IN THE STOCK EXCHANGE

Buying and selling securities involves a series of organised activities that enable investors to acquire or dispose of financial assets through an authorised securities market.

In Kenya, investors who wish to trade listed shares at the Nairobi Securities Exchange generally transact through licensed stockbrokers or investment banks that are authorised to provide the relevant services.



8.1 Process of buying securities

The following are the main steps followed when purchasing securities through the stock exchange.

Step 1: Identifying an investment opportunity

- The investor identifies a company or security they wish to purchase.
- They consider their financial objectives.
- They assess the expected returns and possible risks.
- They examine available information about the issuer.

Example: An investor identifies shares of a listed telecommunications company as a possible investment.

Step 2: Selecting a licensed stockbroker

- The investor identifies a licensed stockbroker or authorised investment bank.
- The investor checks the intermediary's regulatory status.
- They compare service charges and available services.
- They select an intermediary to facilitate the transaction.

Step 3: Opening a Central Depository System (CDS) account

- The investor opens a CDS account through an authorised Central Depository Agent.

- A CDS account records the investor's securities electronically.
- The account enables the holding and transfer of eligible securities.
- The investor provides the required identification and account-opening information.

Important: A CDS account is different from an ordinary bank account. It records securities ownership rather than ordinary cash deposits.

Step 4: Depositing investment funds

- The investor makes funds available through the payment arrangements provided by the intermediary.
- The amount should cover the intended purchase and applicable transaction costs.
- The investor should confirm the charges before placing the order.

Step 5: Placing a buy order

- The investor instructs the stockbroker to purchase a specified security.
- The order identifies the security and the number of shares required.
- The investor may specify a price limit or use an available order type.
- The broker submits the order through the appropriate trading system.

Step 6: Matching the buy order with a sell order

- The trading system receives buy and sell orders.
- It matches compatible orders according to trading rules and price-time priorities where applicable.
- A transaction occurs when the orders are successfully matched.
- The execution price depends on the matched orders.

Step 7: Confirmation of the transaction

- The stockbroker provides confirmation of the executed transaction.
- The investor receives information about the number of securities purchased and the transaction price.
- Applicable charges are communicated.
- The investor can review the transaction details.

Step 8: Clearing and settlement

- The transaction enters the clearing and settlement process.
- The buyer fulfils the payment obligation.
- The securities are transferred to the buyer's CDS account.
- The relevant institutions complete the settlement according to the applicable market procedures.

Step 9: Monitoring the investment

- The investor monitors the performance of the purchased securities.

- They follow relevant company announcements.
- They review dividend information where applicable.
- They evaluate whether the investment continues to meet their financial objectives.

8.2 Process of selling securities

The following are the main steps involved in selling securities through the stock exchange.

Step 1: Identifying the need to sell

- The investor decides to dispose of some or all of their securities.
- The decision may arise from financial needs, investment goals or changing market conditions.
- The investor evaluates the possible financial consequences of selling.

Step 2: Contacting the stockbroker

- The investor contacts the licensed stockbroker or authorised investment bank.
- They provide instructions concerning the securities to be sold.
- They confirm the applicable transaction charges.

Step 3: Giving a sell order

- The investor instructs the broker to sell a specified quantity of securities.
- They may specify a minimum selling price.
- The broker enters the order into the trading system.

Step 4: Matching the sell order

- The trading system compares the sell order with available buy orders.
- A transaction takes place when compatible orders are matched.
- The selling price is determined according to the matched orders and market rules.

Step 5: Confirmation of the sale

- The broker confirms the executed transaction.
- The investor receives details of the securities sold.
- The transaction price and applicable charges are communicated.

Step 6: Clearing and settlement

- The transaction is processed through the appropriate clearing and settlement arrangements.
- The securities are transferred from the seller's holdings.
- The buyer's payment is processed.
- The seller becomes entitled to the net proceeds according to the settlement arrangements.

Step 7: Receiving the proceeds

- The investor receives the sale proceeds through the agreed payment arrangements.
- Applicable transaction costs and statutory charges are deducted.
- The investor can use the money for other financial purposes.

8.3 Flowchart showing the buying and selling process

Buying securities

1. Identify a suitable security.
2. Select an authorised stockbroker.
3. Open a CDS account.
4. Make investment funds available.
5. Place a buy order.
6. Order matching and execution.
7. Transaction confirmation.
8. Clearing and settlement.
9. Credit securities to the investor's CDS account.
10. Monitor the investment.

Selling securities

1. Decide to sell securities.
2. Contact an authorised stockbroker.
3. Place a sell order.
4. Order matching and execution.
5. Transaction confirmation.
6. Clearing and settlement.
7. Receive the net sale proceeds.

8.4 Example of buying shares

A Kenyan investor wishes to purchase 500 shares in a listed company at KSh 20 per share.

Purchase value:

500×20=KSh 10,000

The investor therefore requires KSh 10,000 for the share purchase, plus applicable transaction charges.

If the share price later increases to KSh 25, the market value becomes:

500×25=KSh 12,500

Potential increase in value:

12,500−10,000=KSh 2,500

This is an unrealised capital gain before transaction costs and taxes. The gain is only realised if the shares are sold at that price.

9.0 EFFICIENT TRANSACTIONS IN THE SECURITIES EXCHANGE

9.1 Meaning of efficient securities transactions

Efficient securities transactions refer to the buying and selling of financial instruments in an organised, timely, transparent, accurate and cost-effective manner.

Efficiency ensures that investors can trade securities with minimum unnecessary delays, errors and transaction costs.

An efficient securities exchange promotes confidence among investors and supports the smooth operation of financial markets.

9.2 Characteristics of efficient securities transactions

1. Speed of transactions

- Orders should be processed within the required trading periods.
- Electronic trading systems reduce delays in executing orders.
- Faster processing improves the trading experience.

2. Transparency

- Investors should have access to relevant market information.
- Trading prices and transaction information should be communicated appropriately.
- Transparent systems reduce opportunities for manipulation.

3. Accuracy of transactions

- Buy and sell orders should contain correct information.
- Securities quantities and prices should be properly recorded.
- Accurate records reduce transaction errors and disputes.

4. Low transaction costs

- Transaction charges should be clearly communicated.
- Efficient systems help minimise unnecessary administrative costs.
- Reasonable transaction costs encourage market participation.

5. Reliable trading systems

- Trading platforms should operate consistently.
- Technical failures should be minimised.
- Appropriate backup systems should be maintained.

6. Timely settlement

- Securities and funds should be transferred within the applicable settlement period.
- Settlement delays should be minimised.

- Proper clearing arrangements support confidence in the market.

7. Accessibility

- Investors should have access to authorised trading services.
- Digital platforms can improve access to market information and transaction services.
- Financial education can help more people participate.

8. Fairness

- Investors should be treated fairly.
- Trading should follow established market rules.
- Market manipulation and unfair trading practices should be controlled.

9.3 Ways of improving efficiency in securities transactions

1. Using modern electronic trading systems.
2. Improving internet and communication infrastructure.
3. Strengthening clearing and settlement systems.
4. Providing adequate investor education.
5. Reducing unnecessary transaction procedures.
6. Improving market surveillance.
7. Ensuring accurate financial records.
8. Promoting transparency among market participants.
9. Strengthening cybersecurity systems.
10. Ensuring compliance with securities market regulations.
11. Encouraging competition among authorised service providers.
12. Providing efficient customer support and complaint-handling systems.

9.4 Importance of efficient securities transactions

- Builds investor confidence.
- Reduces transaction delays.
- Encourages participation in financial markets.
- Improves liquidity.
- Reduces administrative costs.
- Promotes transparency.
- Supports accurate price discovery.
- Reduces the possibility of errors and disputes.
- Encourages domestic and foreign investment.
- Strengthens the financial system.

10.0 CHALLENGES INVESTORS FACE WHEN BUYING AND SELLING SECURITIES

Investors encounter various challenges when participating in securities markets. These challenges may arise from market conditions, economic changes, technology, regulations and individual financial circumstances.

10.1 Price fluctuations

- Securities prices may rise or fall due to changes in demand and supply.
- Investors may purchase securities at high prices and later experience a decline in value.
- Price fluctuations may result in financial losses.
- Unpredictable market movements make investment decisions difficult.

Example: An investor purchases shares at KSh 30 each, but their market price falls to KSh 22.

10.2 Lack of adequate financial knowledge

- Some investors do not understand how securities markets operate.
- They may fail to interpret financial statements and market information.
- Lack of knowledge can result in poor investment choices.
- Investors may misunderstand the risks associated with different securities.

10.3 High transaction costs

- Buying and selling securities may involve brokerage fees and other charges.
- Some investors may find these costs expensive.
- High transaction costs reduce net investment returns.
- Frequent trading can increase the total costs incurred.

10.4 Limited access to reliable market information

- Some investors may struggle to obtain accurate and timely information.
- Limited information may make it difficult to evaluate companies.
- Investors may make decisions based on rumours or misleading reports.
- Information gaps may disadvantage less-informed investors.

10.5 Market manipulation

- Some individuals may attempt to influence securities prices unfairly.
- They may spread false information to influence investor behaviour.
- Manipulation undermines market integrity.
- Investors may suffer losses due to misleading market activities.

10.6 Fraudulent investment schemes

- Fraudsters may advertise fake investment products.
- They may promise unusually high returns.
- Some schemes operate without the necessary regulatory authorisation.

- Investors may lose their entire capital.

10.7 Liquidity challenges

- Some securities may have few buyers and sellers.
- Investors may find it difficult to sell securities quickly.
- They may be forced to accept lower prices to attract buyers.
- This can affect access to cash.

10.8 Economic instability

- Inflation, unemployment and slow economic growth can affect investor confidence.
- Economic uncertainty may cause securities prices to decline.
- Companies may experience reduced profits.
- Investors may become reluctant to purchase securities.

10.9 Political uncertainty

- Political instability may reduce investor confidence.
- Changes in government policies may affect business operations.
- Political disturbances may disrupt financial market activities.
- Investors may postpone or withdraw investment plans.

10.10 Interest rate changes

- Changes in interest rates affect the prices of certain securities.
- Rising market interest rates may reduce the market value of existing fixed-rate bonds.
- Changes in borrowing costs may affect company profitability.
- Investors may experience changes in expected returns.

10.11 Cybersecurity threats

- Online trading platforms may be targeted by hackers.
- Fraudsters may attempt to steal investors' personal information.
- Unauthorised access can result in financial losses.
- Digital fraud may undermine confidence in online trading.

10.12 Delays in transactions and settlement

- Technical failures may interrupt trading.
- Errors in transaction records may delay settlement.
- Administrative problems may affect the transfer of securities.
- Delays can inconvenience investors.

10.13 Taxation and regulatory requirements

- Investors may need to comply with various legal and tax obligations.

- Changes in tax policies may affect net returns.
- Documentation and compliance procedures may be challenging for inexperienced investors.

10.14 Psychological and emotional challenges

- Fear of losing money may influence investment decisions.
- Greed may encourage investors to take excessive risks.
- Panic selling may result in avoidable losses.
- Peer pressure may lead to unsuitable investment choices.

10.15 Foreign exchange risk

- Investors holding foreign-currency-denominated securities may be affected by exchange rate changes.
- Currency movements may reduce the value of returns when converted into Kenyan shillings.
- This may affect international investment decisions.

10.16 Limited financial resources

- Some individuals lack sufficient money to diversify their investments.
- Low disposable income may limit participation in securities markets.
- Other household financial obligations may reduce the amount available for investment.

10.17 Information overload

- Investors may receive large amounts of financial news and market information.
- Conflicting reports may cause confusion.
- It may be difficult for inexperienced investors to identify reliable information.

10.18 Lack of confidence in financial institutions

- Previous cases of financial fraud and institutional failure may discourage investment.
- Some investors may fear losing their savings.
- Weak governance in certain financial organisations can reduce public trust.

11.0 STRATEGIES FOR OVERCOMING CHALLENGES IN SECURITIES MARKETS

Investors can adopt different strategies to minimise challenges and improve their participation in financial markets.

1. Financial education

- Investors should acquire knowledge about financial markets.
- They should understand how shares and bonds operate.
- They should learn how to evaluate investment opportunities.
- Financial education improves decision-making.

2. Using authorised market intermediaries

- Investors should transact through properly licensed brokers and other authorised intermediaries.
- They should verify the regulatory status of service providers.
- This reduces exposure to unauthorised operators.

3. Conducting investment research

- Investors should study the performance of companies.
- They should examine financial statements and market information.
- They should understand the risks and potential returns.
- They should avoid making decisions based solely on rumours.

4. Diversification

- Investors should spread their money across different securities and asset classes.
- This reduces overdependence on one company or investment.
- It helps manage concentration risk.

5. Long-term investment planning

- Investors should establish clear financial objectives.
- They should avoid unnecessary frequent trading.
- They should select investments that match their financial needs and time horizons.

6. Using secure digital platforms

- Investors should access official trading platforms.
- They should protect passwords and other security details.
- They should avoid suspicious links.
- They should monitor their accounts regularly.

7. Monitoring market developments

- Investors should follow reliable financial news.
- They should monitor relevant company announcements.
- They should assess economic and market conditions.
- They should review their investment portfolios regularly.

8. Seeking professional advice

- Investors should consult qualified financial professionals where necessary.
- They should seek clarification before committing large amounts of money.
- They should verify the professional's credentials and regulatory status.

9. Maintaining accurate financial records

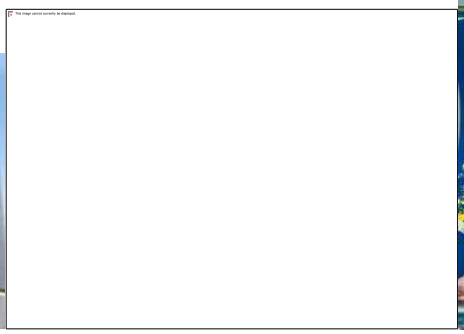
- Investors should retain transaction statements and confirmations.
- They should monitor purchases, sales and income received.
- Proper records assist in identifying errors and resolving disputes.

10. Strengthening market regulation

- Regulators should monitor trading activities.
- They should investigate market manipulation.
- They should enforce compliance with applicable laws.
- They should promote investor protection and market integrity.

12.0 NAIROBI SECURITIES EXCHANGE (NSE)







12.1 Meaning of the Nairobi Securities Exchange

The **Nairobi Securities Exchange (NSE)** is Kenya's principal securities exchange. It provides an organised and regulated marketplace through which investors trade listed securities, including shares and bonds.

The exchange connects companies and other eligible issuers seeking capital with investors who wish to purchase financial securities.

It plays an important role in the development of Kenya's capital markets by facilitating securities trading, capital mobilisation and investment.

12.2 Background and development of the NSE

- Securities trading in Kenya developed from informal stockbroking activities involving shares and other financial investments.
- The Nairobi Stock Exchange was formally established in 1954.
- It developed into an organised securities market serving companies, investors and other financial institutions.
- The exchange later adopted the name Nairobi Securities Exchange.
- It has continued to modernise its operations through electronic trading and improved securities settlement systems.
- It supports the growth of Kenya's capital market and provides investment opportunities to local and international investors.

12.3 Main securities traded at the NSE

1. Ordinary shares

- Ordinary shares represent ownership in a company.
- Shareholders may receive dividends when declared.
- They may have voting rights.
- Their market value can increase or decrease.

2. Preference shares

- Preference shares are shares that carry preferential rights over ordinary shares in certain matters.
- They may provide priority in dividend payments according to their terms.
- They generally rank ahead of ordinary shares in claims on assets during liquidation, subject to applicable legal requirements.
- Their voting rights may be limited.

3. Government bonds

- These are debt securities issued by the Government of Kenya.
- They provide an avenue for the government to raise funds.
- Investors may earn interest according to the bond terms.
- Eligible bonds may be traded in the secondary market.

4. Corporate bonds

- These are debt securities issued by companies.
- They enable businesses to raise borrowed capital.
- They may provide investors with interest income.
- Their risks depend on the financial position of the issuing company and the bond terms.

5. Exchange-traded funds (ETFs)

- ETFs are investment funds whose units are traded on an exchange.
- They usually track an index, asset or investment strategy.
- They enable investors to obtain exposure to a portfolio through a single traded instrument.
- Their market prices may fluctuate.

6. Real Estate Investment Trusts (REITs)

- REITs are investment vehicles that allow investors to participate in income-generating real estate assets.
- They pool investors' money to acquire, develop or manage property according to their structure.
- They provide an alternative to directly purchasing property.
- Their returns and risks depend on the property portfolio and market conditions.

12.4 Main functions of the Nairobi Securities Exchange

1. Providing a platform for securities trading

- The NSE provides an organised marketplace for buying and selling listed securities.
- It connects buyers and sellers through authorised market participants.
- It supports orderly trading activities.

2. Facilitating capital mobilisation

- Companies can raise capital through the issuance of shares.
- Issuers can access funds from individuals and institutional investors.
- The funds can support business expansion and development.

3. Promoting investment

- The NSE provides opportunities for individuals and organisations to invest in listed securities.
- It enables investors to participate in company ownership.
- It promotes a culture of investment and financial planning.

4. Providing liquidity

- The NSE provides a secondary market where eligible investors can sell securities.
- It makes it easier to transfer ownership.
- It supports access to investment funds.

5. Supporting price discovery

- The NSE facilitates the determination of market prices through demand and supply.
- It provides information about trading prices.
- This assists investors in evaluating their investments.

6. Promoting corporate governance

- Listed companies are expected to meet applicable listing and disclosure requirements.
- The exchange supports accountability and transparency.
- It promotes responsible management of listed companies.

7. Providing market information

- The NSE publishes information on securities and market performance.
- Investors can monitor price movements and trading activities.
- Market information supports informed investment decisions.

8. Attracting local and foreign investors

- The exchange provides access to investment opportunities in Kenya.
- It supports participation by domestic and international investors.
- This can increase the capital available for investment.

9. Supporting government securities trading

- The NSE provides a secondary market for eligible listed government securities.
- Investors can trade qualifying bonds.
- This contributes to the development of the domestic debt market.

10. Supporting economic development

- The NSE facilitates investment in productive enterprises.
- It supports capital formation and business expansion.
- Its activities contribute to employment and economic growth.

12.5 Advantages of investing through the NSE

1. Provides access to listed companies.
2. Offers opportunities to earn dividends.
3. Provides opportunities for capital gains.
4. Enables investment diversification.
5. Provides access to market information.
6. Facilitates the buying and selling of eligible securities.
7. Promotes long-term financial planning.
8. Enables individuals to participate in company ownership.
9. Provides opportunities to invest in bonds.
10. Operates within a regulated capital market framework.

12.6 Challenges facing the Nairobi Securities Exchange

1. Low public awareness

- Some Kenyans have limited knowledge about the operations of the NSE.
- Many people are unfamiliar with the procedures for purchasing shares and bonds.
- This may limit public participation in securities markets.

2. Limited financial literacy

- Some potential investors do not understand securities trading.
- They may struggle to evaluate investment risks.
- Lack of knowledge may discourage participation.

3. Economic fluctuations

- Inflation and changes in interest rates may affect securities prices.
- Economic uncertainty can reduce investor confidence.
- Poor company performance may discourage investment.

4. Limited market liquidity in some securities

- Some listed securities may experience low trading volumes.

- Investors may struggle to find buyers or sellers.
- This may affect the ease of trading.

5. Competition from alternative investments

- Some individuals prefer investing in land, property, SACCOs and businesses.
- These alternatives may compete with securities for investors' funds.
- This can limit participation in the exchange.

6. Market volatility

- Share prices may change rapidly.
- Uncertainty may discourage inexperienced investors.
- Price declines can result in financial losses.

7. Fraudulent investment activities

- Fraudsters may misuse the NSE's name to promote fake investments.
- Investors may lose money through unauthorised platforms.
- Such activities may undermine confidence in the market.

8. High transaction costs

- Brokerage charges and other transaction costs may discourage some small investors.
- Frequent trading may reduce net returns.
- Investors must consider charges when making decisions.

9. Political uncertainty

- Political developments may affect investor confidence.
- Uncertainty may discourage long-term capital commitments.
- Some investors may postpone investment decisions.

10. Technological challenges

- Technical interruptions may affect access to trading services.
- Cybersecurity threats may expose investors to fraud.
- Continuous investment in secure systems is necessary.

12.7 Ways of strengthening the Nairobi Securities Exchange

1. Promoting financial literacy programmes.
2. Encouraging investment education in schools and communities.
3. Improving market accessibility.
4. Strengthening investor protection.
5. Enhancing electronic trading systems.

6. Promoting transparency among listed companies.
7. Encouraging more companies to list on the exchange.
8. Promoting local and foreign investor participation.
9. Improving public awareness of securities products.
10. Strengthening regulation and market surveillance.
11. Developing innovative investment products.
12. Improving efficiency in clearing and settlement.

13.0 ROLE OF THE CAPITAL MARKETS AUTHORITY IN KENYA



13.1 Meaning of the Capital Markets Authority

The **Capital Markets Authority (CMA)** is the statutory regulator responsible for supervising and developing Kenya's capital markets.

It plays an important role in promoting fair, orderly and efficient capital market activities.

The authority helps protect investors and ensures that market participants comply with applicable capital markets laws and regulations.

13.2 Functions of the Capital Markets Authority

1. Regulation of capital markets

- It regulates capital market activities in Kenya.
- It establishes and enforces applicable regulatory requirements.
- It promotes orderly market operations.

2. Licensing and supervision

- It licenses or authorises relevant capital market intermediaries and market institutions within its mandate.
- It supervises regulated entities.
- It monitors compliance with regulatory requirements.

3. Investor protection

- It promotes the protection of investors against unfair practices.
- It encourages disclosure of relevant investment information.
- It takes appropriate action against market misconduct.

4. Promotion of market integrity

- It monitors market activities.
- It addresses practices such as market manipulation and insider trading.
- It promotes fairness and transparency.

5. Development of capital markets

- It encourages the growth of capital market products and services.
- It supports innovation in investment products.
- It promotes broader participation in capital markets.

6. Public education

- It promotes investor awareness and financial literacy.
- It provides information about capital market products.
- It helps the public understand investment opportunities and risks.

7. Enforcement of regulations

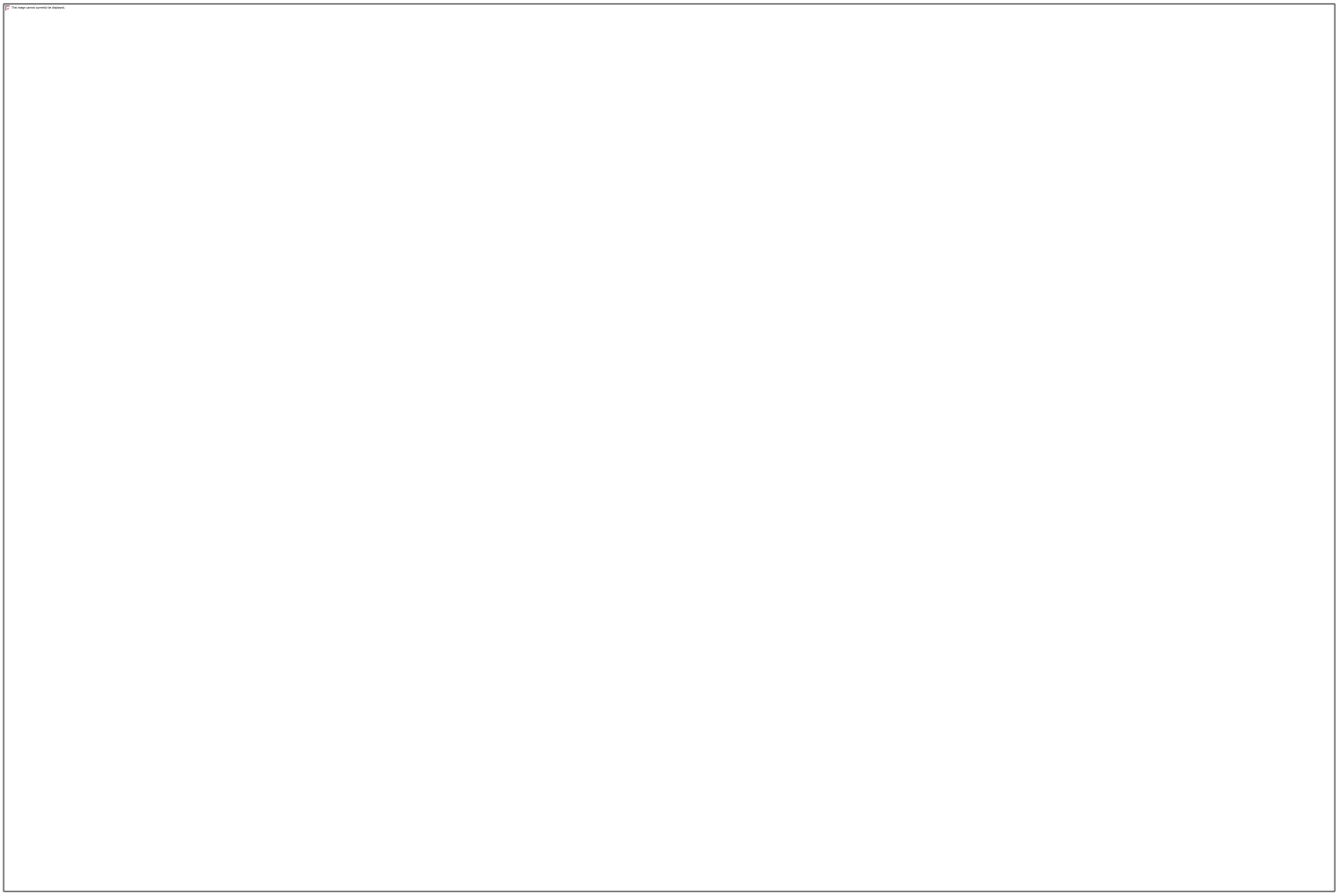
- It investigates suspected breaches of capital market laws.
- It may take regulatory or enforcement action within its legal powers.
- It promotes compliance among market participants.

13.3 Importance of the CMA to investors

- Protects investors against certain forms of market abuse.
- Promotes reliable market information.
- Encourages transparency.
- Supports confidence in capital markets.
- Helps investors identify authorised service providers.
- Promotes fair trading practices.

14.0 OTHER IMPORTANT INSTITUTIONS IN KENYA'S FINANCIAL MARKETS

14.1 Central Bank of Kenya (CBK)



The Central Bank of Kenya is the country's central bank. It plays a major role in monetary policy, currency issuance and the regulation and oversight of relevant parts of the financial system.

Functions relevant to financial markets:

1. Conducts monetary policy.
2. Issues currency.
3. Acts as banker and adviser to the government.
4. Issues and manages government securities on behalf of the government.
5. Promotes stability of the financial system.
6. Oversees relevant payment and settlement systems.
7. Supports the development of financial markets.

14.2 Central Depository and Settlement Corporation (CDSC)



The Central Depository and Settlement Corporation is an important institution in Kenya's securities market.

It provides electronic securities depository and settlement services.

Functions:

1. Maintains electronic records of securities ownership.
2. Facilitates the transfer of securities.
3. Supports clearing and settlement arrangements.
4. Reduces reliance on physical share certificates.
5. Supports efficient securities transactions.
6. Provides services that strengthen the securities market infrastructure.

14.3 Stockbrokers

Stockbrokers are licensed intermediaries who execute securities transactions on behalf of investors.

Functions:

1. Receive buy and sell orders.

2. Execute client transactions.
3. Provide information about trading procedures.
4. Maintain relevant client transaction records.
5. Facilitate access to securities markets.
6. Provide investment-related services within their authorised scope.

14.4 Investment banks

Investment banks provide specialised financial services in capital markets.

Functions:

1. Assist companies in raising capital.
2. Advise issuers on share and bond offerings.
3. Help structure financial transactions.
4. Support mergers and acquisitions.
5. Provide corporate finance services.
6. Assist institutions in accessing capital markets.

14.5 Summary of financial market institutions in Kenya

Institution	Main responsibility
Nairobi Securities Exchange	Provides an organised securities trading marketplace.
Capital Markets Authority	Regulates and develops capital markets.
Central Bank of Kenya	Implements monetary policy and manages government securities issuance and related central banking functions.
Central Depository and Settlement Corporation	Provides electronic securities depository and settlement services.
Stockbrokers	Execute securities transactions for investors.
Investment banks	Assist organisations in raising capital.
Fund managers	Manage pooled investment funds.
Custodians	Safeguard financial assets on behalf of clients.

REVISION SUMMARY

Financial markets are important because they connect people and institutions with surplus funds to those who need financial resources.

The following are the major concepts covered in this sub-strand:

Concept	Main idea

Financial markets	Systems for trading financial assets and raising capital.
Stock exchange	Organised marketplace for securities trading.
Shares	Represent ownership in a company.
Bonds	Represent money borrowed from investors.
Securities	Financial instruments representing ownership, debt or financial rights.
Primary market	Market for newly issued securities.
Secondary market	Market for trading previously issued securities.
Bond market	Market for issuing and trading debt securities.
NSE	Kenya's principal securities exchange.
CMA	Regulates and develops capital markets.
CDSC	Provides electronic securities depository and settlement services.
Stockbroker	Facilitates securities transactions on behalf of investors.

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Choose the correct answer from the alternatives provided.

1. Which of the following best describes a financial market?

A. A place where only agricultural products are sold.

B. A system through which financial assets are issued and traded.

C. A place where workers search for employment.

D. A market dealing exclusively with consumer goods.

2. The main purpose of financial markets in an economy is to:

A. Discourage individuals from saving.

B. Eliminate all forms of business competition.

C. Facilitate the movement of funds from savers to borrowers.

D. Prevent individuals from investing.

3. Which institution operates Kenya's principal securities exchange?

A. Kenya Revenue Authority.

B. Nairobi Securities Exchange.

C. Kenya National Bureau of Statistics.

D. National Treasury.

4. A financial instrument representing ownership in a company is known as:

A. A bond.

B. A loan.

C. A share.

D. A mortgage.

5. Which of the following represents a debt security?

A. Ordinary share.

B. Treasury bond.

C. Company ownership certificate.

D. Equity investment.

6. A company issues new shares to the public for the first time. This transaction takes place in the:

A. Secondary market.

B. Informal market.

C. Primary market.

D. Foreign exchange market.

7. Which of the following best describes the secondary market?

A. A market for newly manufactured products.

B. A market for previously issued securities.

C. A market for agricultural inputs.

D. A market for unprocessed materials.

8. The institution responsible for regulating and developing Kenya's capital markets is:

A. CMA.

B. KRA.

C. KNBS.

D. NCPB.

9. Which institution maintains electronic records of securities ownership and provides securities depository and settlement services in Kenya?

A. KRA.

B. CDSC.

C. KNBS.

D. NSSF.

10. The person or institution that issues a bond is referred to as:

A. A shareholder.

B. A bond issuer.

C. A stockbroker.

D. A custodian.

11. The stated interest rate used to calculate periodic interest payments on a bond is known as:

A. Inflation rate.

B. Exchange rate.

C. Coupon rate.

D. Discount rate.

12. A bond's maturity date refers to the date when:

A. The bond is advertised.

B. The principal becomes due for repayment.

C. The bond is first purchased.

D. The issuer announces its profits.

13. Which of the following is a function of a stock exchange?

A. Manufacturing goods.

B. Providing a platform for securities trading.

C. Collecting school fees.

D. Controlling agricultural production.

14. The ease with which a security can be converted into cash without significant loss in value is called:

A. Profitability.

B. Liquidity.

C. Inflation.

D. Depreciation.

15. When the demand for a particular share increases while supply remains limited, its market price may:

A. Increase.

B. Remain permanently unchanged.

C. Become zero.

D. Automatically decrease.

16. An individual who purchases shares in a company becomes a:

A. Creditor only.

B. Shareholder.

C. Bond issuer.

D. Regulator.

17. Which of the following is a government security in Kenya?

A. Treasury bill.

B. Ordinary share.

C. Company dividend.

D. Business licence.

18. The main purpose of a Central Depository System account is to:

A. Store physical cash.

B. Record ownership of securities electronically.

C. Register business premises.

D. Calculate employees' salaries.

19. A person who facilitates the buying and selling of securities on behalf of investors is called a:

A. Stockbroker.

B. Manufacturer.

C. Wholesaler.

D. Retailer.

20. Which of the following is a major benefit of bond markets to governments?

A. They eliminate public expenditure.

B. They provide opportunities to raise borrowed funds.

C. They prevent taxation.

D. They eliminate government borrowing costs.

21. An investor purchases shares at KSh 15 each and later sells them at KSh 20 each. The investor makes:

A. A capital loss.

B. A capital gain.

C. A business expense.

D. A loan repayment.

22. Which of the following is an example of market manipulation?

A. Providing accurate financial statements.

B. Spreading false information to influence share prices.

C. Maintaining proper investment records.

D. Following securities market regulations.

23. Which strategy helps investors reduce concentration risk?

A. Investing all funds in one company.

B. Avoiding financial planning.

C. Diversifying investments.

D. Borrowing excessively.

24. A bond that does not make periodic interest payments but is issued at a discount is called:

A. A zero-coupon bond.

B. A floating-rate bond.

C. An ordinary share.

D. A preference share.

25. Which of the following is a major role of the Nairobi Securities Exchange in Kenya?

A. Issuing national identity cards.

B. Facilitating securities trading.

C. Regulating school examinations.

D. Controlling agricultural prices.

26. A company raises money by issuing corporate bonds. This means the company is:

A. Selling ownership rights only.

B. Borrowing money from investors.

C. Giving away its assets.

D. Paying dividends to customers.

27. Which of the following is a challenge investors may face when trading securities?

A. Guaranteed profits.

B. Price fluctuations.

C. Elimination of market risks.

D. Permanent price stability.

28. The process of matching compatible buy and sell orders is facilitated by:

A. The trading system.

B. The tax collection system.

C. The production department.

D. The transport department.

29. Which of the following promotes efficiency in securities transactions?

A. Delayed settlement.

B. Inaccurate records.

C. Reliable electronic trading systems.

D. Unauthorised trading.

30. An investor receives interest from a bond according to its agreed terms. This income is known as:

A. Dividend.

B. Coupon payment.

C. Capital loss.

D. Brokerage charge.

SECTION B: STRUCTURED AND SHORT-ANSWER QUESTIONS

1: Introduction to financial markets

a) Define the term financial markets. (2 marks)

b) State five participants in financial markets. (5 marks)

c) Explain four ways in which financial markets contribute to economic development in Kenya. (8 marks)

2: Importance of financial markets

a) State five importance of financial markets in an economy. (5 marks)

b) Explain five ways financial markets promote investment and business growth. (10 marks)

3: Stock exchange

a) Define a stock exchange. (2 marks)

b) Explain six characteristics of a stock exchange. (6 marks)

c) Differentiate between primary and secondary markets. (4 marks)

d) Explain four benefits of a stock exchange to investors. (8 marks)

4: Functions of stock exchanges

Explain eight functions performed by a stock exchange in an economy. (16 marks)

5: Bonds and bond markets

a) Define a bond. (2 marks)

b) State five characteristics of bonds. (5 marks)

c) Explain five types of bonds. (10 marks)

d) Distinguish between government bonds and corporate bonds. (4 marks)

6: Securities

a) Define securities. (2 marks)

b) Identify four categories of securities. (4 marks)

c) Explain four differences between shares and bonds. (8 marks)

7: Buying and selling securities

a) State four requirements an individual may need to fulfil before buying securities through the NSE. (4 marks)

b) Describe eight steps involved in purchasing shares through the stock exchange. (8 marks)

c) Explain five steps involved in selling shares through the stock exchange. (10 marks)

8: Efficient securities transactions

a) Explain the meaning of efficient securities transactions. (2 marks)

b) State six characteristics of efficient securities transactions. (6 marks)

c) Explain five ways of improving efficiency in securities transactions. (10 marks)

9: Challenges facing investors

Explain eight challenges investors may experience when buying and selling securities in the stock exchange. (16 marks)

10: Nairobi Securities Exchange

a) Explain the meaning of the Nairobi Securities Exchange. (2 marks)

b) State six securities or investment products that may be traded on the NSE. (6 marks)

c) Explain six functions of the Nairobi Securities Exchange in Kenya. (12 marks)

d) Identify five challenges facing the NSE. (5 marks)

11: Financial market institutions

a) State four functions of the Capital Markets Authority in Kenya. (4 marks)

b) Explain four functions of the Central Depository and Settlement Corporation. (8 marks)

c) Differentiate between the roles of the Nairobi Securities Exchange and the Capital Markets Authority. (4 marks)

12: Application of knowledge

A group of young entrepreneurs in Narok County wishes to invest KSh 500,000 in financial markets. They are considering purchasing shares, government bonds and units in a collective investment scheme.

a) Identify three financial instruments they may consider investing in. (3 marks)

b) Explain four factors they should consider before making their investment decisions. (8 marks)

c) Explain four risks they may face when investing in financial markets. (8 marks)

d) Suggest five strategies they can use to minimise investment risks. (5 marks)

13: Case study

Read the following case study and answer the questions that follow.

A company based in Nairobi intends to expand its manufacturing operations by establishing a new production facility in Nakuru. The management estimates that the project requires KSh 100 million.

The company decides to raise part of the required funds by issuing shares to the public through the capital market. It engages an authorised investment intermediary to guide it through the process.

Several individual and institutional investors express interest in purchasing the shares.

a) Identify the method of raising capital proposed by the company. (2 marks)

b) Explain four benefits the company may obtain from raising capital through the securities market. (8 marks)

c) Explain four benefits investors may obtain from purchasing the company's shares. (8 marks)

d) State four responsibilities of the Capital Markets Authority in relation to capital market activities. (4 marks)

e) Explain three risks investors should consider before purchasing the company's shares. (6 marks)

14: Competency-based application

A school leaver receives KSh 200,000 from a family business and intends to invest the money rather than spend it unnecessarily.

The learner is considering investing in shares, Treasury bonds or starting a small retail business.

a) Identify three possible investment opportunities available to the learner. (3 marks)

b) Explain five factors that should guide the learner's investment decision. (10 marks)

c) Explain four advantages of investing in government bonds. (8 marks)

d) Suggest four ways the learner can protect the investment against financial losses. (4 marks)

PRACTICAL LEARNING ACTIVITIES

These activities help learners connect classroom knowledge with real financial market operations in Kenya.

Activity 1: Exploring the Nairobi Securities Exchange

Task:

Visit the official Nairobi Securities Exchange website or access its published educational materials.

Investigate:

1. The meaning of the NSE.
2. Securities traded at the exchange.
3. Companies listed on the exchange.

4. The procedure for buying shares.
5. The role of stockbrokers.
6. The importance of the exchange to Kenya's economy.

Expected learning outcome: The learner appreciates how securities markets operate in Kenya.

Activity 2: Comparing shares and bonds

Task:

In groups, prepare a comparison of shares and bonds based on:

- Meaning.
- Nature of investment.
- Expected returns.
- Risks.
- Ownership rights.
- Investment period.
- Liquidity.

Expected learning outcome: The learner develops the ability to evaluate different financial instruments.

Activity 3: Simulated stock market trading

Task:

1. Form groups representing investors.
2. Assign learners different hypothetical companies.
3. Provide each group with virtual investment funds.
4. Prepare sample buy and sell orders.
5. Match the orders using a simulated trading system.
6. Calculate gains and losses.
7. Discuss factors influencing share prices.

Expected learning outcome: The learner develops financial decision-making, numeracy and problem-solving skills.

Activity 4: Investigating financial market institutions

Learners should research the roles of:

- Nairobi Securities Exchange.
- Capital Markets Authority.
- Central Bank of Kenya.
- Central Depository and Settlement Corporation.

They should prepare a report explaining the contribution of each institution to Kenya's financial system.

KEY TERMS AND DEFINITIONS

Term	**Meaning**
Financial market	A system through which financial assets are issued and traded.
Stock exchange	An organised marketplace for trading eligible securities.
Share	A unit of ownership in a company.
Shareholder	An individual or organisation that owns shares.

Bond	A debt security representing money borrowed from investors.
Bondholder	An individual or institution that owns a bond.
Securities	Financial instruments representing ownership, debt or financial rights.
Stockbroker	An authorised intermediary who executes securities transactions.
Liquidity	Ease of converting an asset into cash without significant loss in value.
Capital gain	Profit arising from selling an asset for more than its purchase price.
Dividend	A distribution made by a company to shareholders when declared.
Coupon rate	The stated interest rate used to calculate a bond's periodic interest payments.
Maturity date	The date when a debt security reaches its agreed repayment date.
Primary market	A market for newly issued securities.
Secondary market	A market for trading previously issued securities.
Investor	A person or organisation that commits resources to an investment.
Issuer	An organisation that creates and offers securities to raise funds.
CDS account	An electronic account that records securities ownership.
CMA	Kenya's Capital Markets Authority.
NSE	Nairobi Securities Exchange.
CDSC	Central Depository and Settlement Corporation.
Diversification	Spreading investments across different assets to reduce concentration risk.
Market volatility	The degree to which market prices fluctuate.
Yield	A measure of return earned from an investment.

Capital formation	Accumulation of resources for productive investment.

STRAND 4.0: GOVERNMENT AND GLOBAL INFLUENCE IN BUSINESS

SUB-STRAND 4.1: PUBLIC FINANCE





1.0 Introduction to Public Finance

Meaning of public finance

Public finance refers to the study and management of how the government raises, receives, allocates, spends and accounts for public funds to provide services and promote the economic and social welfare of citizens.

In Kenya, public finance involves the collection and management of money by the national and county governments to finance public services and development programmes.

Examples of public finance activities in Kenya include:

1. The national government collecting money from taxes, loans, grants and other sources.
2. The government allocating funds to education, health, security, agriculture and infrastructure.
3. County governments receiving funds to provide services such as healthcare, water supply, sanitation and local roads.
4. The government borrowing money to finance development projects.
5. Public institutions preparing budgets and accounting for money spent.

Meaning of public funds

Public funds are financial resources collected, received or borrowed by the government and its institutions for the benefit of the public.

Examples include:

- Money collected by the Kenya Revenue Authority (KRA).
- Funds received by county governments.
- Loans borrowed by the national government.
- Grants received from development partners.
- Revenue collected by public institutions.

Meaning of a public budget

A **public budget** is a financial plan showing the government's estimated revenue and proposed expenditure for a specified financial year.

In Kenya, the financial year generally runs from 1 July to 30 June of the following year.

A government budget indicates:

- How much money the government expects to receive.
- The sources from which the money will be obtained.
- The activities and programmes to be financed.
- The amount allocated to different ministries, departments and agencies.
- The expected development and service-delivery priorities.

Importance of public finance in Kenya

Public finance is important because it:

1. **Provides public services:** It enables the government to provide education, healthcare, security, water and sanitation.
2. **Promotes economic development:** Government funds are used to construct roads, bridges, ports, airports and electricity infrastructure.
3. **Reduces income inequalities:** Public resources can be directed towards disadvantaged communities through social protection programmes and development projects.
4. **Creates employment:** Government projects and public institutions create direct and indirect employment opportunities.
5. **Promotes national security:** Public funds finance the police service, defence forces and other security agencies.
6. **Promotes business activities:** Government investment in infrastructure, energy and communication makes it easier for businesses to operate.
7. **Supports vulnerable groups:** Public expenditure can support older persons, persons with disabilities, vulnerable children and low-income households.
8. **Promotes balanced regional development:** Resources can be allocated to different counties and regions to reduce development disparities.
9. **Stabilises the economy:** Government spending and borrowing can be used to influence economic activity, employment and demand.
10. **Promotes accountability:** Public finance systems require institutions to prepare budgets, maintain records and account for the use of public resources.

2.0 Sources of Public Finance Other Than Taxation in Kenya

Meaning of sources of public finance

Sources of public finance are the different ways through which the government obtains money to finance its activities and provide services.

Although taxation is a major source of government revenue, the Kenyan government also obtains funds from non-tax sources.

Non-tax sources of public finance are revenues and financial resources received by the government from sources other than taxes.

These sources help the government finance its operations, development programmes and public services.

Sources of public finance other than taxation in Kenya

2.1 Government borrowing

Government borrowing refers to obtaining money from individuals, financial institutions, organisations or other governments with an obligation to repay it under agreed conditions.

The government borrows when its available revenue is insufficient to meet its expenditure requirements.

Government borrowing can be classified into the following:

A. Internal borrowing

Internal borrowing refers to obtaining loans from within the country.

Sources of internal borrowing include:

- Commercial banks operating in Kenya.
- Insurance companies.
- Pension funds.
- Investment institutions.
- Individuals and other domestic investors.
- Other financial institutions.

Examples of internal borrowing instruments include:

- Treasury bills.
- Treasury bonds.
- Government infrastructure bonds.

B. External borrowing

External borrowing refers to obtaining loans from foreign governments, international financial institutions and other external lenders.

Sources include:

- World Bank.
- International Monetary Fund (IMF).
- African Development Bank (AfDB).
- Foreign governments.
- International financial markets.
- Other bilateral and multilateral development institutions.

Examples: Kenya may obtain external loans to finance major infrastructure, energy, water and other development projects.

Advantages of government borrowing

1. Provides funds for development projects.
2. Enables the government to finance large projects that cannot be funded immediately from ordinary revenue.
3. Can support economic recovery during periods of low economic activity.
4. Allows the government to spread the cost of long-term projects over time.
5. May provide access to long-term development financing.

Limitations of government borrowing

1. Creates public debt that must be repaid.
2. Interest payments increase government expenditure.
3. Excessive borrowing may lead to debt sustainability problems.
4. External borrowing may expose the country to foreign exchange risks.
5. Heavy domestic borrowing may reduce the funds available for private-sector borrowing.

2.2 Grants and donations

A **grant** is money or other resources given to the government by another government, international organisation, institution or individual without the normal obligation to repay it.

Donations may be provided in cash, equipment, materials or technical support.

Sources of grants and donations in Kenya include:

- Foreign governments.
- World Bank and other development partners.
- United Nations agencies.
- African Development Bank.
- International development organisations.
- Charitable foundations.
- Philanthropic organisations.

Examples of areas supported through grants include:

- Public health programmes.
- Education projects.
- Environmental conservation.
- Water and sanitation.
- Agricultural development.
- Disaster response.
- Poverty reduction programmes.

Advantages of grants and donations

1. They provide funds without creating ordinary loan repayment obligations.
2. They reduce pressure on tax revenue.
3. They support important social and economic development programmes.
4. They may provide technical expertise and equipment.
5. They can help finance emergency and humanitarian activities.

Limitations of grants and donations

1. They may be unreliable because donors decide when and how much to provide.

2. Some grants have strict conditions on how the funds should be used.
3. Donor priorities may differ from national development priorities.
4. Some programmes may become dependent on external support.
5. Delays in receiving grants may affect project implementation.

2.3 Fees and charges for government services

Fees and charges are amounts paid by individuals or organisations in return for specific services provided by government institutions.

The government collects these payments to help meet the cost of providing public services.

Examples in Kenya include:

- Passport application and processing fees.
- Business registration fees.
- Fees for government licences and permits.
- Court filing fees.
- Fees for certain government certificates.
- Charges for selected public services.
- Fees charged by public training institutions.

Importance of fees and charges

1. Generate revenue for government operations.
2. Help recover the cost of providing specific services.
3. Reduce the amount that must be financed through taxation.
4. Encourage responsible use of certain public services.
5. Provide funds for maintaining public facilities.

Limitation: High charges may make some essential services less accessible to low-income citizens.

2.4 Fines and penalties

Fines and penalties are financial payments imposed on individuals or organisations for breaking laws, regulations or established rules.

Examples in Kenya include:

- Court-imposed fines.
- Penalties for violating environmental regulations.
- Fines for traffic offences.
- Penalties for non-compliance with certain licensing requirements.
- Penalties imposed under relevant laws and regulations.

Importance of fines and penalties

1. Generate revenue for the government.

2. Discourage unlawful behaviour.
3. Promote compliance with government regulations.
4. Protect public safety and the environment.
5. Promote discipline in business operations.

Important point: Fines and penalties are primarily intended to enforce laws and discourage violations, not to serve as a dependable major source of government revenue.

2.5 Income and profits from government-owned enterprises

Government-owned enterprises are organisations in which the government has ownership or controlling interests.

Such enterprises may generate income through the sale of goods and services. Where profits or dividends are payable to the government, they can contribute to public revenue.

Examples of public enterprises and government-linked organisations in Kenya include:

- Kenya Electricity Generating Company (KenGen).
- Kenya Ports Authority (KPA).
- Kenya Railways Corporation.
- Kenya Pipeline Company.
- Other state corporations and public enterprises.

Revenue may arise through:

- Profits earned from business operations.
- Dividends paid to the government.
- Surpluses transferred to the government where legally permitted.
- Fees and service charges collected by public enterprises.

Advantages

1. Provides additional revenue to the government.
2. Reduces dependence on taxation.
3. Encourages efficient management of public resources.
4. Supports investment in public services.
5. Enables the government to benefit from commercial activities.

Limitations

1. Public enterprises may make losses.
2. Poor management may reduce profitability.
3. High operating costs may reduce the amount available for transfer to the government.
4. Some enterprises require government subsidies instead of generating profits.

2.6 Rent and royalties from government resources

Rent refers to money received by the government for allowing individuals or organisations to use government-owned property or assets.

Royalties are payments made to the government for the right to extract or exploit certain natural resources.

Examples include:

- Rent from government-owned buildings and land.
- Royalties from mineral extraction.
- Payments associated with the exploitation of certain natural resources.
- Revenue from the use of government property where applicable.

In Kenya, mining and other extractive activities may generate royalties payable under the relevant laws.

Importance

1. Generates revenue from public assets and natural resources.
2. Enables the government to benefit from the exploitation of national resources.
3. Supports infrastructure and development programmes.
4. Encourages proper regulation of resource extraction.
5. Provides income without relying entirely on taxation.

2.7 Sale of government assets and property

The government may obtain revenue by selling assets or property that it no longer requires, subject to applicable laws and public asset-disposal procedures.

Examples include:

- Disposal of obsolete government vehicles.
- Sale of old machinery and equipment.
- Disposal of surplus office furniture.
- Sale of other government-owned assets through authorised procedures.

Importance

1. Generates money from assets that are no longer useful.
2. Reduces the cost of maintaining obsolete assets.
3. Creates room for replacement with more efficient equipment.
4. Helps government institutions manage public assets responsibly.

Limitation: Selling public assets reduces the assets available for future government use and should not be treated as a permanent source of revenue.

2.8 Proceeds from privatisation

Privatisation refers to the transfer of ownership or control of a government-owned enterprise or business activity to private investors, in accordance with the law.

The government may receive money through the sale of shares or transfer of ownership interests in public enterprises.

Examples of possible privatisation proceeds include:

- Sale of government shares in a public enterprise.
- Transfer of ownership interests to private investors.
- Sale of a government-owned commercial undertaking under an approved privatisation programme.

Advantages

1. Provides funds to the government.
2. May reduce the financial burden of running certain enterprises.
3. Can attract private-sector investment.
4. May promote efficiency and competition.
5. Can allow the government to concentrate on its core public responsibilities.

Limitations

1. The government may lose future income from the enterprise.
2. Poorly managed privatisation may result in the undervaluation of public assets.
3. It may reduce public control over strategic services.
4. It may affect workers if restructuring leads to job losses.

2.9 Investment income

Investment income refers to money earned by the government from investing its financial resources in approved financial assets and investments.

It may include:

- Interest earned on government investments.
- Dividends from shares held by government institutions.
- Returns from approved investment funds.
- Income from financial assets held by public institutions.

Importance

1. Provides additional revenue.
2. Helps grow public financial resources.

3. Diversifies government sources of income.
4. May support future development expenditure.

2.10 Revenue from public services and facilities

The government may collect revenue from the use of certain public facilities and services.

Examples include:

- Charges for using selected public facilities.
- Fees for public parking services managed by county governments.
- Market stall charges.
- Bus park and terminal charges.
- Fees for using selected recreational and public facilities.
- Charges for waste collection services where applicable.

Such revenue may be collected by national or county governments depending on the service and the legal mandate.

2.11 Public-private partnerships (PPPs)

A **public-private partnership** is an arrangement in which the government works with a private-sector organisation to finance, develop, operate or maintain public infrastructure or services under an agreed contract.

Examples of areas where PPP arrangements may be used include:

- Roads.
- Energy generation.
- Water supply.
- Transport infrastructure.
- Public facilities.

How PPPs support public finance

1. They may mobilise private-sector capital for public projects.
2. They can reduce the immediate financial burden on government budgets.
3. They may introduce specialised skills and technology.
4. They can improve infrastructure development.
5. They may enable the government to share project risks with private partners.

Important distinction: A PPP is not automatically a grant or government revenue. It is a financing and service-delivery arrangement. Its financial effect depends on the contract, including any government payments, guarantees, user charges or revenue-sharing arrangements.

2.12 Sale of government securities

Government securities are financial instruments issued by the government to raise borrowed funds from investors.

Examples include:

- Treasury bills.
- Treasury bonds.
- Infrastructure bonds.

When investors purchase these securities, they lend money to the government in exchange for repayment under agreed terms, including interest where applicable.

Importance

1. Provides funds to finance government expenditure.
2. Encourages domestic savings and investment.
3. Provides investment opportunities to individuals and institutions.
4. Supports government cash-flow management.

Note: The proceeds from selling government securities are borrowing, not ordinary non-repayable revenue.

2.13 Revenue from natural resources and environmental resources

The government may earn income from the authorised use, exploitation or management of natural resources.

Examples include:

- Revenue from mineral extraction.
- Royalties from quarrying activities.
- Payments associated with petroleum and other extractive resources.
- Revenue from the authorised use of forests and other natural resources.
- Charges for certain environmental services and permits.

Importance

1. Generates income from national resources.
2. Supports environmental management.
3. Promotes responsible exploitation of natural resources.
4. Provides funds for national development.
5. Enables communities and the government to benefit from natural resource use.

Summary: Sources of public finance other than taxation

Source	**Meaning or example**
Government borrowing	Loans from domestic and foreign lenders

Grants and donations	Funds received without ordinary loan repayment obligations
Fees and charges	Payments for government services
Fines and penalties	Payments imposed for breaking laws
Public enterprise income	Profits and dividends from government-owned enterprises
Rent and royalties	Payments for using government property or extracting resources
Sale of government assets	Disposal of obsolete or surplus public property
Privatisation proceeds	Money received from transferring public enterprise ownership
Investment income	Interest and dividends earned from investments
Public facility charges	Market, parking and other service charges
Public-private partnerships	Private-sector financing and investment arrangements
Government securities	Borrowing through Treasury bills and bonds
Natural resource revenue	Royalties and payments from authorised resource exploitation

Important distinction for learners

Not all non-tax sources of public finance are ordinary government revenue.

- **Revenue or income:** Fees, fines, royalties, rent, dividends and investment income.
- **Non-repayable financial support:** Grants and donations.
- **Borrowed funds:** Treasury bills, Treasury bonds and external loans.
- **Asset-related proceeds:** Sale of government assets and privatisation proceeds.
- **Alternative financing arrangements:** Public-private partnerships.

This distinction helps learners understand the difference between money earned, money received as support, money borrowed and money obtained by disposing of assets.

3.0 Classification of Public Expenditure in Kenya

3.1 Meaning of public expenditure

Public expenditure refers to the money spent by the national and county governments, as well as other authorised public institutions, to provide public services, maintain government operations and promote economic and social development.

Examples of public expenditure in Kenya include:

- Payment of salaries to teachers, doctors, police officers and other public servants.

- Construction of public roads and bridges.
- Purchase of medicines for public hospitals.
- Provision of learning materials in public schools.
- Construction of water supply systems.
- Purchase of equipment for public institutions.
- Payment of interest on government loans.

3.2 Meaning of classification of public expenditure

Classification of public expenditure refers to the arrangement of government spending into different groups according to its purpose, nature, function or the type of activity being financed.

The classification helps the government to:

1. Plan how public funds will be used.
2. Allocate money to different sectors.
3. Monitor expenditure.
4. Control unnecessary spending.
5. Evaluate government performance.
6. Promote accountability.
7. Compare spending across financial years.

3.3 Main classes of public expenditure in Kenya

One of the main classifications used in Kenyan government budgets is the division into **recurrent expenditure and development expenditure**. The Constitution requires national and county government budgets to distinguish between these two categories.

A. Recurrent expenditure

Recurrent expenditure refers to government spending on the regular and continuous running of public institutions and the provision of routine services.

It covers expenses that occur frequently, such as monthly, quarterly or annually.

Examples of recurrent expenditure in Kenya include:

1. **Salaries and wages**

- Payment of salaries to teachers.
- Payment of doctors' and nurses' salaries.
- Salaries for police officers and other public servants.
- Payment of wages to other government employees.

2. **Office administration**

- Purchase of stationery.
- Printing and photocopying.
- Communication expenses.
- Office cleaning services.
- Internet subscriptions.

3. **Utilities**

- Electricity bills.
- Water bills.
- Telephone charges.
- Internet services.

4. **Maintenance and repairs**

- Repairing government vehicles.
- Maintaining office equipment.
- Repairing school facilities.
- Maintaining hospital equipment.

5. **Medical supplies**

- Purchase of medicines.
- Purchase of gloves and syringes.
- Medical consumables for public hospitals.
- Other routine medical supplies.

6. **Travel and subsistence**

- Official travel expenses.
- Accommodation during authorised official duties.
- Allowances for approved government assignments.

7. **Rent and insurance**

- Rent for government offices where applicable.
- Insurance premiums for public assets.
- Insurance of government vehicles and equipment.

8. **Debt servicing**

- Payment of interest on government loans.
- Other recurring costs associated with public debt.

Characteristics of recurrent expenditure

- It occurs regularly.

- It supports the daily operations of government institutions.
- It is often repeated from one financial year to another.
- It includes salaries, utilities and administrative costs.
- It is necessary for the continued provision of public services.
- It does not necessarily create new long-term physical assets.

Importance of recurrent expenditure

1. Ensures continuity of government services.
2. Motivates public servants through regular salary payments.
3. Keeps public institutions operational.
4. Supports delivery of education and healthcare.
5. Maintains existing public facilities.
6. Enables government departments to carry out their daily duties.

Examples in the Kenyan context

- Payment of salaries to teachers in public schools.
- Purchase of medicines for existing county hospitals.
- Payment of electricity bills in government offices.
- Maintenance of existing government vehicles.
- Payment of salaries to county health workers.

B. Development expenditure

Development expenditure refers to government spending on projects and programmes intended to create, acquire, improve or expand public assets and productive capacity.

It is generally associated with investment in infrastructure and long-term development.

Examples of development expenditure in Kenya include:

1. **Construction of roads**

- Construction of new highways.
- Construction of rural access roads.
- Construction of bridges.
- Upgrading of existing roads.

2. **Construction of educational facilities**

- Building new classrooms.
- Construction of laboratories.
- Construction of libraries.
- Establishment of vocational training facilities.

3. **Healthcare infrastructure**

- Construction of new hospitals.
- Construction of health centres.
- Establishment of diagnostic facilities.
- Expansion of existing health facilities.

4. **Water and sanitation projects**

- Construction of dams.
- Installation of water pipelines.
- Construction of boreholes.
- Development of sewerage systems.

5. **Energy projects**

- Development of electricity generation facilities.
- Extension of electricity distribution networks.
- Installation of public solar energy systems.

6. **Agricultural development**

- Construction of irrigation schemes.
- Development of agricultural research facilities.
- Construction of produce storage facilities.
- Development of livestock infrastructure.

7. **Transport infrastructure**

- Construction and improvement of railway facilities.
- Development of ports.
- Construction of airports and associated facilities.

8. **Information and communication technology**

- Establishment of government digital systems.
- Development of public ICT infrastructure.
- Installation of digital communication facilities.

Characteristics of development expenditure

- It focuses on long-term development.
- It may create new public assets.
- It increases the productive capacity of the economy.
- It may require large amounts of money.
- It is often implemented through projects.

- Its benefits may be experienced over several years.

Importance of development expenditure

1. Promotes economic growth.
2. Creates employment opportunities.
3. Improves transport and communication.
4. Expands access to education and healthcare.
5. Promotes industrial and agricultural development.
6. Improves the living standards of citizens.
7. Encourages private-sector investment.
8. Promotes balanced regional development.

Examples in the Kenyan context

- Construction of a new public hospital in Narok County.
- Construction of a new road connecting rural communities to markets.
- Installation of water pipelines in drought-prone areas.
- Construction of new classrooms in public schools.
- Development of irrigation infrastructure.

Differences between recurrent and development expenditure

Recurrent expenditure	**Development expenditure**
Supports routine government operations.	Supports long-term development projects.
Occurs regularly.	Often relates to specific projects.
Includes salaries and wages.	Includes construction of new facilities.
Includes electricity and water bills.	Includes development of water supply systems.
Maintains existing services.	Expands or improves public infrastructure and

	capacity.
Often has short-term operational benefits.	Often produces long-term economic and social benefits.

Class activity: Identify the type of expenditure

Classify each activity as recurrent or development expenditure.

1. Paying salaries to public school teachers.
2. Constructing a new public health centre.
3. Buying stationery for a county office.
4. Building a new bridge.
5. Paying electricity bills in a public hospital.
6. Constructing a new irrigation scheme.

Suggested answers

- Recurrent: 1, 3 and 5.
- Development: 2, 4 and 6.

4.0 Other Categories and Types of Public Expenditure

Apart from the recurrent and development classification, public expenditure can also be classified according to its economic nature, government function and the purpose for which the money is spent.

4.1 Administrative expenditure

Administrative expenditure refers to government spending on the management and coordination of public institutions and government operations.

Examples:

- Salaries of administrative officers.
- Office supplies.
- Official communication.
- Government meetings.
- General office maintenance.
- Administrative transport.

Importance

1. Supports effective government administration.
2. Promotes coordination among government departments.
3. Ensures public institutions operate efficiently.
4. Facilitates implementation of government policies.

4.2 Social expenditure

Social expenditure refers to money spent by the government to improve the welfare and living standards of citizens.

It focuses on the provision of social services and protection.

Examples:

A. Education expenditure

- Construction of public schools.
- Payment of teachers.
- Provision of learning materials.
- Development of public universities and colleges.
- Support for education programmes.

B. Health expenditure

- Construction of hospitals.
- Purchase of medicines.
- Employment of healthcare workers.
- Immunisation programmes.
- Disease prevention and control.

C. Social protection expenditure

- Support programmes for vulnerable households.
- Assistance to older persons.
- Support for persons with disabilities.
- Child protection programmes.
- Emergency assistance to affected communities.

Importance of social expenditure

1. Improves the quality of life.
2. Reduces poverty and vulnerability.
3. Promotes access to education.
4. Improves public health.
5. Reduces social inequalities.
6. Promotes human development.

4.3 Economic expenditure

Economic expenditure refers to government spending intended to promote production, trade, investment and economic growth.

Examples:

- Construction of roads.
- Development of irrigation systems.
- Investment in electricity infrastructure.
- Development of railway facilities.
- Agricultural extension services.
- Support for industrial development.
- Development of markets and trade facilities.

Importance

1. Promotes business growth.
2. Improves productivity.
3. Reduces the cost of doing business.
4. Facilitates movement of goods and services.
5. Creates employment.
6. Attracts investment.

4.4 Defence and security expenditure

This refers to money spent by the government to protect the country and maintain law and order.

Examples:

- Financing the Kenya Defence Forces.
- Financing the National Police Service.
- Purchasing security equipment.
- Training security officers.
- Maintaining security installations.
- Financing border protection activities.
- Supporting disaster and emergency response where assigned.

Importance

1. Protects citizens and property.
2. Maintains national sovereignty.
3. Promotes peace and stability.
4. Protects businesses from insecurity.
5. Creates a secure environment for investment.

4.5 Debt servicing expenditure

Debt servicing expenditure refers to government spending on meeting the financial obligations arising from public borrowing.

It includes:

- Payment of interest on loans.
- Repayment of loan principal when due.
- Other applicable borrowing-related charges.

Importance

1. Helps the government meet its loan obligations.
2. Maintains confidence among lenders and investors.
3. Supports responsible debt management.
4. Helps preserve access to borrowing facilities.

Important distinction: Debt servicing is a budget expenditure category. Interest payments are normally treated as recurrent expenditure, while repayment of principal is recorded as a financing or debt repayment transaction rather than ordinary recurrent service expenditure.

4.6 Transfer expenditure

Transfer expenditure refers to government payments made to individuals, institutions or other levels of government without receiving a direct good or service in exchange at the time of payment.

Examples include:

- Transfers from the national government to county governments.
- Social assistance payments.
- Certain grants to public institutions.
- Subsidies to eligible beneficiaries.
- Financial support to approved programmes.

Importance

1. Promotes equitable distribution of public resources.
2. Supports vulnerable groups.
3. Helps finance devolved services.
4. Promotes regional development.
5. Reduces inequalities.

4.7 Subsidy expenditure

A **subsidy** is financial assistance provided by the government to reduce the cost of producing or consuming selected goods and services.

Examples may include:

- Support for agricultural inputs.
- Assistance to selected public transport or energy programmes.

- Support for essential services under approved government programmes.
- Financial assistance to eligible producers or consumers.

Importance

1. Makes selected goods and services more affordable.
2. Supports local production.
3. Protects vulnerable consumers.
4. Encourages investment in selected sectors.
5. May stabilise prices in specific circumstances.

4.8 Capital expenditure

Capital expenditure refers to money spent on acquiring, constructing, extending or improving long-term assets.

Examples:

- Construction of government buildings.
- Purchase of hospital equipment.
- Construction of bridges.
- Acquisition of machinery.
- Development of water infrastructure.
- Construction of public training facilities.

Importance

1. Creates long-term assets.
2. Expands public service capacity.
3. Supports economic development.
4. Improves the quality of public infrastructure.
5. Provides benefits over several years.

Note: Capital expenditure is an economic or accounting classification and overlaps substantially with development expenditure. The two terms should not always be treated as completely identical.

4.9 Environmental expenditure

Environmental expenditure refers to money spent on protecting, conserving and improving the natural environment.

Examples:

- Tree planting programmes.
- Forest conservation.
- Waste management.

- River protection.
- Environmental restoration.
- Pollution control.
- Climate change adaptation programmes.

Importance

1. Protects natural resources.
2. Promotes sustainable development.
3. Reduces environmental degradation.
4. Supports agricultural productivity.
5. Protects communities from environmental hazards.

5.0 Functional Classification of Public Expenditure in Kenya

Functional classification groups government spending according to the main services or responsibilities being performed by the government.

The following are major functional areas of public expenditure.

5.1 Education expenditure

This is money spent on providing and improving educational services.

Examples:

- Teachers' salaries.
- Construction of classrooms.
- Purchase of textbooks.
- Development of laboratories.
- School infrastructure.
- Public university funding.
- Technical and vocational education.

5.2 Health expenditure

This is money spent on improving the health and wellbeing of citizens.

Examples:

- Construction of hospitals.
- Purchase of medical equipment.
- Purchase of drugs and vaccines.
- Payment of health workers.
- Disease prevention programmes.
- Maternal and child healthcare services.

5.3 Agricultural expenditure

This is money spent on promoting agricultural production and food security.

Examples:

- Agricultural extension services.
- Irrigation projects.
- Livestock disease control.
- Agricultural research.
- Support for farmers.
- Development of produce markets.
- Veterinary services.

5.4 Transport and communication expenditure

This is money spent on developing and maintaining transport and communication infrastructure.

Examples:

- Construction of roads.
- Maintenance of bridges.
- Development of railway systems.
- Improvement of ports and airports.
- Development of communication infrastructure.
- Public digital infrastructure.

5.5 Security and defence expenditure

This is money spent on protecting citizens, national borders and public property.

Examples:

- Security equipment.
- Training of security personnel.
- Police operations.
- Defence operations.
- Border security.
- Emergency response systems.

5.6 Water and sanitation expenditure

This is money spent on providing clean water and proper sanitation.

Examples:

- Construction of boreholes.
- Development of water pipelines.
- Construction of dams.
- Sewerage systems.
- Wastewater treatment facilities.
- Rural water supply projects.

5.7 Housing and urban development expenditure

This is government spending on improving housing and urban facilities.

Examples:

- Development of affordable housing programmes.
- Urban road construction.
- Street lighting.
- Drainage systems.
- Market facilities.
- Improvement of public spaces.

5.8 Environmental protection expenditure

This involves spending on conserving natural resources and protecting the environment.

Examples:

- Forest conservation.
- Pollution control.
- Waste management.
- Environmental rehabilitation.
- Climate adaptation.
- Protection of water catchment areas.

5.9 Public administration expenditure

This is money spent on the general management and operation of government.

Examples:

- Government offices.
- Public service administration.
- Policy development.
- Coordination of government departments.
- Public financial management.
- Government planning activities.

5.10 Social protection expenditure

This involves government spending intended to support people who face social and economic difficulties.

Examples:

- Assistance to older persons.
- Support for persons with disabilities.
- Assistance to vulnerable children.
- Social assistance programmes.
- Emergency relief for affected households.

6.0 Principles of Public Expenditure in Kenya

6.1 Meaning of principles of public expenditure

Principles of public expenditure are the guidelines and standards that should be followed when public institutions plan, approve, allocate, use, monitor and account for public funds.

They ensure that government money is spent lawfully, economically, efficiently, fairly and in a way that benefits the public.

In Kenya, the constitutional foundation for public finance is provided by Article 201 of the Constitution of Kenya, 2010. It requires openness and accountability, equity, responsible use of public money and clear financial reporting.

6.2 Constitutional principles of public finance in Kenya

1. Openness and transparency

Meaning: Government financial activities should be conducted openly, and information about public revenue, budgets and expenditure should be accessible to the public.

Explanation:

- Citizens should be able to understand how public money is collected and spent.
- Government institutions should provide information on budget allocations.
- Public procurement information should be available as required by law.
- Financial reports should be prepared and made accessible through appropriate channels.

Kenyan examples:

- Publishing national and county budget documents.
- Making budget estimates available for public review.
- Publishing reports on government expenditure.
- Providing information on development projects.

Importance:

1. Reduces secrecy in public financial management.
2. Promotes public trust.

3. Discourages misuse of public funds.
4. Enables citizens to monitor government projects.

2. Accountability

Meaning: Public officers and institutions must be answerable for decisions made and money used in the performance of their duties.

Explanation:

- Government departments must account for funds allocated to them.
- Accounting officers must ensure that expenditure is properly documented.
- Public institutions should explain how resources have been used.
- Officers responsible for financial irregularities may face appropriate legal or administrative action.

Kenyan examples:

- Auditing county government accounts.
- Requiring ministries to prepare expenditure reports.
- Parliamentary and county assembly oversight.
- Reviewing reports from the Auditor-General.

Importance:

1. Promotes responsible use of public funds.
2. Reduces corruption and financial mismanagement.
3. Improves government performance.
4. Ensures public officers take responsibility for their actions.

3. Equity and fairness

Meaning: Public funds should be distributed and used fairly to ensure that different communities and groups benefit from government services.

Explanation:

- Public resources should not benefit only wealthy or politically influential groups.
- Marginalised communities should receive appropriate attention.
- Government spending should consider differences in development needs.
- Public services should be accessible to different groups of citizens.

Kenyan examples:

- Allocation of resources to marginalised areas.
- Development of rural health facilities.
- Support for disadvantaged learners.
- Water projects in arid and semi-arid areas.

Importance:

1. Reduces social and regional inequalities.
2. Promotes national unity.
3. Improves access to public services.
4. Promotes inclusive development.

4. Public participation

Meaning: Citizens should be given opportunities to contribute to decisions concerning public revenue, budgets and expenditure.

Explanation:

- The public should be consulted during budget preparation.
- Citizens should be allowed to express their development priorities.
- County residents should participate in county budget forums.
- Public views should be considered during planning and allocation of resources.

Kenyan examples:

- County budget participation meetings.
- Public hearings on proposed budgets.
- Consultation on county development plans.
- Public participation in legislative and financial processes.

Importance:

1. Promotes democratic decision-making.
2. Helps government identify community needs.
3. Reduces allocation of funds to unnecessary projects.
4. Promotes public ownership of development programmes.

5. Prudent and responsible use of public money

Meaning: Government funds should be used carefully, economically and for their intended purposes.

Explanation:

- Public officers should avoid unnecessary expenditure.
- Government institutions should obtain value for money.
- Funds should be used according to approved budgets.
- Public resources should not be wasted or diverted.
- Government should avoid unnecessary financial commitments.

Kenyan examples:

- Buying quality medical equipment at reasonable prices.

- Avoiding unnecessary government travel.
- Ensuring public construction projects meet required standards.
- Preventing the purchase of unnecessary office equipment.

Importance:

1. Reduces wastage.
2. Improves service delivery.
3. Protects public resources.
4. Enables the government to achieve more with available funds.

6. Clear and responsible financial reporting

Meaning: Government institutions should prepare accurate, understandable and timely financial reports showing how public funds have been received and spent.

Explanation:

- Financial records should be properly maintained.
- Reports should show expenditure against approved budgets.
- Public institutions should disclose financial irregularities.
- Financial statements should be prepared according to applicable standards and laws.

Kenyan examples:

- Annual financial statements prepared by government entities.
- Reports by the Auditor-General.
- Budget implementation reports.
- County government financial reports.

Importance:

1. Promotes transparency.
2. Makes financial oversight easier.
3. Helps identify financial weaknesses.
4. Improves public confidence.

7. Equitable sharing of national revenue

Meaning: Revenue raised nationally should be shared fairly between the national government and county governments.

Explanation:

- Counties require resources to perform their devolved functions.
- Allocations should consider constitutional criteria.
- Counties should receive funds to support local service delivery.

- Additional allocations may be provided under applicable constitutional and legal arrangements.

Kenyan examples:

- Equitable share transfers to county governments.
- Conditional grants for specified programmes.
- Additional allocations for particular development needs.

Importance:

1. Supports devolution.
2. Promotes balanced development.
3. Enables counties to provide public services.
4. Reduces inequalities among regions.

8. Intergenerational equity

Meaning: The use of public resources and borrowing should be fair to both the present generation and future generations.

Explanation:

- The government should avoid excessive borrowing that creates an unsustainable burden for future citizens.
- Public funds should be invested in projects that provide lasting benefits.
- Natural resources should be used responsibly.
- The cost of public projects should be considered alongside the benefits they provide over time.

Kenyan examples:

- Investing in long-lasting roads and water infrastructure.
- Responsible management of public debt.
- Conserving forests and water resources.
- Avoiding wasteful borrowing.

Importance:

1. Protects the interests of future generations.
2. Promotes sustainable development.
3. Encourages responsible borrowing.
4. Protects national resources.

These constitutional principles are expressly provided under Article 201 of the Constitution of Kenya.

6.3 Other good-practice principles of public expenditure

In addition to the constitutional principles, the following principles guide sound public expenditure management.

9. Principle of economy

Meaning: Government should acquire goods and services at reasonable costs without compromising the required quality.

Explanation:

- Public institutions should avoid paying excessive prices.
- Purchases should be based on proper assessment of needs.
- Competitive and lawful procurement should be encouraged.
- Unnecessary expenditure should be avoided.

Example: A public school should purchase durable desks at a reasonable price rather than spending excessively on similar desks.

10. Principle of efficiency

Meaning: Public resources should be used in a way that produces the greatest possible output with the available resources.

Explanation:

- Government departments should minimise wastage.
- Resources should be properly managed.
- Projects should be completed within reasonable time and cost.
- Public officers should use available equipment and labour productively.

Example: A county government should use its available road construction budget to improve as many priority roads as possible without compromising safety and quality.

11. Principle of effectiveness

Meaning: Public expenditure should achieve the objectives for which the money was allocated.

Explanation:

- Government projects should address actual public needs.
- Expenditure should produce the expected results.
- Projects should be evaluated after implementation.
- Public funds should not be spent on activities that fail to deliver intended benefits.

Example: Money allocated for a water project should result in reliable access to clean water for the intended community.

12. Principle of authorisation

Meaning: Public money should only be spent after obtaining the necessary legal and budgetary approval.

Explanation:

- Expenditure should be provided for in an approved budget or otherwise authorised by law.
- Government officers should not spend public money without authority.
- Withdrawals from public funds must follow the applicable constitutional and legal procedures.
- Expenditure should remain within approved limits unless lawful supplementary authority is obtained.

Example: A county department should not spend public funds on an unapproved project without the required authority.

13. Principle of specificity

Meaning: Public money should be allocated for clearly identified purposes and used for those approved purposes.

Explanation:

- Budget allocations should indicate the intended activities.
- Departments should avoid diverting funds to unrelated activities.
- Financial records should show the purpose of each expenditure.
- Approved allocations should be followed.

Example: Funds allocated for purchasing medicines should not be diverted to purchase office furniture without lawful authority.

14. Principle of priority

Meaning: Government should allocate more resources to activities and projects that address the most urgent and important public needs.

Explanation:

- Essential services should receive appropriate attention.
- Projects should be ranked according to their benefits and urgency.
- Limited funds should be directed towards high-impact programmes.
- Less urgent expenditure should not take precedence over essential public services.

Example: A county government facing severe water shortages may prioritise water supply projects over non-essential administrative improvements.

15. Principle of flexibility

Meaning: Public expenditure management should allow lawful adjustments when unexpected circumstances arise.

Explanation:

- Governments may experience emergencies and unforeseen expenditure needs.
- Budgets should have appropriate mechanisms for dealing with emergencies.
- Changes should follow legal approval procedures.
- Financial adjustments should be properly documented.

Example: Government may need to allocate emergency funds to respond to floods, drought or disease outbreaks.

16. Principle of regularity

Meaning: Public expenditure should comply with applicable laws, regulations, procedures and financial standards.

Explanation:

- Public procurement should follow the law.
- Expenditure should be properly authorised.
- Payments should be supported by valid documents.
- Financial procedures should be followed consistently.

Example: A government department should follow lawful procurement procedures when purchasing vehicles.

17. Principle of timeliness

Meaning: Public expenditure should be undertaken at the appropriate time to ensure that government services and projects are delivered without unnecessary delays.

Explanation:

- Funds should be released and used according to approved schedules.
- Government suppliers should be paid in accordance with contractual and legal requirements.
- Development projects should be implemented on time.
- Delays should be identified and addressed.

Example: Funds for school infrastructure should be made available in time to allow construction to be completed before the facilities are needed.

Summary of principles of public expenditure

Principle	**Main idea**
Openness	Financial information should be accessible.
Accountability	Public officers must account for money used.
Equity	Resources should be distributed fairly.
Public participation	Citizens should contribute to budget decisions.
Prudence	Public money should be used responsibly.
Clear reporting	Financial reports should be accurate and understandable.
Equitable revenue sharing	National revenue should be shared fairly between levels of government.
Intergenerational equity	Present spending should consider future generations.
Economy	Obtain goods and services at reasonable costs.

Efficiency	Maximise output from available resources.
Effectiveness	Achieve intended expenditure objectives.
Authorisation	Spend only with proper approval.
Specificity	Use funds for their approved purposes.
Priority	Finance the most important needs first.
Flexibility	Make lawful adjustments when necessary.
Regularity	Follow laws and financial procedures.
Timeliness	Spend and implement projects at the appropriate time.

7.0 Importance of Proper Management of Public Expenditure in Kenya

Proper management of public expenditure ensures that government resources are used to improve the lives of citizens.

Its importance includes:

1. **Promotes economic development:** Proper spending supports roads, electricity, water, agriculture and other productive sectors.
2. **Improves service delivery:** Schools, hospitals and other public institutions receive resources needed to serve citizens.
3. **Reduces corruption:** Financial controls and accountability help prevent misuse of public money.
4. **Promotes value for money:** Government obtains appropriate goods and services at reasonable costs.
5. **Encourages investment:** Reliable public infrastructure attracts local and foreign investors.
6. **Reduces poverty:** Spending on social protection and essential services supports vulnerable citizens.
7. **Promotes balanced development:** Resources can be allocated to communities with greater development needs.
8. **Improves public confidence:** Citizens are more likely to trust institutions that manage funds responsibly.
9. **Promotes sustainable development:** Responsible expenditure protects resources for future generations.
10. **Improves government planning:** Proper expenditure records help the government make better financial decisions.

8.0 Challenges Facing Public Expenditure Management in Kenya

Despite the importance of public expenditure, the government may experience challenges in managing public funds.

8.1 Corruption

Corruption involves the misuse of entrusted public authority for private benefit.

Examples:

- Embezzlement of public funds.
- Bribery during procurement.
- Inflated project costs.
- Payment for services not delivered.

Effects: Loss of public funds, poor service delivery and reduced public confidence.

8.2 Misallocation of resources

This occurs when funds are directed towards activities that are less important than the actual needs of citizens.

Effects:

- Essential services may remain underfunded.
- Development priorities may be neglected.
- Public resources may not benefit the intended communities.

8.3 Delayed release of funds

Government departments and county governments may experience delays in receiving allocated funds.

Effects:

- Delayed construction projects.
- Late payment of suppliers.
- Disruption of public services.
- Increased project costs.

8.4 Excessive public debt

High debt obligations can increase the amount of public resources used for interest payments and repayment of loans.

Effects:

- Reduced resources for development.
- Increased pressure on government budgets.
- Greater financial risks.

8.5 Poor planning

Inadequate planning may result in unrealistic budgets, incomplete projects and wastage.

Effects:

- Abandoned projects.
- Cost overruns.
- Poor service delivery.
- Inefficient use of resources.

8.6 Inadequate monitoring and evaluation

When projects are not properly monitored, government may fail to identify delays, poor workmanship or misuse of resources.

8.7 Political interference

Political pressure may influence how funds are allocated or how projects are implemented.

This may lead to resources being directed towards less important projects.

8.8 Wasteful expenditure

This occurs when government money is spent on unnecessary or excessively expensive activities.

Examples:

- Unnecessary travel.
- Unjustified purchases.
- Poorly planned projects.
- Duplication of activities.

9.0 Measures to Improve Public Expenditure Management in Kenya

1. **Strengthening auditing:** Regular audits help identify misuse of public funds and financial irregularities.
2. **Promoting transparency:** Publishing budgets, procurement information and expenditure reports enables public scrutiny.
3. **Enhancing public participation:** Citizens should be involved in identifying development priorities.
4. **Improving budget planning:** Government institutions should prepare realistic budgets based on actual needs.
5. **Strengthening procurement systems:** Procurement should be competitive, transparent and compliant with the law.
6. **Taking action against corruption:** Those responsible for financial misconduct should face appropriate legal consequences.
7. **Monitoring development projects:** Projects should be inspected regularly to ensure that money is used appropriately.
8. **Building financial management capacity:** Public officers should receive training in budgeting, procurement and financial reporting.
9. **Using digital financial systems:** Appropriate digital systems can improve record-keeping and monitoring.
10. **Prioritising essential services:** Education, healthcare, water, sanitation and security should receive appropriate funding.
11. **Promoting responsible borrowing:** Government should assess the costs and benefits of borrowing before committing public resources.

12. **Strengthening oversight institutions:** Institutions responsible for auditing, budget oversight and financial control should perform their mandates effectively.

10.0 Public Finance and Business Activities in Kenya

Public finance influences the operations and growth of businesses in several ways.

10.1 Provision of infrastructure

Government expenditure on roads, electricity, water and communication enables businesses to operate efficiently.

10.2 Provision of security

Government spending on security protects business premises, employees, goods and customers.

10.3 Creation of markets

Government projects create demand for goods and services supplied by private businesses.

For example, construction projects create demand for:

- Cement.
- Steel.
- Timber.
- Transport services.
- Building equipment.
- Professional services.

10.4 Provision of skilled labour

Government spending on education and training improves the skills and knowledge of workers available to businesses.

10.5 Promotion of investment

Public infrastructure and stable public institutions can encourage entrepreneurs and investors to establish businesses.

10.6 Support for agricultural enterprises

Government spending on irrigation, agricultural research and extension services can improve agricultural productivity and support agribusinesses.

10.7 Promotion of regional trade

Investment in roads, railway facilities and ports makes it easier for businesses to transport goods to local and international markets.

11.0 Revision Summary

Key concept	Meaning
Public finance	Management of government revenue, expenditure and borrowing.
Public revenue	Money received by government from different sources.
Non-tax revenue	Government income obtained from sources other than taxes.

Government borrowing	Money obtained by government with an obligation to repay.
Grant	Financial support that does not normally require repayment.
Public expenditure	Money spent by government to provide services and promote development.
Recurrent expenditure	Spending on regular government operations.
Development expenditure	Spending on projects intended to create or improve long-term public assets and capacity.
Social expenditure	Spending on services that improve public welfare.
Economic expenditure	Spending intended to support economic activity and growth.
Debt servicing	Meeting financial obligations arising from public borrowing.
Transfer expenditure	Payments made without a direct good or service being received in return at the time of payment.
Public participation	Involvement of citizens in public financial decision-making.
Accountability	Responsibility to explain and account for the use of public resources.
Transparency	Openness in public financial management.
Intergenerational equity	Fair sharing of the costs and benefits of public resources between present and future generations.

BUSINESS STUDIES

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Choose the correct answer from the alternatives provided.

1. Public finance is mainly concerned with the management of:

A. Private business profits
B. Government revenue and expenditure
C. Household savings
D. Individual business loans

2. Which of the following is a non-tax source of public finance in Kenya?

A. Value Added Tax
B. Pay As You Earn
C. Government borrowing
D. Excise duty

3. Money received by the government from foreign development partners without ordinary repayment obligations is known as:

A. A grant
B. A tax

C. A loan
D. A fine

4. Which of the following is an example of internal government borrowing?

A. Loan from the World Bank
B. Loan from a foreign government
C. Sale of Treasury bonds to domestic investors
D. Donation from a foreign foundation

5. A payment made by a person for obtaining a government service is referred to as:

A. A dividend
B. A fee
C. A grant
D. A royalty

6. Which of the following is an example of income from government-owned enterprises?

A. Import duty
B. PAYE
C. Dividend paid to the government
D. Value Added Tax

7. The payment made for the right to extract certain natural resources is known as:

A. A royalty
B. A subsidy
C. A salary
D. A grant

8. Government borrowing is different from a grant because borrowing:

A. Never involves interest
B. Must normally be repaid
C. Is always received from citizens
D. Does not create financial obligations

9. Public expenditure refers to money spent by government to:

A. Increase private household savings
B. Finance public services and development
C. Finance individual businesses only
D. Pay private investors only

10. Payment of salaries to teachers in public schools is classified as:

A. Development expenditure
B. Recurrent expenditure
C. Capital revenue
D. Privatisation income

11. Construction of a new public hospital is an example of:

A. Development expenditure
B. Recurrent expenditure
C. Fine collection
D. Investment income

12. Which of the following is an example of recurrent expenditure?

A. Construction of a new bridge
B. Construction of a new airport
C. Payment of electricity bills in a government office
D. Construction of a new dam

13. Government expenditure on the construction of irrigation schemes is mainly intended to promote:

A. Agricultural development
B. Entertainment
C. Political campaigns
D. Household consumption

14. Expenditure on the payment of interest on government loans is known as:

A. Social expenditure
B. Debt servicing expenditure
C. Capital income
D. Privatisation expenditure

15. Money spent on helping vulnerable households is an example of:

A. Social expenditure
B. Defence expenditure
C. Administrative revenue
D. Government borrowing

16. Which principle requires public officers to explain how public money has been used?

A. Flexibility
B. Accountability
C. Privatisation
D. Borrowing

17. The principle that requires citizens to be involved in government budget decisions is:

A. Public participation
B. Debt servicing
C. Capital expenditure
D. Government borrowing

18. When a government department purchases goods at reasonable prices without compromising quality, it demonstrates the principle of:

A. Economy
B. Borrowing
C. Privatisation
D. Taxation

19. The principle of efficiency in public expenditure requires government to:

A. Spend without considering output
B. Maximise output from available resources
C. Avoid preparing budgets
D. Spend only on administrative activities

20. The principle of effectiveness requires public expenditure to:

A. Achieve intended objectives
B. Increase unnecessary expenditure
C. Avoid public participation
D. Increase government debt

21. Equitable sharing of public resources means that:

A. Resources should benefit only urban areas
B. Resources should be distributed fairly
C. Only national government should receive funds
D. Public funds should be spent on administration only

22. The principle of intergenerational equity requires government to:

A. Consider the interests of future generations
B. Borrow without limits
C. Spend all public funds immediately
D. Ignore environmental conservation

23. Which of the following is an example of transfer expenditure?

A. Purchase of stationery
B. Payment of a grant to an eligible beneficiary
C. Construction of a government office
D. Purchase of a government vehicle

24. A subsidy is best described as:

A. A penalty imposed for breaking the law
B. Financial assistance provided to reduce selected costs
C. A loan from a foreign government
D. A payment made for extracting minerals

25. Government spending on police equipment is classified mainly as:

A. Defence and security expenditure
B. Social protection expenditure
C. Environmental expenditure
D. Agricultural expenditure

26. Which institution is responsible for auditing public accounts in Kenya?

A. Office of the Auditor-General
B. Kenya National Examinations Council
C. Kenya National Bureau of Statistics
D. National Transport and Safety Authority

27. Which of the following best demonstrates transparency in public finance?

A. Hiding budget information
B. Publishing government budget reports
C. Refusing public participation
D. Withholding financial records

28. The main purpose of development expenditure is to:

A. Finance only routine office activities
B. Create or improve long-term public assets and capacity
C. Pay only monthly salaries
D. Finance private household consumption

29. Which of the following is a challenge in public expenditure management?

A. Proper auditing
B. Public participation
C. Corruption
D. Responsible financial reporting

30. A county government spends money on constructing a new water pipeline in a rural area. This is an example of:

A. Recurrent expenditure
B. Development expenditure
C. Fine collection
D. Debt servicing

Section B: Structured Questions

1. Public Finance

a) Define the term public finance. (2 marks)

b) Explain five reasons why public finance is important in Kenya. (10 marks)

c) State four examples of public institutions involved in the management of public funds in Kenya. (4 marks)

2. Sources of Public Finance

a) What is meant by non-tax sources of public finance? (2 marks)

b) Explain eight sources of public finance other than taxation in Kenya. (16 marks)

c) Differentiate between government borrowing and grants. (4 marks)

3. Government Borrowing

a) Define government borrowing. (2 marks)

b) Distinguish between internal and external borrowing. (4 marks)

c) Explain five advantages of government borrowing. (10 marks)

d) Identify four challenges associated with excessive government borrowing. (4 marks)

4. Grants and Donations

a) Define a government grant. (2 marks)

b) Identify five possible sources of grants and donations to Kenya. (5 marks)

c) Explain four benefits of grants and donations to the Kenyan government. (8 marks)

5. Public Expenditure

a) Define public expenditure. (2 marks)

b) Explain the two main classes of public expenditure in Kenya. (6 marks)

c) Give four examples of recurrent expenditure. (4 marks)

d) Give four examples of development expenditure. (4 marks)

6. Classification of Public Expenditure

a) Explain the meaning of functional classification of public expenditure. (2 marks)

b) Describe six functional areas of public expenditure in Kenya. (12 marks)

c) State three reasons why public expenditure should be classified. (3 marks)

7. Principles of Public Expenditure

a) Define the term principles of public expenditure. (2 marks)

b) Explain the following principles as applied in Kenya:

i. Transparency. (2 marks)

ii. Accountability. (2 marks)

iii. Equity. (2 marks)

iv. Public participation. (2 marks)

v. Prudence. (2 marks)

vi. Intergenerational equity. (2 marks)

8. Economy, Efficiency and Effectiveness

a) Explain the principle of economy in public expenditure. (2 marks)

b) Distinguish between efficiency and effectiveness. (4 marks)

c) Give four ways through which a county government can promote economy in the use of public funds. (4 marks)

d) Explain three benefits of effective public expenditure management. (6 marks)

9. Challenges in Public Expenditure Management

a) State six challenges facing public expenditure management in Kenya. (6 marks)

b) Explain five measures that can be used to improve public expenditure management. (10 marks)

10. Public Finance and Business

a) Explain six ways through which public expenditure influences business activities in Kenya. (12 marks)

b) State four examples of government development projects that may create business opportunities. (4 marks)

13.0 Application and Case Study Questions

Case Study 1: Public Finance in a County Government

The county government of Narok prepares its annual budget to provide healthcare, water, roads and agricultural services. It expects to receive funds from the national government, collect charges from selected county services and obtain grants from development partners.

The county government also plans to construct new health facilities and pay salaries to healthcare workers.

Answer the following questions:

1. Identify three sources of public finance mentioned in the case study.
2. Explain the difference between recurrent and development expenditure using examples from the case study.
3. Identify two examples of development expenditure.
4. Identify two examples of recurrent expenditure.
5. Explain four principles that should guide the county government when spending public funds.
6. State four ways in which the county's expenditure may benefit businesses in Narok.

Case Study 2: Management of Public Funds

A government department was allocated funds to construct a public health centre. However, the project was delayed, the cost increased significantly and the completed building did not meet the required standards. Members of the public complained that they had not been adequately involved in the project.

Answer the following questions:

1. Identify three public expenditure management challenges illustrated in the case.
2. Explain the importance of public participation in government expenditure.
3. Identify four principles that were not adequately observed.
4. Explain four measures that can prevent similar problems in future projects.

Case Study 3: Sources of Government Revenue

The national government intends to finance a major infrastructure project. It considers issuing Treasury bonds, obtaining a development grant and receiving dividends from a government-owned enterprise.

Answer the following questions:

1. Identify the three sources of public finance described.
2. Which of the three sources creates a repayment obligation?
3. Explain three advantages of using grants to finance development projects.
4. State four possible limitations of government borrowing.
5. Explain how government-owned enterprises can contribute to public finance.

Project-Based Learning Activities

Activity 1: Investigating sources of public finance

Instructions:

Learners should work in groups to identify sources of public finance in Kenya.

Tasks:

1. Visit or research the official websites of the National Treasury and a county government.
2. Identify examples of non-tax sources of public finance.
3. Classify the sources into borrowing, grants, fees, investment income and other categories.
4. Prepare a short presentation explaining how each source supports government activities.

Competencies developed:

- Digital literacy.
- Communication and collaboration.
- Critical thinking and problem-solving.
- Citizenship.

Activity 2: Classifying government expenditure

Study the following activities and classify them as recurrent or development expenditure.

Government activity	**Classification**
Payment of teachers' salaries	Recurrent

Construction of a new classroom block	Development
Purchase of stationery	Recurrent
Construction of a public bridge	Development
Payment of hospital electricity bills	Recurrent
Construction of a new borehole	Development
Repair of existing office equipment	Recurrent
Construction of a new public market	Development

Task: Explain why each activity belongs to its respective category.

Activity 3: Public participation in budgeting

Learners should simulate a county budget participation meeting.

Roles:

- County finance officer.
- Healthcare representative.
- Teacher.
- Farmer.
- Trader.
- Youth representative.
- Community member.

Task: Discuss how a limited county budget should be allocated among education, health, water, agriculture and roads.

Learners should justify their proposed allocations using the principles of equity, priority, public participation and responsible use of public money.

Activity 4: Identifying public expenditure in the community

Learners should identify public projects in their local area, such as:

- Roads.
- Schools.
- Hospitals.
- Water projects.

- Markets.
- Public sanitation facilities.

They should discuss:

1. The public need addressed by each project.
2. The possible source of financing.
3. The likely category of expenditure.
4. The benefits to the community.
5. How citizens can monitor the project.

STRAND 4.0: GOVERNMENT AND GLOBAL INFLUENCE IN BUSINESS

SUB-STRAND 4.2: CONSUMER AND INVESTOR PROTECTION



1.0 Introduction to Consumer and Investor Protection

Business activities involve the production, distribution and exchange of goods and services. Consumers purchase goods and services to satisfy their needs and wants, while investors provide money and other resources with the expectation of earning returns.

However, consumers and investors may face risks such as fraud, exploitation, misleading information, unsafe products, unfair business practices and loss of investments.

The government therefore establishes laws, policies and regulatory institutions to protect consumers and investors against unfair treatment and promote confidence in the economy.

1.1 Meaning of consumer protection

Consumer protection refers to the laws, policies, regulations and actions taken by the government and other authorised institutions to safeguard consumers against unsafe products, exploitation, fraud, misleading information and unfair business practices.

A consumer is a person who purchases, uses or benefits from goods and services for personal, household or other purposes recognised under consumer protection law.

Examples of consumer protection in Kenya:

- Requiring traders to display accurate prices of goods.
- Preventing the sale of expired food products.
- Taking action against businesses that sell counterfeit goods.
- Requiring manufacturers to provide accurate product information.
- Protecting customers against misleading advertisements.
- Providing channels through which consumers can report complaints.

1.2 Meaning of investor protection

Investor protection refers to the laws, regulations, policies and institutional measures designed to safeguard individuals and organisations that invest money or other resources against fraud, manipulation, misleading information, abuse and unfair investment practices.

An **investor** is an individual or organisation that commits money or other resources to an investment with the expectation of earning income, profits or capital appreciation.

Examples of investors in Kenya include:

- Individuals who purchase shares at the Nairobi Securities Exchange (NSE).
- People who invest in government Treasury bonds.
- Members of collective investment schemes.
- Pension funds.
- Insurance companies.
- Businesses investing in property, equipment and other productive assets.

Examples of investor protection in Kenya:

- Licensing and regulation of capital market intermediaries.
- Requiring listed companies to disclose important financial information.
- Monitoring securities markets to discourage manipulation.
- Regulating investment advisers and fund managers.
- Providing mechanisms for handling investor complaints.
- Taking action against unlicensed investment schemes.

1.3 Difference between consumer protection and investor protection

Consumer protection	Investor protection
Safeguards people who purchase or use goods and services.	Safeguards people and institutions that commit resources to investments.
Focuses on product safety, quality, prices and fair treatment.	Focuses on investment information, market conduct, fraud and fair treatment.

Protects consumers from counterfeit and unsafe goods.	Protects investors from investment fraud and market manipulation.
Covers ordinary markets for goods and services.	Covers investment activities and financial markets.
Example: Action against a trader selling expired food.	Example: Action against an unlicensed investment scheme.

1.4 Meaning of consumer and investor rights

Consumer rights are the entitlements that consumers should enjoy when purchasing or using goods and services.

Investor rights are the entitlements that investors should enjoy when providing money or other resources for investment.

These rights help ensure that markets operate fairly, honestly and transparently.

2.0 Reasons for Consumer and Investor Protection in Kenya

Consumer and investor protection is important because it promotes fairness, safety, confidence and responsible business practices.

A. Reasons for consumer protection in Kenya

1. To protect consumers against unsafe products

Some goods may contain harmful substances, be poorly manufactured or fail to meet required safety standards.

Consumer protection helps prevent the sale and distribution of products that may harm users.

Examples:

- Contaminated food.
- Unsafe electrical appliances.
- Substandard construction materials.
- Harmful cosmetics.
- Expired medicines.

2. To prevent exploitation of consumers

Some traders may take advantage of consumers through unfair prices, hidden charges, misleading discounts or other dishonest practices.

Consumer protection promotes fair treatment and helps prevent exploitation.

Example: A trader should not advertise a product at one price and charge a higher price at the point of payment without a lawful and clearly disclosed basis.

3. To prevent the sale of counterfeit goods

Counterfeit goods are products made or sold in imitation of genuine products, often without the permission of the rightful brand owner.

They may be of poor quality and can endanger consumers.

Examples include:

- Fake electronic devices.
- Counterfeit cosmetics.
- Imitation medicines.
- Fake vehicle spare parts.
- Counterfeit branded clothing.

Consumer protection helps identify and remove counterfeit products from the market.

4. To promote access to accurate product information

Consumers need correct information to make informed purchasing decisions.

Protection helps ensure that product labels, packaging and advertisements provide truthful information.

Examples of information consumers may need include:

- Product name.
- Ingredients.
- Quantity or weight.
- Expiry date where applicable.
- Instructions for use.
- Safety warnings.
- Manufacturer or importer details.

5. To protect consumers against misleading advertisements

Some businesses may use false or exaggerated claims to attract customers.

Consumer protection discourages misleading advertisements and ensures that consumers receive reliable information.

Example: A trader should not falsely claim that a product cures a disease when there is no reliable evidence or authorisation to support the claim.

6. To promote fair competition

Consumer protection discourages dishonest practices that allow some businesses to gain an unfair advantage over others.

Fair competition encourages businesses to improve quality, offer reasonable prices and serve customers better.

7. To protect consumers against unfair contractual terms

Some businesses may use contracts containing unfair conditions that disadvantage consumers.

Consumer protection promotes fair contractual relationships.

Examples:

- Hidden charges.
- Unreasonable penalties.
- Unclear repayment conditions.
- Unfair cancellation terms.
- Terms that improperly exclude a business from responsibility for its conduct.

8. To provide mechanisms for resolving consumer complaints

Consumers may experience problems such as defective products, poor services, overcharging or failure to honour warranties.

Consumer protection provides channels for reporting complaints and seeking appropriate remedies.

9. To promote public health and safety

Unsafe products and poor services may cause injuries, illness or even loss of life.

Consumer protection helps protect the health and safety of the public through product standards, inspections and enforcement of relevant laws.

10. To promote confidence in the market

Consumers are more willing to purchase goods and services when they trust that businesses operate fairly and that unsafe products can be reported.

This encourages trade and business growth.

11. To protect vulnerable consumers

Some consumers may have limited information, bargaining power or ability to assess the safety and quality of products.

These may include:

- Children.
- Older persons.
- Persons with disabilities.
- Consumers with limited literacy.
- Low-income households.

Consumer protection helps reduce their exposure to unfair business practices.

12. To encourage responsible business conduct

Consumer protection encourages traders and manufacturers to follow laws, maintain quality standards and treat customers honestly.

This improves the reputation and sustainability of businesses.

B. Reasons for investor protection in Kenya

1. To protect investors against investment fraud

Some individuals and organisations may establish fraudulent investment schemes to obtain money from unsuspecting investors.

Investor protection helps prevent such schemes and enables authorities to take action against fraudulent operators.

Examples:

- Ponzi schemes.
- Pyramid schemes.
- Fake online investment platforms.
- Unlicensed investment advisers.
- False promises of guaranteed high returns.

2. To promote confidence in financial markets

Investors are more likely to invest when they believe that financial markets are regulated and that their rights are protected.

This encourages investment in shares, bonds and other legitimate financial products.

3. To promote transparency in investment activities

Investors require accurate and timely information before committing their money.

Protection promotes disclosure of relevant information about:

- Investment risks.
- Expected returns.
- Fees and charges.
- Financial performance.
- Company operations.
- Investment conditions.

4. To prevent insider trading

Insider trading involves dealing in securities while in possession of important non-public information in circumstances prohibited by law.

Investor protection and market regulation help prevent the unfair use of confidential information.

5. To prevent market manipulation

Market manipulation occurs when individuals or groups engage in dishonest activities intended to distort the price or trading of financial instruments.

Examples:

- Spreading false information to influence share prices.
- Artificially creating demand for securities.
- Coordinating dishonest trading activities.

6. To protect investors against misleading investment information

Some investment promoters may exaggerate potential returns or hide important risks.

Investor protection requires fair, accurate and adequate information to help investors make informed decisions.

7. To promote fair treatment of investors

Investors should be treated fairly regardless of their financial status, size of investment or social position.

Protection helps prevent discrimination, abuse and unfair investment practices.

8. To promote savings and capital formation

When investors have confidence in investment institutions, they are more willing to save and invest their money.

This helps mobilise funds for businesses and national development.

9. To promote accountability among investment institutions

Regulatory requirements encourage investment institutions to maintain proper records, disclose relevant information and act responsibly.

10. To protect investors against unlicensed investment operators

Some individuals may provide investment services without the required licences or approvals.

Regulation helps investors identify authorised institutions and avoid dealing with illegal operators.

11. To promote economic growth

Investor protection encourages investment in productive sectors, supports business expansion and strengthens financial markets.

12. To provide mechanisms for handling investment complaints

Investors may experience disputes involving brokers, fund managers, investment advisers or issuers.

Protection mechanisms provide channels through which complaints can be investigated and resolved.

3.0 Consumer Rights in Kenya

3.1 Meaning of consumer rights

Consumer rights are the legal and moral entitlements that protect people when they buy, use or receive goods and services.

In Kenya, consumer rights are recognised under **Article 46 of the Constitution of Kenya, 2010**, and are further provided for under the Consumer Protection Act, 2012.

Article 46 protects consumers of goods and services, including consumers of services provided by public entities and private persons.

3.2 Main consumer rights in Kenya

1. Right to goods and services of reasonable quality

Consumers have the right to receive goods and services that meet acceptable quality and safety requirements.

Explanation:

- Products should be fit for their intended purposes.
- Goods should meet applicable quality standards.
- Services should be provided with reasonable care and skill.
- Defective products should be handled according to applicable consumer protection laws.

Example: A consumer who purchases a new electric kettle should receive a product that functions safely and as represented.

2. Right to information necessary for making informed choices

Consumers have the right to receive accurate and adequate information about goods and services.

Such information may include:

- Price.
- Quantity.
- Ingredients.
- Product specifications.
- Expiry date where applicable.
- Instructions for use.
- Possible risks and warnings.
- Terms and conditions of a service.

Example: A food manufacturer should provide accurate information about the ingredients and expiry date of a packaged food product.

3. Right to protection of health, safety and economic interests

Consumers have a right to protection against goods and services that may be harmful to their health, safety or economic interests.

Examples:

- Unsafe electrical appliances should not be sold as safe products.
- Contaminated food should not be distributed to consumers.
- Consumers should be protected against fraudulent charges.
- Dangerous products should be subject to appropriate corrective action.

4. Right to compensation for loss or injury

Consumers have a right to seek appropriate compensation or other remedies where they suffer loss or injury arising from defects in goods or services, subject to applicable law.

Examples:

- Seeking compensation for injury caused by a defective product.
- Seeking a refund where legally entitled.
- Seeking replacement or repair of defective goods where applicable.

5. Right to fair and honest treatment

Consumers should be treated fairly by traders and service providers.

This means:

- Businesses should not use deceptive practices.
- Traders should not make false claims.
- Consumers should not be subjected to unfair pressure.
- Contractual terms should not be unfair or misleading.

6. Right to privacy

Consumers have a right to privacy in relation to their personal information.

Businesses should handle customer information responsibly and comply with relevant data protection requirements.

Examples:

- Protecting customers' telephone numbers.
- Securing customers' financial information.
- Avoiding unauthorised disclosure of personal information.
- Obtaining consent where required before processing personal data.

7. Right to be heard

Consumers should have opportunities to express complaints and have their concerns considered by relevant businesses and institutions.

Examples:

- Reporting defective goods to a trader.
- Complaining about poor service.
- Reporting misleading advertisements to the relevant authority.
- Participating in consumer awareness forums.

8. Right to consumer education

Consumers should have access to information that helps them understand their rights and responsibilities.

Consumer education enables people to:

- Compare products.
- Understand product labels.

- Identify counterfeit goods.
- Recognise misleading advertisements.
- Understand warranties and contracts.
- Report unfair business practices.

9. Right to choose

Consumers should have reasonable opportunities to choose from different goods and services at competitive prices.

This right is supported by fair competition in the marketplace.

Example: A customer should be able to choose among different mobile phone service providers where alternatives are available.

10. Right to redress

Consumers should have access to appropriate remedies when their rights are violated.

Possible remedies, depending on the circumstances and applicable law, include:

- Repair.
- Replacement.
- Refund.
- Compensation.
- Cancellation of an unfair transaction.
- Other legal remedies.

3.3 Importance of consumer rights

Consumer rights:

1. Protect people against exploitation.
2. Promote safe consumption.
3. Improve product quality.
4. Encourage honest business practices.
5. Promote fair competition.
6. Build confidence in markets.
7. Reduce consumer disputes.
8. Encourage responsible production and distribution.
9. Protect vulnerable consumers.
10. Promote economic and social welfare.

4.0 Investor Rights in Kenya

4.1 Meaning of investor rights

Investor rights are the legal entitlements and protections available to individuals and institutions that invest money or other resources in financial products, businesses and other investment opportunities.

Investor rights help ensure that investments are handled fairly and that investors receive important information needed to make decisions.

4.2 Main investor rights in Kenya

1. Right to accurate and timely information

Investors should receive relevant, accurate and timely information about investment opportunities and the institutions offering them.

Information may include:

- Financial performance.
- Investment objectives.
- Risks involved.
- Fees and charges.
- Terms and conditions.
- Material changes affecting the investment.

Example: A company offering shares to the public should provide the required disclosure documents so that potential investors can make informed decisions.

2. Right to fair treatment

Investors should be treated fairly by licensed investment service providers and other regulated market participants.

They should not be unfairly discriminated against or deliberately disadvantaged.

3. Right to protection against fraud

Investors should be protected against dishonest schemes, false investment promises and fraudulent use of their funds.

Example: An individual should be cautious of an online investment platform promising unusually high guaranteed returns without verifiable regulatory authorisation.

4. Right to privacy and confidentiality

Investors have a right to appropriate protection of their personal and financial information.

Investment institutions should handle such information responsibly and comply with applicable data protection laws.

5. Right to understand investment risks

Investors should receive adequate information about the risks associated with an investment before committing their money.

Risks may include:

- Loss of capital.

- Market price fluctuations.
- Inflation.
- Liquidity problems.
- Business failure.
- Changes in interest rates.

Important: Investor protection does not mean that every investment is guaranteed to make a profit or that investors cannot lose money.

6. Right to receive investment returns according to agreed terms

Investors are entitled to returns that are legally due under the terms of their investments.

Examples:

- Interest payable on a bond according to its terms.
- Dividends declared by a company in accordance with applicable law and its governing documents.
- Returns payable under a collective investment scheme's rules.

Note: Dividends are not guaranteed. A company may decide not to declare dividends.

7. Right to access records and account information

Investors should be able to obtain relevant information about their investment holdings and transactions through the appropriate institutions.

Examples:

- Statements showing shareholdings.
- Records of securities transactions.
- Investment account statements.
- Reports from fund managers.

8. Right to lodge complaints and seek redress

Investors should have access to complaint-handling procedures when they experience unfair treatment or misconduct.

Examples:

- Complaining about unauthorised transactions.
- Reporting misleading investment advice.
- Reporting misconduct by a licensed broker.
- Seeking review of disputes involving a regulated investment institution.

9. Right to participate in company decisions where applicable

Shareholders have certain rights to participate in company affairs under company law and the company's governing documents.

These may include:

- Attending annual general meetings.
- Voting on resolutions where entitled.
- Electing directors where applicable.
- Receiving information about important company matters.
- Participating in decisions reserved for shareholders.

10. Right to receive securities or evidence of ownership

Investors should receive proper records or evidence of their investment holdings.

For example, a person who purchases listed shares in Kenya should have the transaction and shareholding properly recorded through the relevant securities depository arrangements.

11. Right to protection against market manipulation

Investors should be protected against unfair market practices such as manipulation of securities prices and prohibited insider trading.

12. Right to fair and transparent fees

Investors should receive information about applicable brokerage fees, management charges, transaction costs and other expenses before or when they enter into an investment arrangement, as required by law.

4.3 Importance of investor rights

1. Promote investor confidence.
2. Encourage savings and investment.
3. Reduce fraudulent investment activities.
4. Improve transparency in financial markets.
5. Promote fair competition among investment institutions.
6. Encourage long-term investment.
7. Improve accountability among financial institutions.
8. Support capital formation and economic development.

5.0 Ways in Which the Government Protects Consumers in Kenya

The Kenyan government protects consumers through legislation, regulation, inspection, licensing, public education and enforcement.

5.1 Enacting consumer protection laws

The government enacts laws that establish consumer rights and regulate business conduct.

Important laws include:

- Constitution of Kenya, 2010.
- Consumer Protection Act, 2012.
- Competition Act, 2010.
- Standards Act.

- Food, Drugs and Chemical Substances Act.
- Data Protection Act, 2019.
- Public Health Act.

Importance:

1. Establishes consumer rights.
2. Defines prohibited business practices.
3. Provides legal remedies for consumers.
4. Gives regulatory institutions powers to enforce standards.
5. Promotes fairness in business transactions.

5.2 Setting and enforcing product quality standards

The government uses institutions such as the Kenya Bureau of Standards (KEBS) to develop, adopt and enforce standards for goods and services.

This helps ensure that products meet required safety and quality requirements.

Examples:

- Inspection of manufactured goods.
- Testing of products in laboratories.
- Certification of products where applicable.
- Monitoring imported goods.
- Taking action against non-compliant products.

5.3 Licensing and regulating businesses

Government agencies require certain businesses and professionals to obtain licences or approvals before operating.

Examples:

- Licensing of financial institutions.
- Regulation of pharmaceutical businesses.
- Licensing of certain food premises.
- Regulation of insurance service providers.
- Licensing of certain professional service providers.

Importance:

- Helps prevent illegal business operations.
- Promotes professional standards.
- Improves accountability.
- Protects consumers from unqualified service providers.

5.4 Inspecting goods and business premises

Government officers may inspect business premises, products and production processes to establish whether businesses comply with applicable laws and standards.

Examples:

- Inspecting food shops and restaurants.
- Checking expiry dates.
- Inspecting manufacturing facilities.
- Checking product labels.
- Inspecting storage and handling facilities.

5.5 Controlling misleading advertisements

The government enforces laws that discourage false or misleading representations in business transactions.

This protects consumers from advertisements that exaggerate product benefits, hide important information or create false expectations.

5.6 Controlling counterfeit goods

Government agencies take action against the manufacture, importation and sale of counterfeit products.

Examples:

- Seizure of counterfeit goods.
- Investigation of counterfeit distribution networks.
- Enforcement of intellectual property laws.
- Public awareness campaigns.

5.7 Controlling unfair trade practices

The government investigates and takes action against prohibited practices such as:

- False representations.
- Misleading conduct.
- Certain forms of price fixing.
- Abuse of market dominance.
- Unfair business conduct.
- Other prohibited anti-competitive practices.

5.8 Providing consumer complaint mechanisms

The government provides institutions and procedures through which consumers can report violations.

For example:

- Consumers can report misleading representations and unsafe products to the Competition Authority of Kenya.

- Consumers can report substandard products to KEBS.
- Consumers can report environmental pollution to NEMA.
- Consumers can seek appropriate legal remedies through courts and other recognised dispute-resolution mechanisms.

5.9 Promoting consumer education

Government institutions educate consumers on:

- Their legal rights.
- Product safety.
- Identifying counterfeit goods.
- Understanding labels.
- Avoiding fraudulent transactions.
- Reporting unfair business practices.

5.10 Protecting personal information

The government protects consumers' personal information through the Data Protection Act, 2019, and the Office of the Data Protection Commissioner.

This helps protect individuals against unlawful collection, use, disclosure and processing of personal data.

5.11 Protecting consumers in financial services

The government regulates different financial sectors through specialised institutions.

Examples:

- Central Bank of Kenya regulates and supervises banking institutions.
- Insurance Regulatory Authority regulates the insurance industry.
- Capital Markets Authority regulates capital markets.
- SACCO Societies Regulatory Authority supervises regulated SACCOs.

These institutions help promote fair practices, sound financial institutions and confidence among financial service users.

5.12 Protecting public health

Government agencies enforce public health and safety requirements to reduce exposure to unsafe products and services.

Examples:

- Food safety inspections.
- Regulation of medicines.
- Monitoring drinking water quality.
- Public health inspections.
- Control of hazardous substances.

6.0 Ways in Which the Government Protects Investors in Kenya

6.1 Licensing investment service providers

The government, through relevant regulators, requires investment institutions and market intermediaries to obtain appropriate licences or approvals.

Examples:

- Stockbrokers.
- Investment banks.
- Fund managers.
- Investment advisers.
- Insurance companies.
- Pension scheme service providers.

Importance: Licensing helps ensure that investment services are provided by institutions that meet applicable legal and regulatory requirements.

6.2 Regulating financial markets

The government establishes laws and regulatory institutions to supervise financial markets and promote fair trading.

In Kenya, the Capital Markets Authority supervises and regulates capital market activities and market intermediaries within its mandate.

6.3 Requiring disclosure of investment information

The government requires regulated market participants and issuers to provide prescribed information to investors.

This helps investors understand:

- The nature of an investment.
- Potential risks.
- Financial performance.
- Fees and charges.
- Important changes affecting the investment.

6.4 Preventing insider trading and market manipulation

Regulatory institutions monitor financial markets and take action against prohibited practices that undermine fair trading.

This helps protect investors from unfair advantages and artificial market prices.

6.5 Regulating investment advertisements

Investment promotions should not mislead investors about returns, risks or the status of investment products and service providers.

This helps prevent false investment promises.

6.6 Supervising financial institutions

Government regulators supervise institutions within their respective mandates to promote financial stability and protect customers and investors.

Examples:

- CBK supervises banks and other institutions under its mandate.
- CMA regulates capital market intermediaries.
- IRA supervises insurance companies and intermediaries.
- RBA regulates retirement benefits schemes and service providers.
- SASRA supervises regulated SACCOs.

6.7 Establishing investor complaint mechanisms

Investors can report complaints to the relevant institutions.

For example, investors with complaints involving capital market intermediaries are encouraged to first approach the relevant licensed institution and may escalate unresolved complaints through the Nairobi Securities Exchange and the Capital Markets Authority, where applicable.

6.8 Providing investor education

Regulators and market institutions educate the public on:

- Investment opportunities.
- Investment risks.
- How financial markets operate.
- How to identify licensed providers.
- How to avoid fraudulent schemes.
- How to report misconduct.

6.9 Maintaining investor compensation arrangements

Certain investor protection arrangements may provide compensation in specific circumstances.

For example, the Capital Markets Authority administers an Investor Compensation Fund designed to compensate eligible investors for losses arising from the failure of a licensed broker or dealer to meet contractual obligations, subject to the applicable law and fund rules.

Important: Such arrangements do not guarantee investment profits or cover ordinary market losses.

6.10 Regulating retirement benefit schemes

The Retirement Benefits Authority supervises retirement benefits schemes and protects the interests of members and sponsors within its legal mandate.

It also handles certain disputes involving scheme members, trustees and service providers.

Retirement Benefit Authority+1

6.11 Protecting insurance policyholders

The Insurance Regulatory Authority regulates the insurance industry to promote sound insurance practices and protect policyholders.

It supervises insurance companies and intermediaries and promotes compliance with insurance laws.

6.12 Regulating SACCOs

The SACCO Societies Regulatory Authority supervises regulated SACCOs to promote sound management, financial stability and protection of members' interests.

6.13 Enforcing laws against financial fraud

Government agencies investigate and take action against illegal financial activities, including fraud, money laundering and other prohibited practices within their mandates.

6.14 Promoting secure securities transactions

The government regulates securities market infrastructure and participants to promote accurate ownership records, orderly trading, clearing and settlement.

7.0 Effects of High Emissions and Effluents in Kenya

7.1 Meaning of emissions

Emissions refer to gases, smoke, dust, fumes, vapours and other substances released into the atmosphere from natural or human activities.

High emissions occur when pollutants are released into the air in quantities that exceed acceptable environmental or health standards.

Examples of sources of emissions in Kenya include:

- Motor vehicles.
- Factories and manufacturing industries.
- Thermal power generation.
- Burning of charcoal and firewood.
- Open burning of waste.
- Construction and quarrying activities.
- Agricultural activities.
- Fuel combustion in homes and businesses.

7.2 Types of air pollutants

1. Carbon monoxide

Carbon monoxide is a poisonous, colourless and odourless gas produced mainly through incomplete combustion of fuels.

Sources:

- Motor vehicle exhausts.
- Charcoal burning.
- Poorly ventilated generators.
- Incomplete burning of other fuels.

Effects:

- Reduces the ability of blood to transport oxygen.
- Can cause headaches and dizziness.
- May cause unconsciousness.
- High exposure can cause death.

2. Carbon dioxide

Carbon dioxide is a greenhouse gas released through the burning of fossil fuels and other natural and human activities.

Sources:

- Burning petrol and diesel.
- Industrial processes.
- Electricity generation using fossil fuels.
- Deforestation and land-use changes.

Effects of excessive accumulation:

- Contributes to global warming.
- Contributes to climate change.
- Can increase the frequency or severity of some climate-related risks.
- May affect agriculture and water availability.

3. Sulphur dioxide

Sulphur dioxide is a gas produced mainly when fuels containing sulphur are burned and during certain industrial processes.

Sources:

- Some industrial processes.
- Burning sulphur-containing fuels.
- Certain mining and processing activities.

Effects:

- Irritates the respiratory system.
- Can worsen asthma and other respiratory conditions.
- Contributes to acid deposition.
- Can damage vegetation and materials.

4. Nitrogen oxides

Nitrogen oxides are gases formed mainly during high-temperature combustion processes.

Sources:

- Motor vehicles.
- Industrial boilers.
- Power generation.
- Burning of fuels.

Effects:

- Irritate the lungs.
- Contribute to the formation of ground-level ozone and smog.
- Contribute to acid deposition.
- Can damage vegetation.

5. Particulate matter

Particulate matter consists of very small solid particles and liquid droplets suspended in the air.

Examples:

- Dust.
- Soot.
- Smoke.
- Ash.
- Fine particles from vehicle exhausts.

Effects:

- Causes respiratory irritation.
- Can worsen asthma.
- May increase the risk of heart and lung diseases.
- Reduces visibility.
- Can settle on crops, buildings and other surfaces.

6. Volatile organic compounds

These are organic chemicals that can easily evaporate into the air.

Sources:

- Paints and solvents.
- Fuels.
- Industrial processes.
- Certain cleaning products.

Effects:

- Some cause irritation and other health effects.
- Some contribute to ground-level ozone formation.
- Certain compounds may have long-term harmful effects.

7.3 Meaning of effluents

Effluents are liquid wastes or wastewater discharged from homes, industries, farms, institutions and other activities into sewers, rivers, lakes, land or other receiving environments.

Effluents may contain:

- Chemicals.
- Oils and grease.
- Detergents.
- Organic waste.
- Heavy metals.
- Fertiliser residues.
- Pesticides.
- Disease-causing microorganisms.
- Suspended solids.

Examples of sources of effluents in Kenya include:

- Factories.
- Abattoirs.
- Hotels and restaurants.
- Hospitals.
- Sewage treatment plants.
- Agricultural processing industries.
- Farms using chemicals.
- Residential areas.





7.4 Types of effluents

1. Domestic effluents

These are wastewater discharges from homes and residential buildings.

Examples:

- Water from bathrooms.
- Water from kitchens.
- Laundry wastewater.
- Toilet wastewater.

They may contain detergents, food remains, organic matter and disease-causing microorganisms.

2. Industrial effluents

These are wastewater discharges from manufacturing and processing industries.

They may contain:

- Chemicals.
- Oils.
- Heavy metals.
- Acids.
- Dyes.
- Industrial cleaning substances.

3. Agricultural effluents

These are liquid wastes and runoff from agricultural activities.

They may contain:

- Fertiliser residues.
- Pesticides.
- Animal waste.
- Soil particles.

- Organic matter.

4. Commercial effluents

These are wastewater discharges from commercial establishments.

Examples:

- Hotels.
- Restaurants.
- Car-washing businesses.
- Shopping centres.
- Laundries.
- Food-processing establishments.

5. Institutional effluents

These are wastewater discharges from institutions such as:

- Schools.
- Hospitals.
- Colleges.
- Laboratories.
- Public institutions.

Some institutional effluents may contain chemicals, infectious materials and other pollutants requiring proper treatment.

7.5 Effects of high emissions on consumers and the public in Kenya

1. Respiratory diseases

Polluted air may cause or worsen respiratory problems.

Examples:

- Asthma attacks.
- Bronchitis.
- Breathing difficulties.
- Chronic respiratory conditions.

This increases healthcare costs for households.

2. Eye, nose and throat irritation

Exposure to smoke, dust and harmful gases may cause:

- Watery eyes.
- Eye irritation.

- Sneezing.
- Sore throat.
- Coughing.

3. Increased healthcare expenditure

Air pollution may increase the need for medical consultations, medication and hospital treatment.

This places a financial burden on households and public healthcare facilities.

4. Reduced quality of life

Polluted air can make it uncomfortable for people to work, study, exercise and participate in outdoor activities.

5. Reduced agricultural productivity

Air pollutants and climate-related effects may damage crops, reduce crop yields and affect livestock production.

This may result in:

- Reduced food supply.
- Higher food prices.
- Lower farm incomes.
- Increased food insecurity.

6. Climate change

Greenhouse gas emissions contribute to climate change.

Possible effects in Kenya include:

- More severe drought conditions.
- Flooding.
- Changes in rainfall patterns.
- Heat stress.
- Increased pressure on water resources.
- Effects on livestock and crop production.

7. Damage to property

Air pollution can cause corrosion, discolouration and deterioration of buildings, vehicles and other materials.

8. Loss of business productivity

Workers exposed to polluted air may experience illness, absenteeism and reduced productivity.

Businesses may also incur additional costs for protective equipment and workplace improvements.

9. Reduced tourism attractiveness

Air pollution and environmental degradation may reduce the attractiveness of some tourist destinations.

This can affect tourism businesses and employment.

10. Environmental degradation

High emissions may contribute to poor air quality, damage to vegetation and deterioration of ecosystems.

7.6 Effects of high effluent discharge on consumers and the public in Kenya

1. Contamination of drinking water

Untreated effluents may introduce harmful chemicals and microorganisms into water sources.

This may make water unsafe for domestic consumption.

2. Spread of waterborne diseases

Effluents containing disease-causing microorganisms may contribute to the spread of illnesses such as:

- Cholera.
- Typhoid.
- Dysentery.
- Other gastrointestinal infections.

3. Death of aquatic organisms

Some effluents contain toxic substances or excessive organic matter that can harm fish and other aquatic organisms.

This may reduce fish populations and affect fishing communities.

4. Eutrophication

Eutrophication occurs when excessive nutrients, especially nitrogen and phosphorus, enter water bodies and encourage rapid growth of algae and aquatic plants.

Consequences include:

- Algal blooms.
- Reduced oxygen levels in water.
- Death of fish.
- Deterioration of water quality.
- Disruption of aquatic ecosystems.

5. Contamination of agricultural land

Polluted wastewater may introduce harmful substances into soil.

This may affect soil quality and, depending on the pollutants and exposure, contaminate crops.

6. Increased water treatment costs

When water sources become polluted, water service providers may need to spend more money on treatment to make water suitable for use.

These costs may eventually affect consumers through service charges.

7. Loss of income among fishermen

Water pollution can reduce fish populations and damage aquatic habitats.

This affects fishermen, fish traders and other people who depend on fishing.

8. Unpleasant smells

Untreated wastewater and decomposing organic materials may produce offensive odours.

This makes surrounding areas uncomfortable for residents and businesses.

9. Loss of biodiversity

Toxic substances and poor water quality can destroy habitats and reduce the number of plants and animals in aquatic ecosystems.

10. Reduced recreational and tourism activities

Polluted rivers, lakes and beaches may become unsuitable for swimming, fishing and other recreational activities.

This may reduce income for tourism and hospitality businesses.

11. Increased public health expenditure

Government and households may spend more money treating diseases associated with contaminated water and poor sanitation.

12. Damage to business activities

Water pollution may affect:

- Food processing.
- Agriculture.
- Fishing.
- Hospitality.
- Beverage production.
- Water supply businesses.

7.7 Effects of emissions and effluents on businesses and investors

1. **Increased operating costs:** Businesses may spend more on pollution control, waste treatment and compliance.
2. **Legal penalties:** Businesses that violate environmental laws may face enforcement action and penalties.

3. **Damage to business reputation:** Customers may avoid businesses associated with environmental pollution.
4. **Reduced productivity:** Workers may become ill due to exposure to pollution.
5. **Loss of customers:** Consumers may prefer environmentally responsible businesses.
6. **Reduced investment attractiveness:** Investors may avoid businesses with high environmental and legal risks.
7. **Project interruptions:** Environmental violations may result in restrictions or suspension of certain operations.
8. **Higher insurance and financing costs:** Some businesses may face higher costs where environmental risks affect their risk assessments.
9. **Damage to natural resources:** Pollution may reduce the availability of clean water, productive land and other resources needed by businesses.
10. **Increased compliance requirements:** Businesses may need to invest in treatment plants, emission-control equipment and environmental monitoring.

7.8 Measures for controlling high emissions and effluents in Kenya

Controlling emissions

1. Maintaining motor vehicles to reduce excessive exhaust emissions.
2. Using cleaner energy sources where practical.
3. Installing suitable air pollution control equipment in factories.
4. Avoiding open burning of waste.
5. Planting and protecting trees.
6. Promoting public transport and cleaner transport systems.
7. Monitoring industrial emissions.
8. Enforcing air quality standards.
9. Using energy-efficient production equipment.
10. Promoting environmental education.

Controlling effluents

1. Treating industrial wastewater before discharge.
2. Installing sewage treatment facilities.
3. Recycling and reusing wastewater where safe and permitted.
4. Preventing direct discharge of untreated wastewater into rivers and lakes.
5. Properly managing agricultural chemicals.
6. Monitoring water quality.
7. Maintaining sewerage systems.
8. Enforcing effluent discharge licensing requirements.

9. Promoting responsible waste disposal.
10. Educating communities and businesses on water pollution prevention.

Kenyan environmental regulation: NEMA's Environmental Management and Co-ordination (Water Quality) Regulations, 2024 prohibit unlawful pollution of water sources and require an appropriate effluent discharge licence for discharges into the environment from relevant point sources. The Air Quality Regulations, 2024 provide for prevention, control and reduction of air pollution.

8.0 Consumer and Investor Protection Issues in Kenya

8.1 Meaning of consumer and investor protection issues

Consumer and investor protection issues are challenges, risks and unfair practices that interfere with the rights, safety, financial interests and welfare of consumers and investors.

They may arise from dishonest business conduct, weak compliance, lack of information, inadequate enforcement or changing market conditions.

A. Consumer protection issues in Kenya

1. Sale of counterfeit products

Some traders sell imitation products as genuine goods.

Examples:

- Fake electronics.
- Counterfeit medicines.
- Imitation cosmetics.
- Fake vehicle spare parts.

Effects:

- Financial loss.
- Health and safety risks.
- Reduced consumer confidence.
- Unfair competition for genuine manufacturers.

2. Sale of expired and substandard goods

Some businesses may sell goods that have expired, deteriorated or failed to meet required standards.

Examples:

- Expired food.
- Poor-quality construction materials.
- Defective electrical equipment.
- Substandard household products.

3. Misleading advertising

Businesses may exaggerate product benefits or provide false information to attract customers.

Examples:

- False claims about the effectiveness of a product.
- Misleading discounts.
- Advertisements that hide important charges.
- Unsubstantiated health claims.

4. Unfair pricing and hidden charges

Some businesses may introduce undisclosed charges or use deceptive pricing practices.

This may cause consumers to pay more than they expected.

5. Poor customer service

Consumers may experience:

- Delayed delivery.
- Failure to honour warranties.
- Refusal to handle genuine complaints.
- Poor after-sales services.
- Failure to repair or replace defective products where legally required.

6. Online shopping fraud

Some online traders may advertise goods they do not possess or fail to deliver after receiving payment.

Examples:

- Fake online shops.
- Non-delivery of purchased goods.
- False product descriptions.
- Unauthorised online payment requests.

7. Data privacy violations

Some businesses may collect, use or share customers' personal information unlawfully.

Examples:

- Sharing customer telephone numbers without a lawful basis.
- Unauthorised access to customer accounts.
- Misuse of financial information.
- Unlawful direct marketing.

8. Low consumer awareness

Some consumers may not understand their rights or know where to report violations.

This makes them vulnerable to exploitation.

9. Unfair contractual terms

Some businesses may use unclear or unfair contract terms that disadvantage consumers.

10. Environmental pollution

Consumers may be exposed to unsafe air, contaminated water and other environmental hazards caused by irresponsible business activities.

B. Investor protection issues in Kenya

1. Ponzi and pyramid schemes

These are fraudulent arrangements that may promise unusually high returns.

A Ponzi scheme uses money from new investors to pay earlier investors rather than generating sufficient genuine investment returns.

A pyramid scheme generally relies on recruiting new participants to generate payments for earlier participants.

2. Unlicensed investment schemes

Some individuals and organisations offer investment services without the necessary licences or approvals.

This exposes investors to fraud and financial loss.

3. Misleading investment advertisements

Some promoters advertise unrealistic or guaranteed returns without properly explaining investment risks.

4. Insider trading

This involves prohibited dealing in securities using important non-public information.

It undermines fairness and investor confidence.

5. Market manipulation

Some market participants may attempt to distort security prices or trading activity through dishonest practices.

6. Misappropriation of investor funds

This occurs when money entrusted to an investment institution or manager is used for unauthorised purposes.

7. Lack of investment knowledge

Some investors may lack adequate knowledge of financial products and the risks involved.

This can lead to poor investment decisions.

8. Delayed or inadequate disclosure

Investors may fail to receive timely information about company performance, investment risks or material changes.

9. Cybercrime and online investment fraud

Fraudsters may use digital platforms to steal money or personal financial information from investors.

10. Conflicts of interest

An investment adviser or intermediary may recommend products that benefit the adviser more than the client.

11. Unfair fees and charges

Investors may incur charges that were not properly disclosed or explained.

12. Difficulty in resolving investment disputes

Investors may face delays or challenges when trying to resolve complaints involving investment institutions.

8.2 Effects of inadequate consumer and investor protection

1. Loss of money among consumers and investors.
2. Reduced public confidence in markets.
3. Increased fraudulent business activities.
4. Reduced savings and investment.
5. Closure of legitimate businesses due to unfair competition.
6. Increased health and safety risks.
7. Reduced economic growth.
8. Increased poverty and financial vulnerability.
9. Damage to the reputation of financial institutions.
10. Reduced domestic and foreign investment.

9.0 Consumer and Investor Protection Bodies in Kenya

9.1 Meaning of consumer and investor protection bodies

Consumer and investor protection bodies are government agencies, regulatory authorities and recognised organisations established to safeguard the interests of consumers and investors.

They enforce laws, regulate businesses, investigate complaints, educate the public and promote fair business practices.

Kenya has different institutions responsible for consumer protection, investment regulation, financial supervision and environmental management.

9.2 Consumer protection bodies in Kenya

1. Competition Authority of Kenya (CAK)

Meaning: The Competition Authority of Kenya is a government agency responsible for promoting and protecting effective competition in markets and enforcing consumer protection provisions under the Competition Act, 2010.

Roles of CAK

1. Investigates complaints involving misleading representations.
2. Investigates the supply of unsafe, defective and unsuitable goods.
3. Takes action against prohibited anti-competitive practices.
4. Investigates abuse of dominant market positions.
5. Regulates mergers and acquisitions as provided by law.
6. Promotes consumer awareness and education.
7. Encourages the formation and development of consumer bodies.
8. Investigates certain cases involving abuse of buyer power.
9. Promotes fair competition among businesses.
10. Advises the government on competition and consumer protection matters.

Example: A consumer who purchases a defective product or is misled by a trader may lodge a complaint with CAK, depending on the nature of the complaint.

2. Kenya Bureau of Standards (KEBS)

Meaning: KEBS is the national standards body responsible for developing, adopting and implementing standards for products and services in Kenya.

Roles of KEBS

1. Develops and publishes Kenyan standards.
2. Tests products to establish whether they meet required standards.
3. Inspects certain products and production processes.
4. Certifies products that comply with applicable standards.
5. Monitors the quality of locally manufactured products.
6. Participates in the inspection of imported products under applicable programmes.
7. Promotes quality assurance among manufacturers.
8. Provides information on standards and product quality.
9. Takes enforcement action within its legal mandate against non-compliant products.
10. Educates manufacturers and consumers on quality standards.

Example: KEBS uses quality certification and inspection processes to help ensure that products sold in Kenya meet applicable standards.

3. Anti-Counterfeit Authority (ACA)

Meaning: The Anti-Counterfeit Authority is a government agency established to combat counterfeiting and protect intellectual property rights.

Roles of ACA

1. Combats the manufacture and sale of counterfeit goods.

2. Conducts investigations into counterfeiting activities.
3. Inspects premises suspected of dealing in counterfeit products.
4. Seizes suspected counterfeit goods in accordance with the law.
5. Educates the public on the dangers of counterfeit products.
6. Promotes respect for intellectual property rights.
7. Cooperates with other enforcement agencies.
8. Supports legitimate manufacturers and traders.
9. Helps protect consumers against fake and potentially unsafe products.
10. Promotes fair competition in the marketplace.

Example: ACA may investigate traders suspected of selling counterfeit branded electronics or cosmetics.

4. National Environment Management Authority (NEMA)

Meaning: NEMA is the principal government agency responsible for coordinating environmental management and enforcing environmental laws in Kenya.

Roles of NEMA

1. Coordinates environmental management activities.
2. Enforces environmental laws and regulations.
3. Monitors environmental pollution.
4. Regulates relevant effluent discharges.
5. Administers environmental impact assessment and audit requirements.
6. Monitors air quality and other environmental conditions.
7. Promotes proper waste management.
8. Takes appropriate action against environmental violations.
9. Educates the public on environmental protection.
10. Promotes sustainable use of natural resources.

Example: NEMA regulates the discharge of industrial effluents into the environment and requires relevant facilities to obtain valid effluent discharge licences.

5. Office of the Data Protection Commissioner (ODPC)

Meaning: The ODPC is the independent office responsible for overseeing the implementation and enforcement of the Data Protection Act, 2019.

Roles of ODPC

1. Oversees compliance with data protection requirements.
2. Protects individuals' personal data.
3. Receives and investigates relevant data protection complaints.

4. Promotes awareness of data protection rights.
5. Provides guidance on responsible processing of personal information.
6. Takes appropriate enforcement action against violations.
7. Promotes accountability among organisations processing personal data.
8. Supports protection against unlawful disclosure of personal information.

Example: A consumer may complain if a business unlawfully discloses their personal information.

6. Kenya Plant Health Inspectorate Service (KEPHIS)

Meaning: KEPHIS is a government agency responsible for regulating plant health and quality-related matters within its legal mandate.

Roles of KEPHIS

1. Regulates the quality of agricultural inputs such as seeds.
2. Inspects seeds and planting materials.
3. Supports certification of seeds.
4. Monitors plant pests and diseases.
5. Regulates plant imports and exports.
6. Helps prevent the distribution of unsuitable or poor-quality seeds.
7. Provides technical information to farmers.
8. Promotes compliance with plant health requirements.

Example: KEPHIS helps protect farmers from poor-quality or falsely labelled seed products.

7. Public Health Department

Public health departments operate at national and county levels under the relevant legal framework.

Roles

1. Inspect food premises.
2. Monitor hygiene in food-handling businesses.
3. Enforce applicable public health requirements.
4. Help prevent the sale of unsafe food.
5. Monitor sanitation conditions.
6. Promote public health education.
7. Investigate public health risks.
8. Take appropriate action against violations.

Example: County public health officers may inspect restaurants and food shops to establish whether hygiene requirements are being followed.

8. Pharmacy and Poisons Board (PPB)

Meaning: The Pharmacy and Poisons Board is the regulatory authority responsible for regulating medicines and healthcare products within its legal mandate.

Roles

1. Regulates medicines and pharmaceutical products.
2. Oversees the registration of medicines.
3. Regulates pharmaceutical manufacturing and distribution.
4. Inspects relevant pharmaceutical premises.
5. Monitors the safety and quality of medicines.
6. Takes action against illegal pharmaceutical products.
7. Promotes safe use of medicines.
8. Provides information on medicine safety.

Example: PPB takes regulatory action against unauthorised medicines and unsafe pharmaceutical products.

9. Kenya Consumers Organisation (KCO)

Consumer organisations represent and promote the interests of consumers.

Roles

1. Educate consumers on their rights.
2. Raise awareness about unfair business practices.
3. Represent consumer interests in relevant forums.
4. Help consumers understand complaint procedures.
5. Advocate for fair treatment of consumers.
6. Promote responsible business practices.
7. Participate in discussions on consumer-related policies.
8. Encourage consumers to report exploitation.

Note: Consumer organisations are distinct from government regulators. Their functions depend on their legal status and mandate.

9.3 Investor protection bodies in Kenya

1. Capital Markets Authority (CMA)

Meaning: The Capital Markets Authority is an independent public agency established under the Capital Markets Act to regulate, supervise and develop Kenya's capital markets.

It is one of the most important institutions responsible for protecting investors in securities markets.

Roles of CMA

1. Licenses and supervises capital market intermediaries.
2. Regulates securities markets.
3. Supervises relevant market institutions, including the stock exchange and central depository.
4. Promotes fair and orderly securities trading.
5. Protects investors' interests.
6. Regulates the issuance of capital market products.
7. Promotes investor education.
8. Investigates relevant market misconduct.
9. Takes enforcement action against violations within its mandate.
10. Administers the Investor Compensation Fund under applicable laws and rules.
11. Promotes the development of capital markets.
12. Encourages transparency and disclosure in investment activities.

Example: CMA regulates licensed stockbrokers and investment banks and provides mechanisms for escalating certain investor complaints.

2. Central Bank of Kenya (CBK)

Meaning: The Central Bank of Kenya is the country's central bank, responsible for monetary policy and the regulation and supervision of institutions within its banking mandate.

Roles related to investor and financial consumer protection

1. Regulates and supervises commercial banks.
2. Supervises microfinance banks within its mandate.
3. Promotes stability in the banking sector.
4. Issues guidelines and regulatory requirements for supervised institutions.
5. Promotes sound banking practices.
6. Monitors compliance with banking laws and regulations.
7. Promotes confidence in the financial system.
8. Oversees relevant payment system arrangements.
9. Provides information and guidance on banking matters.
10. Handles complaints concerning institutions under its regulatory jurisdiction through its applicable procedures.

Example: CBK supervises commercial banks to promote sound banking practices and protect the stability of the financial system.

3. Nairobi Securities Exchange (NSE)

Meaning: The Nairobi Securities Exchange is Kenya's principal securities exchange, where eligible securities are listed and traded.

Although it is a marketplace rather than the main statutory regulator, it plays an important role in promoting fair and orderly trading and supporting investor protection.

Roles

1. Provides a platform for buying and selling listed securities.
2. Facilitates capital raising by companies.
3. Promotes orderly securities trading.
4. Monitors trading activities under its rules and regulatory arrangements.
5. Provides market information to investors.
6. Supports disclosure by listed companies.
7. Provides mechanisms for handling certain investor complaints.
8. Promotes investor awareness.
9. Supports the development of the Kenyan capital market.
10. Cooperates with CMA in regulating market activities.

Example: Investors can purchase or sell eligible listed shares through authorised market intermediaries.

4. Central Depository and Settlement Corporation (CDSC)

Meaning: CDSC is the institution responsible for providing central securities depository and settlement services for eligible securities traded in Kenya's capital markets.

Roles

1. Maintains electronic records of securities holdings.
2. Facilitates the transfer of securities between investors.
3. Supports clearing and settlement of securities transactions.
4. Reduces risks associated with physical share certificates.
5. Promotes efficient securities transactions.
6. Maintains records relating to securities accounts.
7. Supports corporate actions such as dividend and interest processing through the relevant arrangements.
8. Works with authorised central depository agents and market institutions.

Example: An investor purchasing listed shares can have the securities recorded electronically in a CDS account.

5. Insurance Regulatory Authority (IRA)

Meaning: IRA is the statutory authority responsible for regulating, supervising and developing the insurance industry in Kenya.

Roles

1. Licenses and supervises insurance companies.

2. Regulates insurance intermediaries.
3. Promotes compliance with insurance laws.
4. Protects policyholders' interests.
5. Monitors the financial soundness of insurance companies.
6. Promotes fair insurance practices.
7. Investigates relevant complaints.
8. Promotes public awareness of insurance.
9. Encourages stability in the insurance sector.
10. Takes appropriate regulatory action against non-compliance.

Example: IRA supervises insurance companies to promote their ability to meet valid policyholder claims.

6. Retirement Benefits Authority (RBA)

Meaning: RBA is the government authority responsible for regulating and supervising retirement benefits schemes in Kenya.

Roles

1. Registers and supervises retirement benefits schemes as provided by law.
2. Regulates trustees, administrators and other scheme service providers.
3. Protects the interests of members and sponsors.
4. Monitors the management of pension funds.
5. Promotes proper administration of retirement benefits.
6. Investigates relevant complaints and disputes.
7. Educates the public on retirement planning.
8. Promotes sound investment of retirement funds.
9. Monitors compliance with retirement benefits legislation.
10. Takes appropriate action against regulatory violations.

Example: RBA investigates certain disputes between retirement scheme members, trustees and scheme service providers.

7. SACCO Societies Regulatory Authority (SASRA)

Meaning: SASRA is the statutory authority responsible for regulating and supervising SACCO societies that fall within its regulatory mandate.

Roles

1. Licenses regulated SACCOs.
2. Supervises regulated SACCO operations.
3. Monitors financial performance and compliance.

4. Promotes sound SACCO management.
5. Protects members' interests within its mandate.
6. Promotes transparency in SACCO operations.
7. Monitors compliance with prudential requirements.
8. Takes appropriate action against regulatory violations.
9. Promotes confidence in regulated SACCOs.
10. Educates the public on responsible SACCO participation.

8. Unclaimed Financial Assets Authority (UFAA)

Meaning: UFAA is a government authority responsible for implementing the Unclaimed Financial Assets Act and managing unclaimed financial assets in accordance with the law.

Roles

1. Receives unclaimed financial assets from holders as provided by law.
2. Safeguards assets transferred to it.
3. Maintains records of unclaimed financial assets.
4. Facilitates claims by rightful owners or beneficiaries.
5. Educates the public on unclaimed financial assets.
6. Promotes compliance by holders of unclaimed assets.
7. Helps reunite rightful owners with their assets.

Example: A person may make a claim for an eligible unclaimed financial asset held by UFAA.

9. Financial Reporting Centre (FRC)

Meaning: The FRC is Kenya's financial intelligence unit responsible for receiving, analysing and disseminating financial information relating to suspected money laundering and other relevant financial crimes.

Roles

1. Receives suspicious transaction reports from reporting institutions.
2. Analyses financial information.
3. Shares financial intelligence with relevant agencies as permitted by law.
4. Supports efforts to combat money laundering.
5. Helps combat the financing of terrorism.
6. Promotes compliance with applicable anti-money laundering requirements.
7. Cooperates with relevant national and international institutions.
8. Supports the integrity of the financial system.

10. Kenya Revenue Authority (KRA)

Meaning: KRA is the government agency responsible for assessing, collecting and accounting for revenue due to the government under relevant tax laws.

Although KRA is not a general investor protection regulator, its work supports a lawful business environment.

Relevant roles

1. Administers tax laws.
2. Collects government revenue.
3. Promotes tax compliance.
4. Helps combat tax evasion.
5. Provides taxpayer education.
6. Supports lawful business operations through tax administration.

Summary of consumer and investor protection bodies

Institution	Main area of responsibility
Competition Authority of Kenya	Competition and consumer protection
KEBS	Product quality and standards
Anti-Counterfeit Authority	Counterfeit goods and intellectual property protection
NEMA	Environmental protection and pollution control
ODPC	Protection of personal data
KEPHIS	Plant health and quality of agricultural inputs
Public Health Department	Public health and food hygiene
Pharmacy and Poisons Board	Medicines and pharmaceutical products
Consumer organisations	Consumer education and advocacy
CMA	Capital markets and investor protection
CBK	Banking regulation and supervision
NSE	Securities trading and market operations
CDSC	Securities depository and settlement
IRA	Insurance regulation and policyholder protection
RBA	Retirement benefits regulation
SASRA	Regulation of specified SACCOs
UFAA	Management of unclaimed financial assets
FRC	Financial intelligence and anti-money laundering
KRA	Tax administration and revenue collection

10.0 Responsibilities of Consumers and Investors

Protection is not only the responsibility of government agencies. Consumers and investors also have responsibilities.

10.1 Responsibilities of consumers

1. **Check product information:** Consumers should read labels and instructions before using products.
2. **Compare prices:** They should compare prices and quality before making purchases.
3. **Keep receipts:** Receipts provide evidence of purchases and may assist when making complaints.
4. **Use products correctly:** Consumers should follow safety instructions.
5. **Report unsafe products:** They should report products that may endanger users.
6. **Avoid counterfeit goods:** They should purchase from reliable sellers.
7. **Read contracts:** Consumers should understand terms and conditions before signing agreements.
8. **Protect personal information:** They should avoid sharing sensitive information carelessly.
9. **Pay for goods and services honestly:** Consumers should fulfil their lawful obligations.
10. **Report unfair practices:** They should report misleading advertisements and exploitation to relevant institutions.

10.2 Responsibilities of investors

1. **Conduct due diligence:** Investors should investigate investment opportunities before committing money.
2. **Use licensed institutions:** They should verify the regulatory status of investment service providers.
3. **Understand investment risks:** Investors should assess the possibility of financial loss.
4. **Read investment documents:** They should understand terms, fees and conditions.
5. **Diversify investments:** Where appropriate, they should avoid concentrating all their money in one investment.
6. **Keep investment records:** They should maintain transaction confirmations and statements.
7. **Avoid unrealistic promises:** Investors should be cautious of schemes promising unusually high guaranteed returns.
8. **Monitor investments:** They should review investment performance and important disclosures.
9. **Protect account information:** They should secure passwords and other financial information.
10. **Report suspicious activities:** They should notify the relevant regulator or institution when they suspect fraud.

11.0 Revision Summary

Concept	Key points
Consumer protection	Safeguarding consumers against unsafe products, fraud and unfair business practices
Investor protection	Safeguarding investors against fraud, manipulation and unfair investment practices
Consumer rights	Quality, information, safety, compensation, privacy and redress
Investor rights	Information, fair treatment, privacy, ownership records and complaint mechanisms
Consumer protection laws	Consumer Protection Act, Competition Act and relevant sector laws
Investor protection laws	Capital Markets Act and relevant financial sector laws
Air emissions	Gases, smoke, dust and other substances released into the atmosphere
Effluents	Wastewater discharged from homes, industries, farms and institutions
Effects of emissions	Respiratory illness, climate change, poor air quality and reduced productivity
Effects of effluents	Water pollution, disease, damage to aquatic life and increased treatment costs
CAK	Competition and consumer protection
KEBS	Standards and product quality
ACA	Counterfeit goods
NEMA	Environmental management
CMA	Capital markets and investor protection
CBK	Banking supervision and financial stability
IRA	Insurance regulation
RBA	Retirement benefits regulation
SASRA	Regulated SACCO supervision

CDSC	Securities depository and settlement

REVISION QUESTIONS

SECTION A: MULTIPLE-CHOICE QUESTIONS

Instructions: Choose the correct answer from the alternatives provided.

1. Consumer protection refers to measures taken to safeguard consumers against:

A. Business expansion
B. Unsafe products and unfair business practices
C. Increased production
D. Government expenditure

2. An investor is a person or organisation that:

A. Purchases goods only for household consumption
B. Provides resources with the expectation of earning returns
C. Collects taxes for the government
D. Manufactures goods for free distribution

3. Which of the following is a major reason for consumer protection?

A. Encouraging the sale of counterfeit goods
B. Promoting exploitation
C. Protecting consumers against unsafe products
D. Increasing misleading advertisements

4. The right to receive accurate information about a product is known as the right to:

A. Information
B. Borrowing
C. Taxation
D. Employment

5. Which of the following is an example of consumer exploitation?

A. Providing accurate product information
B. Selling goods at honestly displayed prices
C. Introducing hidden charges without proper disclosure
D. Issuing purchase receipts

6. Which institution is mainly responsible for promoting and protecting effective competition in Kenya?

A. KRA
B. CAK

C. KNEC
D. TSC

7. The institution responsible for developing and implementing standards in Kenya is:

A. KEBS
B. CMA
C. RBA
D. UFAA

8. Which institution is responsible for combating counterfeit goods in Kenya?

A. CBK
B. ACA
C. RBA
D. FRC

9. The main institution responsible for environmental management in Kenya is:

A. CMA
B. NEMA
C. CDSC
D. IRA

10. Which of the following is a consumer right protected under Article 46 of the Constitution of Kenya?

A. Right to exploit traders
B. Right to goods and services of reasonable quality
C. Right to avoid payment
D. Right to sell counterfeit goods

11. A consumer who purchases expired food is mainly exposed to:

A. Improved health
B. Health and safety risks
C. Increased product quality
D. Reduced market competition

12. Which of the following best describes investor protection?

A. Encouraging investors to take unlimited risks
B. Safeguarding investors against fraud and unfair investment practices
C. Guaranteeing profits from every investment
D. Preventing people from investing

13. The Capital Markets Authority is responsible for regulating:

A. Public primary schools
B. Capital markets
C. Agricultural extension services
D. Road construction

14. Which institution supervises commercial banks in Kenya?

A. CBK
B. KEBS
C. ACA
D. NEMA

15. The institution responsible for regulating insurance companies in Kenya is:

A. IRA
B. RBA
C. CAK
D. KEPHIS

16. The Retirement Benefits Authority mainly protects the interests of:

A. School suppliers
B. Members of retirement benefits schemes
C. Importers of electronics
D. Road contractors

17. Which institution provides central securities depository and settlement services?

A. CDSC
B. KRA
C. KEBS
D. ACA

18. The use of confidential non-public information to trade securities in circumstances prohibited by law is known as:

A. Diversification
B. Insider trading
C. Public participation
D. Consumer education

19. A fraudulent scheme that uses money from new investors to pay earlier investors is known as:

A. A cooperative society
B. A Ponzi scheme
C. A public corporation
D. A savings account

20. Which of the following is an investor right?

A. Right to receive misleading information
B. Right to accurate investment information
C. Right to manipulate market prices
D. Right to avoid all investment risks

21. Emissions refer to:

A. Money received by a business
B. Substances released into the atmosphere
C. Goods stored in warehouses
D. Wastewater discharged into sewers only

22. Effluents are best described as:

A. Finished products
B. Liquid wastes discharged into the environment
C. Investment returns
D. Government securities

23. Which of the following is a source of industrial emissions?

A. Factory chimneys
B. School textbooks
C. Office furniture
D. Market stalls

24. Which gas is commonly produced through incomplete combustion of fuels?

A. Oxygen
B. Carbon monoxide
C. Nitrogen
D. Hydrogen

25. Excessive nutrient discharge into water bodies may cause:

A. Eutrophication
B. Improved water quality
C. Increased oxygen in all circumstances
D. Complete prevention of algal growth

26. One effect of untreated industrial effluents is:

A. Improved aquatic biodiversity
B. Water contamination
C. Increased drinking water safety
D. Reduced pollution

27. Which of the following is a measure for controlling air pollution?

A. Open burning of waste
B. Proper vehicle maintenance
C. Releasing untreated factory smoke
D. Burning plastics in residential areas

28. Which government institution regulates effluent discharge into the environment in Kenya?

A. NEMA
B. KNEC
C. TSC
D. KRA

29. A consumer who receives a defective product may seek an appropriate remedy such as:

A. A refund where legally entitled
B. A tax increase
C. A government loan
D. A business licence

30. Which of the following is an example of responsible investor behaviour?

A. Investing without checking the institution
B. Believing every online investment promise

C. Verifying the licensing status of an investment provider
D. Sharing investment passwords with strangers

SECTION B: STRUCTURED QUESTIONS

1. Consumer and Investor Protection

a) Define the term consumer protection. (2 marks)

b) Explain the meaning of investor protection. (2 marks)

c) Distinguish between consumer protection and investor protection. (4 marks)

d) Explain six reasons why consumer protection is important in Kenya. (12 marks)

2. Reasons for Investor Protection

a) Define an investor. (2 marks)

b) Explain eight reasons why investors should be protected in Kenya. (16 marks)

c) State four examples of fraudulent investment practices. (4 marks)

3. Consumer Rights

a) Define consumer rights. (2 marks)

b) Explain eight consumer rights recognised in Kenya. (16 marks)

c) State four responsibilities of consumers when purchasing goods and services. (4 marks)

4. Investor Rights

a) Explain the meaning of investor rights. (2 marks)

b) Describe eight rights enjoyed by investors in Kenya. (16 marks)

c) State four responsibilities of investors. (4 marks)

5. Government Protection of Consumers

a) Explain six ways through which the Kenyan government protects consumers. (12 marks)

b) Identify four laws that support consumer protection in Kenya. (4 marks)

c) State four examples of unsafe or counterfeit goods that consumers may encounter. (4 marks)

6. Government Protection of Investors

a) Explain eight ways through which the government protects investors in Kenya. (16 marks)

b) State four examples of investment fraud. (4 marks)

7. Consumer Protection Bodies

a) What are consumer protection bodies? (2 marks)

b) Explain the roles of the following institutions:

i. Competition Authority of Kenya. (4 marks)

ii. Kenya Bureau of Standards. (4 marks)

iii. Anti-Counterfeit Authority. (4 marks)

iv. National Environment Management Authority. (4 marks)

v. Office of the Data Protection Commissioner. (4 marks)

8. Investor Protection Bodies

a) Define investor protection bodies. (2 marks)

b) Explain the roles of the following institutions:

i. Capital Markets Authority. (4 marks)

ii. Central Bank of Kenya. (4 marks)

iii. Insurance Regulatory Authority. (4 marks)

iv. Retirement Benefits Authority. (4 marks)

v. Central Depository and Settlement Corporation. (4 marks)

9. Emissions and Effluents

a) Define the following terms:

i. Emissions. (2 marks)

ii. Effluents. (2 marks)

b) Identify six sources of emissions in Kenya. (6 marks)

c) Explain six effects of high emissions on consumers and the public. (12 marks)

d) Identify four sources of effluents. (4 marks)

10. Effects of Effluents

a) Explain eight effects of discharging untreated effluents into water bodies. (16 marks)

b) State four measures that can be used to control effluent pollution in Kenya. (4 marks)

11. Consumer and Investor Protection Issues

a) Explain six consumer protection issues experienced in Kenya. (12 marks)

b) Explain six investor protection issues experienced in Kenya. (12 marks)

12. Responsibilities of Consumers and Investors

a) Explain five responsibilities of consumers. (10 marks)

b) Explain five responsibilities of investors. (10 marks)

13.0

Case Study 1: Consumer Protection in a Local Market

A trader operating in a local market sells cooking oil, flour, sugar and other household products. Some of the products are poorly labelled, while others have expired. The trader also advertises some goods as genuine branded products even though they are counterfeit.

Several customers have complained about the products, but the trader has refused to address their concerns.

Answer the following questions:

1. Identify four consumer protection issues illustrated in the case study.
2. Explain four reasons why the affected consumers require protection.
3. Identify three consumer rights that may have been violated.
4. Name three institutions that may assist in addressing the problems.
5. Explain the roles of the institutions identified.
6. Suggest five measures consumers can take to protect themselves from similar exploitation.

Case Study 2: Fraudulent Investment Scheme

A group of young entrepreneurs in Nakuru is approached by an online investment company promising returns of 30% every month. The company claims that investors can double their money within a short period. It does not provide clear information about its operations or regulatory approval.

Some members of the group invest their savings but later discover that the company cannot be contacted.

Answer the following questions:

1. Identify the investment protection issue illustrated.
2. Explain four warning signs of a fraudulent investment scheme.
3. Identify three rights that the affected investors should enjoy.
4. Explain four responsibilities investors should observe before investing.
5. Name two institutions that investors may contact for assistance.
6. Explain five ways through which the government can protect investors from such schemes.

Case Study 3: Industrial Pollution

A manufacturing company located near a river releases untreated wastewater into the river. The factory also releases thick smoke from its production activities. Residents who depend on the river for domestic use begin experiencing water-related illnesses.

Farmers downstream complain that their crops are being affected, while fishermen report a reduction in fish populations.

Answer the following questions:

1. Identify two forms of environmental pollution illustrated.
2. Explain five effects of the pollution on consumers and the local community.
3. Explain four ways in which the pollution may affect businesses.
4. Identify the government institution responsible for environmental management.
5. Explain five measures that can be taken to reduce emissions and effluents.
6. Explain the importance of environmental protection to consumers and investors.

Case Study 4: Protection of Investors at the Securities Market

A person purchases shares through an investment intermediary who promises guaranteed profits. The intermediary fails to provide proper transaction records and later becomes unreachable.

The investor discovers that the intermediary was not authorised to provide the investment service.

Answer the following questions:

1. Identify four investor protection issues illustrated.
2. Explain four precautions that investors should take before purchasing securities.
3. Identify the institution responsible for regulating capital markets in Kenya.
4. Explain five roles of that institution.
5. State four rights that the investor should enjoy.
6. Explain the importance of investor protection to Kenya's economy.

PROJECT-BASED LEARNING ACTIVITIES

Activity 1: Investigating consumer rights

Instructions:

Learners should visit a nearby supermarket, shop or market and observe how consumers are treated.

Tasks:

1. Identify information displayed on product packages.
2. Check whether prices are clearly displayed.
3. Observe how products are arranged and stored.
4. Identify possible examples of unsafe or expired products without purchasing or consuming them.
5. Discuss how consumers can report violations.
6. Prepare a short presentation on consumer rights.

Competencies developed:

- Critical thinking and problem-solving.
- Communication and collaboration.
- Citizenship.
- Digital literacy.

Activity 2: Investigating investor protection

Learners should research the work of the Capital Markets Authority and Nairobi Securities Exchange.

Tasks:

1. Identify different investment products available in Kenya.
2. Find out how investors can verify licensed investment providers.
3. Identify common investment risks.
4. Investigate how investors can report suspicious schemes.
5. Prepare a poster on responsible investment.

Activity 3: Environmental protection investigation

Learners should identify possible sources of emissions and effluents in their community.

Tasks:

1. Identify activities that release smoke and dust.
2. Identify activities that generate wastewater.
3. Discuss the effects of pollution on consumers.
4. Suggest practical pollution-control measures.
5. Prepare a community environmental awareness message.

Activity 4: Role-play on consumer complaints

Learners should work in groups and simulate a consumer complaint involving a defective product.

Suggested roles:

- Consumer.
- Shopkeeper.
- Manufacturer.
- Consumer protection officer.
- Mediator.

Task: Demonstrate how a consumer can report a problem, present evidence and seek an appropriate remedy.

STRAND 4.0: GOVERNMENT AND GLOBAL INFLUENCE IN BUSINESS

SUB-STRAND 4.3: FINANCIAL REGULATORS IN BUSINESS IN KENYA

1. Introduction to financial regulation

Financial regulation is an important responsibility of the government because financial institutions handle money belonging to individuals, businesses, investors, employees and other organisations. These institutions provide services such as banking, insurance, savings, loans, investments and retirement benefits.

In Kenya, the government establishes laws and specialised regulatory bodies to supervise financial institutions, protect customers and investors, promote financial stability and ensure that financial services are offered responsibly.

2. Meaning of financial regulators

Financial regulators are government-established institutions or legally authorised bodies responsible for supervising, monitoring and controlling financial institutions, financial markets and financial services to ensure that they operate according to the law.

They establish or enforce rules that guide financial institutions in handling money, providing services, managing risks and protecting customers.

Examples of financial regulators in Kenya include:

1. Central Bank of Kenya (CBK).
2. Insurance Regulatory Authority (IRA).
3. SACCO Societies Regulatory Authority (SASRA).
4. Unclaimed Financial Assets Authority (UFAA).
5. Capital Markets Authority (CMA).
6. Retirement Benefits Authority (RBA).

3. Meaning of financial regulation

Financial regulation refers to the laws, rules, guidelines and supervisory activities used by authorised institutions to control how financial organisations and markets operate.

It ensures that financial institutions:

- Handle customers' money responsibly.
- Maintain proper financial records.
- Provide accurate information about their products and services.

- Protect customers from fraud and unfair practices.
- Maintain adequate financial resources to meet their obligations.
- Follow established laws and professional standards.
- Manage financial risks appropriately.

Example in the Kenyan context:

A commercial bank operating in Kenya must comply with banking laws and regulations supervised by the Central Bank of Kenya. Similarly, an insurance company must comply with insurance regulations supervised by the Insurance Regulatory Authority.

4. Reasons for financial regulation in Kenya

Financial regulation is necessary because financial institutions deal with large amounts of public funds and influence economic activities.

1. **Protection of customers' money:** Regulation helps ensure that banks, SACCOs and other financial institutions handle customers' deposits and savings responsibly.

2. **Prevention of fraud:** Regulatory bodies supervise financial institutions to reduce fraudulent activities such as unauthorised transactions, false investment promises and misappropriation of funds.

3. **Promotion of financial stability:** Regulation helps prevent the failure of financial institutions from spreading into the wider economy.

4. **Promotion of public confidence:** People are more willing to save, invest and obtain financial services when institutions are properly supervised.

5. **Control of financial risks:** Regulators require financial institutions to identify, assess and manage risks that may affect their operations.

6. **Promotion of fair competition:** Regulation discourages unfair business practices and promotes a more orderly financial sector.

7. **Protection of investors:** Investors are protected through requirements for accurate information, fair market conduct and supervision of authorised market participants.

8. **Promotion of accountability:** Financial institutions are required to maintain proper records, prepare financial reports and account for their activities.

9. **Prevention of money laundering:** Regulation supports efforts to prevent the financial system from being used to conceal proceeds of crime or finance illegal activities.

10. **Promotion of economic development:** A well-regulated financial sector supports savings, investment, lending, insurance and business expansion.

11. **Protection of retirement savings:** Regulation helps safeguard funds contributed by workers and employers towards retirement benefits.

12. **Promotion of responsible financial services:** Regulation encourages institutions to provide services in a transparent, reliable and professional manner.

5. Major government financial regulatory bodies in Kenya

The Kenyan financial sector is supervised by different regulatory bodies. Each body has a specific area of responsibility. This arrangement ensures that banking, insurance, SACCOs, capital markets and retirement benefit schemes are properly regulated.

Regulatory body	**Main area regulated**
Central Bank of Kenya (CBK)	Banking and payment systems
Insurance Regulatory Authority (IRA)	Insurance industry
SACCO Societies Regulatory Authority (SASRA)	Regulated SACCO societies
Unclaimed Financial Assets Authority (UFAA)	Unclaimed financial assets
Capital Markets Authority (CMA)	Capital markets and securities
Retirement Benefits Authority (RBA)	Retirement benefits schemes

The National Treasury provides policy direction and coordinates financial-sector policy, while the specialised regulators supervise their respective sectors.

6. Central Bank of Kenya (CBK)



Meaning of the Central Bank of Kenya

The **Central Bank of Kenya (CBK)** is the country's principal central banking institution. It is responsible for formulating and implementing monetary policy, maintaining price stability, promoting a stable financial system and supervising financial institutions that fall under its legal mandate.

The CBK is established under Article 231 of the Constitution of Kenya and the Central Bank of Kenya Act.

Examples of institutions and service providers supervised by the CBK under its mandate include:

- Commercial banks.
- Microfinance banks.
- Mortgage finance companies.
- Authorised foreign exchange bureaus.
- Money remittance providers.
- Payment service providers.
- Credit reference bureaus.

The precise scope of supervision depends on the relevant law and licence.

Roles and functions of the Central Bank of Kenya

1. **Formulation of monetary policy:** The CBK formulates and implements monetary policies aimed at maintaining stability in the general level of prices. It uses monetary policy tools to influence money supply, credit conditions and inflation.

2. **Maintaining price stability:** The CBK works to control excessive increases or decreases in the general price level. Stable prices help households and businesses plan their expenditure and investments.

3. **Licensing financial institutions:** It licenses eligible banks and other financial service providers under its mandate before they commence regulated operations. Licensing helps ensure that institutions meet required legal and financial standards.

4. **Supervision of commercial banks:** The CBK monitors the operations of commercial banks to ensure that they comply with banking laws, regulations and prudential guidelines.

5. **Promoting financial stability:** It monitors risks in the banking and wider financial system and takes appropriate supervisory measures to support a stable financial sector.

6. **Issuing currency:** The CBK is responsible for issuing Kenya's currency notes and coins. It also manages the supply and distribution of currency in the economy.

7. **Managing foreign exchange reserves:** It holds and manages Kenya's foreign exchange reserves to support the country's external financial stability and related policy objectives.

8. **Formulating foreign exchange policy:** It formulates and implements foreign exchange policies and supervises authorised dealers as provided by law.

9. **Oversight of payment systems:** It promotes safe, efficient and reliable payment, clearing and settlement systems. These systems enable individuals and businesses to transfer money and make payments.

10. **Acting as banker to the government:** The CBK provides banking services to the national government and performs other government banking functions provided for by law.

11. **Advising the government:** It provides professional advice on monetary and financial matters to support sound economic policy.

12. **Promoting sound banking practices:** It issues regulations and supervisory guidelines that encourage banks to maintain adequate capital, manage risks and protect depositors.

13. **Monitoring financial institutions:** It examines financial information and operations of institutions under its supervision to identify weaknesses and take appropriate action.

14. **Supporting economic growth and employment:** Through its monetary and financial stability responsibilities, the CBK supports an environment in which businesses can operate, invest and create employment.

Importance of the CBK to businesses in Kenya

- Promotes confidence in the banking system.
- Supports reliable payment services for business transactions.
- Helps maintain a stable economic environment.
- Supports access to banking and other regulated financial services.
- Helps protect depositors through supervision of institutions under its mandate.

- Supports international trade through foreign exchange policy and reserve management.
- Encourages responsible lending and banking practices.

Kenyan business example:

A business in Nakuru that receives payments through a commercial bank relies on a banking system supervised by the CBK. The CBK's supervision and payment-system oversight help promote confidence in the financial services used by the business.

Learner activity

Visit or research the website of the Central Bank of Kenya. Identify five services or responsibilities of the CBK and explain how each supports business activities in Kenya.

7. Insurance Regulatory Authority (IRA)



Meaning of the Insurance Regulatory Authority

The **Insurance Regulatory Authority (IRA)** is a statutory government agency responsible for regulating, supervising and promoting the development of the insurance industry in Kenya.

It operates under the Insurance Act, Cap. 487, and is responsible for ensuring that insurance companies and insurance intermediaries conduct their business according to the law.

Meaning of insurance

Insurance is an arrangement in which an individual or organisation pays a specified amount of money, known as a **premium**, to an insurer in exchange for financial protection against specified risks, subject to the terms and conditions of the insurance policy.

Examples of insurance services in Kenya include:

- Motor vehicle insurance.
- Life assurance.
- Medical insurance.
- Fire insurance.
- Agricultural insurance.

- Marine insurance.
- Property insurance.
- Personal accident insurance.
- Business interruption insurance.

Roles and functions of the Insurance Regulatory Authority

1. **Licensing insurance companies:** The IRA licenses insurance companies that meet the legal requirements to conduct insurance business in Kenya.

2. **Licensing insurance intermediaries:** It licenses eligible insurance agents, brokers and other regulated insurance service providers.

3. **Supervising insurance companies:** It monitors the operations of insurance companies to ensure that they comply with insurance laws and regulations.

4. **Protecting policyholders:** The IRA promotes the protection of people and organisations that purchase insurance policies. It encourages fair treatment and responsible conduct by insurers.

5. **Ensuring financial soundness:** It supervises insurance companies to promote their financial strength and ability to meet legitimate claims and other obligations.

6. **Regulating insurance products:** It oversees insurance business and relevant product requirements to promote compliance with the law and appropriate standards.

7. **Investigating complaints and misconduct:** It handles issues within its mandate and may investigate non-compliance by insurance companies and intermediaries.

8. **Promoting fair insurance practices:** It develops and enforces standards for the conduct of insurance and reinsurance business.

9. **Issuing supervisory guidelines:** It provides guidelines and prudential standards to improve the management and administration of insurance businesses.

10. **Promoting public awareness:** It educates the public about insurance services, consumer rights and the importance of dealing with licensed insurance providers.

11. **Advising the government:** It advises the government on policies necessary for adequate insurance protection and the development of the insurance industry.

12. **Promoting insurance industry development:** It encourages a stable and efficient insurance industry that can support individuals, businesses and national development.

13. **Regulating reinsurance business:** It supervises reinsurance activities and relevant providers to promote compliance and stability in the insurance sector.

14. **Monitoring insurance intermediaries:** It supervises regulated brokers, agents and other intermediaries to promote professional and lawful conduct.

Importance of IRA to businesses

- Helps businesses identify licensed insurance providers.
- Promotes confidence in insurance services.
- Encourages insurers to meet their contractual obligations.
- Promotes fair treatment of policyholders.

- Supports business continuity through a more reliable insurance industry.
- Encourages the development of insurance products for different business risks.
- Helps protect businesses against misleading insurance practices.

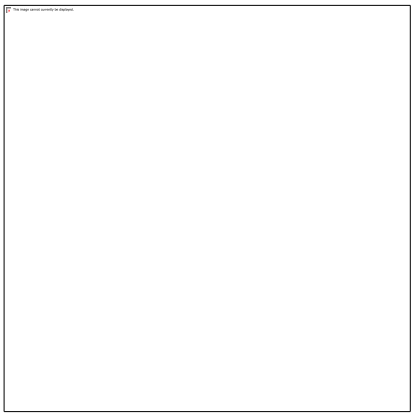
Kenyan business example:

A transport company operating in Kenya may insure its vehicles against specified risks. The IRA regulates the insurance industry and supervises licensed insurers and intermediaries. The business should check that its insurance provider is authorised and carefully understand the terms of its policy.

Learner activity

Assume you own a small supermarket in Kilgoris. Identify four risks that may affect your business and suggest suitable insurance policies that could help manage those risks.

8. SACCO Societies Regulatory Authority (SASRA)



Meaning of SACCO

A **Savings and Credit Cooperative Society (SACCO)** is a member-owned cooperative organisation formed to encourage members to save money and access credit facilities under agreed cooperative principles and rules.

Members contribute savings and may qualify for loans according to the SACCO's policies, by-laws and applicable laws.

Examples of SACCO activities include:

- Receiving members' savings and deposits.
- Providing loans to eligible members.
- Encouraging a savings culture.
- Offering financial education.
- Supporting members to finance businesses, education, housing and other needs.

Meaning of the SACCO Societies Regulatory Authority

The **SACCO Societies Regulatory Authority (SASRA)** is the government agency responsible for licensing, regulating and supervising SACCO societies that fall within its statutory mandate in Kenya.

It was established under the SACCO Societies Act, No. 14 of 2008. Its work promotes a stable SACCO industry and protects the interests of SACCO members.

Types of SACCOs supervised by SASRA

1. **Deposit-taking SACCOs:** These are SACCOs licensed to undertake deposit-taking business, commonly associated with Front Office Service Activities (FOSA). They may provide services such as deposits, withdrawals and other authorised financial services.

2. **Specified non-deposit-taking SACCOs:** These are SACCOs that do not undertake deposit-taking business but fall within the categories specified for SASRA supervision under the law.

Important note: Not every cooperative society is automatically regulated by SASRA in the same way. The applicable regulatory authority depends on the type of cooperative activity and the law governing it.

Roles and functions of SASRA

1. **Licensing deposit-taking SACCOs:** SASRA licenses SACCO societies that qualify to undertake deposit-taking business in Kenya.

2. **Regulating SACCO operations:** It establishes and enforces regulatory requirements that guide the operations of SACCOs under its mandate.

3. **Supervising SACCO societies:** It monitors the financial and operational activities of regulated SACCOs to ensure compliance with the law.

4. **Protecting SACCO members:** It promotes practices that safeguard members' savings and financial interests.

5. **Promoting financial stability:** It supervises SACCOs to encourage sound financial management and reduce the risk of financial failure.

6. **Enforcing prudential standards:** It requires regulated SACCOs to observe relevant financial standards, including requirements relating to capital, liquidity and risk management.

7. **Promoting good governance:** It encourages SACCOs to maintain accountable leadership, proper management systems and responsible decision-making.

8. **Monitoring financial performance:** It examines relevant financial reports and information to assess the performance and financial condition of regulated SACCOs.

9. **Promoting transparency:** It encourages SACCOs to provide accurate information to members and comply with reporting requirements.

10. **Taking regulatory action:** It may take lawful supervisory and enforcement measures against SACCOs that fail to comply with applicable requirements.

11. **Promoting responsible lending:** It encourages prudent credit management to reduce irresponsible lending and excessive loan defaults.

12. **Developing the SACCO industry:** It supports the development of a stable, efficient and member-centred SACCO sector.

13. **Promoting public confidence:** Through licensing and supervision, SASRA helps members and the public identify SACCOs authorised to conduct regulated activities.

14. **Promoting access to financial services:** It supports a well-managed SACCO industry that can provide savings and credit services to individuals and businesses.

Importance of SASRA to businesses and individuals

- Promotes the safety and responsible management of members' savings.
- Encourages reliable SACCO services.
- Promotes access to credit for business expansion.
- Encourages financial discipline among members.
- Promotes transparency and accountability in SACCO management.
- Helps reduce financial mismanagement in regulated SACCOs.
- Supports financial inclusion, especially among people who may have limited access to conventional banking services.

Kenyan business example:

A group of traders in Nakuru may join a SACCO to save regularly and access loans for purchasing stock, equipment or business premises. SASRA supervises SACCOs that fall within its statutory mandate, helping promote responsible management and member protection.

Learner activity

In groups, identify the advantages of saving through a properly regulated SACCO. Discuss how SACCO loans can support small-scale traders, farmers and transport operators in Kenya.

9. Unclaimed Financial Assets Authority (UFAA)



Meaning of unclaimed financial assets

Unclaimed financial assets are financial assets that have remained unclaimed by their rightful owners or beneficiaries for the period prescribed by law and meet the legal conditions for being treated as unclaimed.

Such assets may arise when owners cannot be traced, beneficiaries are unaware of their entitlement, or financial institutions are unable to contact the rightful owners.

Examples of unclaimed financial assets in Kenya include:

1. Money in dormant bank accounts.
2. Unclaimed dividends from shares.
3. Unclaimed insurance benefits.
4. Unclaimed pension and retirement benefits.
5. Unclaimed deposits from certain financial institutions.
6. Unclaimed interest on financial investments.
7. Certain unclaimed utility deposits.
8. Other financial assets that meet the legal definition under the Unclaimed Financial Assets Act.

Meaning of the Unclaimed Financial Assets Authority

The **Unclaimed Financial Assets Authority (UFAA)** is a Kenyan state corporation established under the Unclaimed Financial Assets Act, No. 40 of 2011.

Its main responsibility is to receive, safeguard and manage unclaimed financial assets and facilitate their reunion with their rightful owners or beneficiaries.

Roles and functions of UFAA

1. **Receiving unclaimed financial assets:** UFAA receives financial assets surrendered by institutions and other holders in accordance with the law.

2. **Safeguarding unclaimed assets:** It takes custody of unclaimed financial assets and safeguards them for the benefit of their rightful owners or beneficiaries.

3. **Reuniting assets with rightful owners:** It facilitates the process through which individuals, businesses and beneficiaries can claim assets that legally belong to them.

4. **Receiving reports from asset holders:** It ensures that institutions holding unclaimed assets submit relevant information and comply with their reporting obligations.

5. **Inspecting records:** It conducts inspections and checks relevant records to promote accurate identification and reporting of unclaimed financial assets.

6. **Maintaining information:** It maintains information and records relating to unclaimed financial assets to support identification and claims.

7. **Investing unclaimed assets:** It invests unclaimed financial assets in accordance with the law and applicable requirements governing their management.

8. **Disbursing approved claims:** It facilitates payment or release of assets to rightful owners or beneficiaries after the required verification and approval procedures.

9. **Promoting public awareness:** It educates the public about unclaimed financial assets and the procedures for making claims.

10. **Ensuring compliance by asset holders:** It ensures that institutions holding unclaimed assets fulfil their legal obligations to report and surrender such assets.

11. **Protecting the rights of asset owners:** It assumes custody of relevant rights relating to unclaimed financial assets as provided by law.

12. **Implementing government policies:** It implements government policies relating to unclaimed financial assets and performs other lawful functions assigned to it.

Importance of UFAA to individuals and businesses

- Helps people recover money they may have forgotten or failed to claim.
- Protects financial assets belonging to individuals and organisations.
- Promotes accountability among institutions holding customers' funds.
- Helps beneficiaries trace financial benefits left by deceased relatives.
- Promotes transparency in the management of dormant financial assets.
- Encourages proper record keeping by financial institutions.
- Helps prevent the permanent loss of financial assets due to inactivity or failure to trace owners.

Kenyan business example:

A shareholder in a Kenyan company may be unaware that dividends have accumulated in their name. Where those dividends qualify as unclaimed financial assets under the law, they may be reported and transferred to UFAA. The rightful owner or beneficiary can follow the official claims process to seek their recovery.

Learner activity

Imagine that a family discovers that their deceased relative had shares in a company but the family never received the dividends. Explain how UFAA may assist the rightful beneficiaries.

10. Capital Markets Authority (CMA)



Meaning of capital markets

Capital markets are financial markets where individuals, companies and governments raise long-term funds and where investors buy and sell financial securities.

They provide a link between people and organisations with surplus funds and businesses or institutions that require long-term capital.

Examples of capital market instruments include:

1. Ordinary shares.
2. Preference shares.
3. Corporate bonds.
4. Government bonds.
5. Treasury bonds.
6. Collective investment scheme units.
7. Other securities approved under the applicable legal framework.

Example:

A company may raise funds for expansion by issuing shares to investors. Investors who purchase the shares become shareholders and may benefit from dividends if declared and from changes in the value of their shares. Returns are not guaranteed.

Meaning of the Capital Markets Authority

The **Capital Markets Authority (CMA)** is an independent public agency established under the Capital Markets Act. It regulates and develops Kenya's capital markets and supervises licensed and approved capital market participants.

Its work aims to promote fair, orderly, efficient and transparent capital markets while protecting investors.

Roles and functions of CMA

1. **Licensing market intermediaries:** CMA licenses eligible capital market participants such as stockbrokers, investment banks, fund managers and other regulated intermediaries.

2. **Supervising capital markets:** It monitors the activities of licensed and approved participants to ensure that they comply with relevant laws and regulations.

3. **Protecting investors:** It promotes the protection of investors against fraud, misleading information and unfair practices in the capital markets.

4. **Promoting market transparency:** It requires relevant market participants and issuers to provide appropriate information to enable investors to make informed decisions.

5. **Regulating securities markets:** It oversees securities markets and relevant market activities to promote fairness and orderly trading.

6. **Monitoring market conduct:** It monitors market participants to discourage manipulation, insider trading and other unlawful practices.

7. **Promoting capital market development:** It encourages the development of capital markets to provide businesses with opportunities to raise funds.

8. **Approving and regulating market products:** It oversees capital market products and activities in accordance with the applicable legal framework.

9. **Promoting investor education:** It educates the public on investment opportunities, investment risks, market operations and investor rights.

10. **Handling investor complaints:** It provides mechanisms through which investors can raise complaints involving market participants under its jurisdiction.

11. **Enforcing capital market laws:** It takes appropriate regulatory and enforcement action against market participants who violate applicable laws and regulations.

12. **Promoting fair competition:** It encourages fair participation in capital markets and discourages abusive market practices.

13. **Supervising market infrastructure:** It supervises relevant market infrastructure and participants within its statutory mandate, including securities exchanges and central depository and settlement systems.

14. **Promoting confidence in capital markets:** Through regulation, supervision and investor protection, it helps build public confidence in investment markets.

Importance of CMA to businesses and investors

- Promotes access to long-term business finance.
- Protects investors from unlawful market practices.
- Encourages transparency in securities transactions.
- Promotes confidence in share and bond markets.
- Encourages responsible investment decisions.

- Supports the growth of companies through capital mobilisation.
- Promotes orderly trading of securities.

Other important capital market institutions

a) Nairobi Securities Exchange (NSE)

The Nairobi Securities Exchange provides a regulated securities trading platform where eligible investors can buy and sell listed securities through authorised market intermediaries.

Its role includes:

- Providing a platform for trading listed securities.
- Supporting companies seeking to raise capital through the securities market.
- Disseminating market information.
- Supporting orderly securities trading.
- Promoting investment opportunities.

b) Central Depository and Settlement Corporation (CDSC)

The CDSC provides central securities depository and settlement services in Kenya's capital markets.

Its functions include:

- Maintaining electronic records of securities held through the central depository.
- Supporting the transfer of securities between investors.
- Facilitating the settlement of securities transactions.
- Reducing risks associated with physical share certificates.
- Supporting efficient securities ownership records.

Important distinction: CMA is the statutory capital markets regulator. NSE is a securities exchange, while CDSC provides depository and settlement infrastructure. They perform different but related functions.

Kenyan business example:

A large Kenyan company may seek to raise capital by offering shares to the public and listing them on the NSE. CMA regulates the capital market framework and supervises relevant licensed participants, while NSE provides the trading platform.

Learner activity

Research how a company can raise capital through the sale of shares. Explain the roles of CMA, NSE and CDSC in supporting the process.

11. Retirement Benefits Authority (RBA)



Meaning of retirement benefits

Retirement benefits are financial payments or entitlements provided to a person after retirement or when another qualifying event occurs, according to the rules of a retirement benefits scheme.

They are intended to provide financial support to individuals when they are no longer earning regular employment income.

Examples of retirement benefits include:

- Pension payments.
- Lump-sum retirement benefits.
- Benefits payable to eligible dependants.
- Annuities.
- Other benefits provided under approved retirement schemes.

Meaning of the Retirement Benefits Authority

The **Retirement Benefits Authority (RBA)** is a statutory government regulator established under the Retirement Benefits Act, No. 3 of 1997. It regulates and supervises the establishment and management of retirement benefits schemes in Kenya.

Its mandate includes protecting the interests of members and sponsors of retirement benefits schemes and promoting the development of the retirement benefits sector.

Meaning of a retirement benefits scheme

A retirement benefits scheme is an arrangement established to receive contributions, invest funds and provide retirement benefits to members or their beneficiaries according to the scheme rules and applicable laws.

Examples include:

1. Occupational pension schemes established by employers.
2. Provident fund schemes.
3. Individual retirement benefits schemes.
4. Other registered retirement benefits arrangements.

Roles and functions of RBA

1. **Regulating retirement benefits schemes:** RBA regulates the establishment and management of retirement benefits schemes in Kenya.

2. **Registering retirement benefits schemes:** It registers schemes that meet the requirements of the law and supervises their operations.

3. **Protecting scheme members:** It safeguards the interests of workers and other individuals who contribute to retirement benefits schemes.

4. **Protecting scheme sponsors:** It also protects the legitimate interests of employers and other sponsors involved in retirement benefits schemes.

5. **Supervising scheme management:** It monitors how retirement benefits schemes are administered and managed to promote compliance with legal requirements.

6. **Monitoring contributions:** It promotes proper management and accounting for contributions made by employers and scheme members.

7. **Promoting proper investment of funds:** It supervises the management and investment of retirement scheme assets according to applicable laws and guidelines.

8. **Supervising trustees and service providers:** It oversees relevant persons and entities involved in the management and administration of retirement benefits schemes.

9. **Promoting accountability:** It encourages proper financial reporting, record keeping and accountability in retirement benefits schemes.

10. **Handling complaints and disputes:** It provides mechanisms for handling complaints and disputes within its statutory mandate.

11. **Promoting public awareness:** It educates workers, employers and the public on the importance of retirement planning and saving.

12. **Promoting the development of the retirement benefits sector:** It encourages the growth of retirement savings arrangements and a stronger retirement benefits industry.

13. **Advising the government:** It advises the National Treasury on policies relating to the retirement benefits industry.

14. **Implementing government policies:** It implements government policies relating to the retirement benefits sector and performs other functions provided by law.

Importance of RBA to workers and businesses

- Helps safeguard workers' retirement savings.
- Promotes responsible management of pension funds.
- Encourages employers to support retirement planning.
- Promotes accountability among scheme administrators and trustees.
- Helps build public confidence in retirement savings.
- Encourages long-term savings and investment.
- Helps protect eligible beneficiaries of retirement benefits schemes.

Kenyan business example:

A private school in Kenya may establish an occupational retirement benefits scheme for its employees. The school and employees may contribute towards the scheme under its rules. RBA supervises the regulated retirement benefits scheme to promote proper management and protection of members' interests.

Learner activity

Discuss why employers should encourage employees to save for retirement. Identify four benefits of retirement planning to workers and their families.

12. Comparison of the six financial regulatory bodies in Kenya

Regulatory body	Area of responsibility	Main purpose
CBK	Banking and payment systems	Monetary and financial stability, banking supervision
IRA	Insurance	Regulation of insurers and protection of policyholders
SASRA	Regulated SACCOs	Licensing, regulation and supervision of SACCOs
UFAA	Unclaimed financial assets	Safeguarding and reuniting unclaimed assets with owners
CMA	Capital markets	Regulation of securities markets and investor protection
RBA	Retirement benefits	Supervision of retirement schemes and protection of members

Memory aid for learners

- **CBK** – Banks and monetary policy.
- **IRA** – Insurance.
- **SASRA** – SACCOs.
- **UFAA** – Unclaimed assets.
- **CMA** – Capital markets.
- **RBA** – Retirement benefits.

13. General roles of government financial regulators in Kenya

Although the six regulators have different mandates, they share several broad responsibilities.

1. **Licensing financial institutions:** They authorise eligible institutions and service providers to conduct regulated financial activities.

2. **Monitoring compliance:** They check whether regulated institutions follow relevant laws, regulations and guidelines.

3. **Protecting customers:** They promote fair treatment of people who use financial services.

4. **Promoting financial stability:** They encourage sound financial practices and help reduce risks within their respective sectors.

5. **Preventing fraud:** They take action within their mandates to discourage financial misconduct and unlawful practices.

6. **Promoting transparency:** They encourage accurate reporting and disclosure of relevant financial information.

7. **Educating the public:** They provide information to help individuals and businesses understand financial products, risks and responsibilities.

8. **Handling complaints:** They provide complaint-handling channels for issues involving institutions under their supervision.

9. **Enforcing financial laws:** They take appropriate regulatory action against institutions and individuals who violate relevant laws.

10. **Promoting investment:** They create a more reliable financial environment that encourages saving, investment and business growth.

11. **Promoting accountability:** They require regulated institutions to maintain proper records and responsible governance structures.

12. **Supporting national development:** Their work helps strengthen the financial sector, which supports trade, employment, entrepreneurship and economic growth.

14. Effects of financial regulation on businesses in Kenya

Positive effects

1. **Increased public confidence:** Businesses and customers gain confidence in regulated financial institutions.

2. **Improved access to finance:** A stable financial sector supports lending, savings and investment services that businesses may use.

3. **Protection of business funds:** Supervision encourages financial institutions to manage funds responsibly.

4. **Reduced financial fraud:** Regulatory oversight helps discourage fraudulent activities and unlawful financial practices.

5. **Improved financial discipline:** Businesses are encouraged to use authorised financial institutions and maintain proper financial records.

6. **Growth of investment opportunities:** Capital market regulation promotes opportunities for companies to raise funds and for investors to participate in financial markets.

7. **Improved insurance services:** Insurance regulation supports a more reliable insurance environment for businesses managing risks.

8. **Better retirement planning:** Retirement benefits regulation promotes responsible management of employee retirement savings.

Possible challenges and costs

1. **Compliance costs:** Businesses operating in regulated financial sectors may incur costs when meeting licensing, reporting and governance requirements.

2. **Administrative procedures:** Obtaining licences and submitting regulatory reports may require time and specialised staff.

3. **Restrictions on activities:** Regulations may limit certain activities to protect customers and maintain financial stability.

4. **Need for continuous training:** Financial institutions may need to train employees regularly to keep up with regulatory requirements.

5. **Penalties for non-compliance:** Institutions that violate applicable laws may face fines, restrictions or other enforcement action.

Conclusion: Although financial regulation may create compliance costs, it promotes a safer and more reliable financial environment for individuals, businesses and the national economy.

15. Challenges facing financial regulators in Kenya

Financial regulators may encounter various challenges when carrying out their responsibilities.

1. **Rapid technological changes:** Digital banking, mobile money, online lending and digital investments create new risks that regulators must understand and address.

2. **Cybercrime:** Fraudsters may use digital platforms to steal money, access confidential information and deceive financial service users.

3. **Financial illiteracy:** Some members of the public do not understand financial products, investment risks and their rights.

4. **Unregulated financial activities:** Some individuals and organisations may offer financial services without the necessary authorisation.

5. **Complex financial products:** New financial products may be difficult for ordinary consumers to understand.

6. **Limited resources:** Regulators may require additional staff, technology and funding to supervise an expanding financial sector.

7. **Cross-border financial transactions:** Financial services operating across different countries may create supervision and enforcement difficulties.

8. **Emerging investment fraud:** Ponzi schemes, pyramid schemes and misleading online investment opportunities may deceive unsuspecting investors.

9. **Low public awareness:** Some people do not know which regulatory body is responsible for a particular financial service.

10. **Changing economic conditions:** Inflation, economic instability and changes in interest rates may create additional supervisory challenges.

16. Responsibilities of businesses and members of the public in supporting financial regulation

Financial regulation is not the responsibility of regulators alone. Individuals, investors, businesses and financial institutions also have important responsibilities.

A. Responsibilities of individuals and customers

1. Use financial institutions that are appropriately licensed or authorised.
2. Read and understand financial agreements before signing them.
3. Keep records of deposits, withdrawals, payments and investments.
4. Protect personal identification details, passwords and PINs.
5. Report suspected financial fraud to the relevant authorities.
6. Avoid investment opportunities promising unrealistic returns.
7. Pay loans and other financial obligations according to agreed terms.
8. Seek clarification before purchasing unfamiliar financial products.
9. Check the terms and conditions of insurance policies.
10. Update financial institutions when personal or contact details change.

B. Responsibilities of businesses and financial institutions

1. Obtain the necessary licences before conducting regulated financial activities.
2. Comply with applicable financial laws and regulations.
3. Maintain accurate financial records.
4. Submit required reports to the relevant regulator.
5. Protect customers' confidential information.
6. Provide accurate information about financial products.
7. Avoid misleading advertisements and fraudulent activities.
8. Establish proper internal controls.
9. Manage financial risks responsibly.
10. Cooperate with lawful regulatory inspections and investigations.

REVISION QUESTIONS

SUB-STRAND 4.3: FINANCIAL REGULATORS IN BUSINESS IN KENYA

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. What is the meaning of a financial regulator?

A. An institution that sells goods to consumers.

B. An institution responsible for supervising financial institutions and services.

C. An organisation that manufactures currency.

D. A business that provides transport services.

2. Which institution is responsible for regulating and supervising banking institutions in Kenya?

A. RBA B. IRA C. CBK D. UFAA

3. The Central Bank of Kenya is responsible for:

A. Registering all schools.

B. Formulating and implementing monetary policy.

C. Supervising agricultural production.

D. Licensing all retail shops.

4. Which financial regulatory body supervises the insurance industry in Kenya?

A. CMA B. SASRA C. IRA D. UFAA

5. The main responsibility of SASRA is to:

A. Supervise insurance companies.

B. Regulate SACCO societies within its mandate.

C. Manage the Nairobi Securities Exchange.

D. Supervise commercial banks.

6. Which of the following is an example of an unclaimed financial asset?

A. A newly purchased vehicle.

B. A newly opened business.

C. Dividends that remain unclaimed by their rightful owner.

D. A recently purchased building.

7. The Unclaimed Financial Assets Authority was established under the:

A. Banking Act.

B. Unclaimed Financial Assets Act.

C. Insurance Act.

D. Capital Markets Act.

8. Which institution regulates capital markets in Kenya?

A. CMA

B. CBK

C. RBA

D. SASRA

9. The Retirement Benefits Authority mainly supervises:

A. Commercial banks.

B. Insurance brokers.

C. Retirement benefits schemes.

D. Foreign exchange bureaus.

10. Which institution is responsible for issuing Kenya's currency notes and coins?

A. IRA

B. CBK

C. CMA

D. SASRA

11. An individual who wants to recover qualifying unclaimed dividends may approach:

A. UFAA

B. SASRA

C. CBK

D. IRA

12. Which financial regulator promotes the protection of policyholders?

A. CMA

B. IRA

C. UFAA

D. RBA

13. A SACCO that intends to undertake regulated deposit-taking business must obtain the appropriate licence from:

A. CMA

B. IRA

C. SASRA

D. RBA

14. The Nairobi Securities Exchange mainly provides:

A. Insurance services.

B. A platform for trading listed securities.

C. Retirement benefits.

D. Commercial banking services.

15. Which institution supervises retirement benefits schemes in Kenya?

A. RBA

B. CBK

C. UFAA

D. IRA

16. One of the major reasons for financial regulation is to:

A. Encourage financial fraud.

B. Protect customers and promote financial stability.

C. Prevent people from saving.

D. Discourage all business investments.

17. Which institution is responsible for regulating the activities of licensed stockbrokers and other capital market intermediaries?

A. SASRA

B. RBA

C. CMA

D. UFAA

18. One of the responsibilities of the CBK is to:

A. Register cooperative schools.

B. Manage the country's foreign exchange reserves.

C. Supervise all pension schemes.

D. Set insurance premiums for every insurer.

19. Which of the following is a function of UFAA?

A. Licensing commercial banks.

B. Supervising stockbrokers.

C. Safeguarding and reuniting unclaimed financial assets with their rightful owners.

D. Issuing currency.

20. A worker who contributes to a registered occupational pension scheme benefits from the supervisory role of:

A. RBA

B. SASRA

C. CMA

D. IRA

SECTION B: STRUCTURED QUESTIONS

1. a) Define the term financial regulator. (2 marks)

b) Explain six reasons why the government regulates financial institutions in Kenya. (12 marks)

2.

a) Identify six major financial regulatory bodies in Kenya. (6 marks)

b) Explain four general roles performed by government financial regulators. (8 marks)

3.

a) What is the meaning of the Central Bank of Kenya? (2 marks)

b) Explain eight functions of the Central Bank of Kenya. (16 marks)

4.

a) Define insurance. (2 marks)

b) Explain eight functions of the Insurance Regulatory Authority in Kenya. (16 marks)

5.

a) Explain the meaning of a SACCO. (2 marks)

b) Describe eight functions of the SACCO Societies Regulatory Authority. (16 marks)

6.

a) What are unclaimed financial assets? (2 marks)

b) Identify six examples of unclaimed financial assets. (6 marks)

c) Explain six functions of the Unclaimed Financial Assets Authority. (12 marks)

7.

a) Define capital markets. (2 marks)

b) Explain eight functions of the Capital Markets Authority in Kenya. (16 marks)

8.

a) What is a retirement benefits scheme? (2 marks)

b) Explain eight functions of the Retirement Benefits Authority. (16 marks)

9.

a) Differentiate between the Capital Markets Authority and the Nairobi Securities Exchange. (4 marks)

b) Explain four ways in which capital market regulation promotes business growth in Kenya. (8 marks)

10.

Explain eight benefits of financial regulation to businesses and the Kenyan economy. (16 marks)

SECTION C: APPLICATION QUESTIONS

11. Case study: Banking services

A businessperson in Nakuru deposits business income in a commercial bank. The bank is required to comply with banking laws and supervisory guidelines.

a) Identify the regulatory body responsible for supervising the bank. (2 marks)

b) Explain five ways in which the regulatory body promotes confidence in banking services. (10 marks)

12. Case study: Insurance services

A transport company in Kenya purchases insurance policies to protect its vehicles against specified risks. The company wants to ensure that it deals with a properly authorised insurance provider.

a) Identify the relevant financial regulatory body. (2 marks)

b) Explain five ways in which the regulator protects insurance policyholders. (10 marks)

13. Case study: SACCO operations

A group of teachers forms a SACCO to encourage savings and provide loans to members. They want to ensure that their SACCO complies with the law.

a) Identify the relevant regulatory body. (2 marks)

b) Explain five ways in which the regulatory body protects SACCO members. (10 marks)

14. Case study: Unclaimed dividends

A family discovers that their deceased relative owned shares in a company. The family has also discovered that some dividends were never collected.

a) Identify the institution that may assist in handling qualifying unclaimed financial assets. (2 marks)

b) Explain four functions of this institution. (8 marks)

15. Case study: Investment in securities

A company intends to raise funds by offering shares to investors through the capital markets. It must comply with relevant capital market requirements.

a) Identify the regulatory body responsible for capital markets. (2 marks)

b) Explain five ways in which the regulator promotes investor protection. (10 marks)

16. Case study: Retirement savings

A private school establishes a retirement benefits scheme for its employees. The employees and employer contribute towards the scheme.

a) Identify the relevant regulatory authority. (2 marks)

b) Explain five ways in which the authority promotes the protection of retirement savings. (10 marks)

17. A financial regulator is required to supervise institutions and ensure that they comply with the law.

Explain six challenges that financial regulators may face when carrying out their responsibilities in Kenya. (12 marks)

18. Explain six responsibilities that individuals and businesses should observe to support proper financial regulation in Kenya. (12 marks)

SECTION D: PRACTICAL LEARNING ACTIVITIES

These activities help learners develop research, communication, collaboration, critical-thinking and problem-solving competencies.

Activity 1: Financial regulator identification

In groups:

1. Identify six financial regulatory bodies in Kenya.
2. Find out the financial sector supervised by each body.
3. Present your findings using a chart or poster.
4. Explain why Kenya requires different financial regulators.

Activity 2: Research on financial services

Visit a bank, SACCO or insurance agency in your locality, or use its official website.

Find out:

- The financial services offered.
- The regulatory body responsible for the relevant sector.
- The importance of regulation to customers.
- The responsibilities of customers when using the services.

Activity 3: Role-play

Organise a classroom role-play involving:

- A financial regulator.
- A commercial bank.
- A SACCO.
- An insurance company.
- A customer.
- An investor.

Demonstrate how financial regulation promotes accountability and protects customers.

Activity 4: Problem-solving task

A SACCO has been experiencing poor financial management, delayed communication with members and difficulties meeting its financial obligations.

In groups, discuss:

1. The possible causes of the problems.
2. The regulatory body responsible for supervising the SACCO, where it falls within SASRA's mandate.
3. The actions that may be taken by the regulator under the law.
4. The responsibilities of SACCO management and members.

Summary of key concepts

Term	Meaning
Financial regulation	Supervision and control of financial activities through laws and regulations
Financial regulator	An authorised body that supervises a financial sector
Monetary policy	Measures used by the central bank to influence money supply, credit conditions and price stability
Insurance	Financial protection against specified risks in exchange for a premium
SACCO	A member-owned savings and credit cooperative
Unclaimed financial assets	Financial assets meeting the legal conditions for being treated as unclaimed
Capital markets	Markets where long-term financial securities are issued and traded
Retirement benefits	Financial entitlements payable under a retirement benefits arrangement
Policyholder	A person or organisation that holds an insurance policy
Investor	A person or organisation that commits funds with the expectation of financial returns or other benefits

STRAND 4.0: GOVERNMENT AND GLOBAL INFLUENCE IN BUSINESS

SUB-STRAND 4.4: ECONOMIC PLANNING, GROWTH AND DEVELOPMENT IN KENYA

1. Introduction to economic planning, growth and development

Every country aims to improve the living standards of its people, create employment opportunities, increase production, reduce poverty and provide essential services. These goals cannot be achieved effectively without proper planning and the responsible use of available resources.

Kenya has different economic resources, including land, labour, capital, entrepreneurship, technology and natural resources. The government, private sector, communities and development partners have important roles in using these resources to improve the country's economy.

Economic planning helps a country identify its development priorities, determine the resources required, set targets and organise activities to achieve its economic objectives.

Economic growth and economic development are related, but they do not mean exactly the same thing. Economic growth mainly concerns an increase in the production of goods and services, while economic development involves broader improvements in people's quality of life and the structure of the economy.

2. Meaning of economic planning

Economic planning refers to the deliberate process through which a government or an organisation identifies economic goals, assesses available resources, sets priorities and determines the activities to be undertaken within a specified period to achieve desired economic outcomes.

It involves making decisions about:

- What goods and services should be produced.
- How goods and services should be produced.
- Where economic activities should be located.
- How available resources should be allocated.
- Which sectors should receive priority.
- How development projects should be financed.
- How the results of economic activities should be evaluated.

Kenyan example:

The government may identify the need to improve food security. It can prepare plans to invest in irrigation, provide agricultural extension services, improve rural roads, support farmers with appropriate inputs and strengthen agricultural markets.

These activities are part of economic planning because they involve setting goals, allocating resources and organising activities to improve production and people's welfare.

Characteristics of economic planning

1. **Goal-oriented:** Economic planning is guided by specific objectives that a country intends to achieve, such as reducing poverty, increasing employment and improving infrastructure.

2. **Future-oriented:** It focuses on anticipated economic needs and challenges over a given period. For example, a government may plan for population growth by expanding schools, hospitals and transport infrastructure.

3. **Involves resource allocation:** It determines how scarce resources such as money, land, labour and equipment should be distributed among competing needs.

4. **Involves setting priorities:** Economic planners identify the most urgent and important development activities so that resources are used where they can produce the greatest benefit.

5. **Requires coordination:** Different government ministries, counties, businesses and other stakeholders need to coordinate their activities to avoid duplication and wastage.

6. **Based on economic information:** Planning uses information such as population statistics, employment data, production figures, prices, poverty levels and government revenue.

7. **Has a time frame:** Economic plans are prepared for specified periods, such as annual budgets, medium-term plans and long-term development strategies.

8. **Involves monitoring and evaluation:** Progress is checked to establish whether planned activities are being implemented and whether the intended results are being achieved.

9. **Requires participation:** Effective planning considers the views and needs of citizens, businesses, communities and other stakeholders.

10. **Flexible and adjustable:** Plans may be reviewed when circumstances change, such as during droughts, economic crises, technological changes or unexpected increases in public expenditure.

3. Meaning of economic growth

Economic growth refers to an increase in the quantity of goods and services produced by an economy over a period of time, usually measured by the increase in real Gross Domestic Product (real GDP).

It indicates that the productive capacity or actual output of a country has increased.

Understanding Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total monetary value of final goods and services produced within a country's geographical boundaries during a specified period, usually one year or one quarter.

GDP is used to measure the size of an economy.

Example:

If Kenya produces more agricultural products, manufactured goods, transport services, financial services and other final goods and services in one year than it produced in the previous year, its real GDP may increase.

Types of economic growth

1. Actual economic growth

This refers to an increase in the actual output of goods and services produced by an economy over a period of time.

It may occur when previously idle resources, such as unemployed workers or unused machinery, are brought into productive use.

Example: A factory increases production by employing additional workers and operating machinery that had previously been idle.

2. Potential economic growth

This refers to an increase in the maximum amount of goods and services an economy can sustainably produce when its resources are fully and efficiently utilised.

It may result from:

- Improved technology.
- Better education and skills.
- Increased capital investment.
- Improved infrastructure.
- Growth in the labour force.
- Better management of natural resources.

Example: Investment in modern irrigation systems and agricultural research may enable farmers to produce more food using available land.

Characteristics of economic growth

1. It involves an increase in the production of goods and services.
2. It is commonly measured using real GDP.
3. It takes place over a period of time.
4. It may result from increased use of resources.
5. It may result from improved productivity and technology.
6. It can increase business opportunities.
7. It may create employment opportunities.
8. It can increase government revenue through taxation.
9. It can improve the availability of goods and services.
10. It does not automatically guarantee that income and opportunities are shared equally among citizens.

4. Meaning of economic development

Economic development refers to the process through which an economy experiences sustained improvements in people's living standards, income opportunities, employment, productivity, access to essential services and general welfare.

It involves both economic improvements and social changes that improve the quality of life of the population.

Economic development is broader than economic growth because it considers how economic progress affects people's lives.

Kenyan example:

When a county improves its roads, expands access to clean water, equips health facilities, supports farmers, promotes vocational training and encourages investment, it contributes to economic development.

Characteristics of economic development

1. **Improved living standards:** People gain better access to food, decent housing, education, healthcare, clean water and other essential services.

2. **Reduced poverty:** Development efforts aim to increase income opportunities and reduce the proportion of people living in poverty.

3. **Increased employment opportunities:** Economic development promotes the creation of jobs through business expansion, investment and entrepreneurship.

4. **Improved education:** More people gain access to quality education, training and skills required for productive work.

5. **Better healthcare:** It involves improving access to medical facilities, healthcare workers, medicines and preventive healthcare services.

6. **Improved infrastructure:** Development involves the expansion and improvement of roads, electricity, communication networks, water systems and other facilities.

7. **Reduced inequality:** It aims to improve access to economic and social opportunities among different groups and regions.

8. **Structural transformation:** It involves changes in the structure of an economy, such as movement towards more productive agriculture, manufacturing and modern services.

9. **Technological advancement:** It encourages the use of modern technology to improve production and service delivery.

10. **Environmental sustainability:** It promotes responsible use of natural resources to ensure that development does not destroy the environment needed by future generations.

11. **Improved social welfare:** It seeks to improve people's general well-being, dignity, security and participation in society.

12. **Institutional improvement:** It involves strengthening institutions responsible for delivering public services, enforcing laws and supporting economic activities.

5. Differences between economic growth and economic development

Economic growth	**Economic development**
Refers to an increase in the production of goods and services.	Refers to broader improvements in people's quality of life and the economy.
Mainly measured using real GDP growth.	Measured using several economic and social indicators.
Focuses mainly on increased output.	Focuses on improved welfare and economic transformation.

May occur without significant reduction in poverty.	Seeks to reduce poverty and improve living standards.
May result from increased use of existing resources.	Often involves improvements in education, health, infrastructure and institutions.
Can occur without equal distribution of income.	Includes concern for reducing inequality and expanding opportunities.
Is one component of economic development.	Is a broader process that includes economic growth.

Important point: Economic growth can contribute to economic development, but an increase in GDP alone does not prove that all citizens are enjoying better living standards.

6. Concepts of economic planning and development in an economy

Economic planning and development involve several important concepts that guide the way a country organises its resources and pursues its development goals.

A. Resource allocation

Resource allocation refers to the process of distributing available resources among competing economic activities and development needs.

Resources include:

- Land.
- Labour.
- Capital.
- Entrepreneurship.
- Technology.
- Natural resources.
- Government revenue.

Example: The government may allocate funds to construct roads, equip hospitals, improve schools and support agricultural production.

B. Resource mobilisation

Resource mobilisation refers to the process of obtaining the financial, human, physical and technological resources required to implement development activities.

Sources of resources include:

1. Tax revenue.
2. Government borrowing.
3. Private sector investment.
4. Foreign direct investment.

5. Development assistance and grants.
6. Public-private partnerships.
7. Savings and investment.
8. Revenue from government services and assets.

Example: The government may mobilise funds through taxation, borrowing and partnerships with private investors to finance infrastructure projects.

C. Economic priorities

Economic priorities are the important development needs that a country gives preference to when allocating limited resources.

Examples of national priorities may include:

- Food security.
- Employment creation.
- Healthcare.
- Education.
- Infrastructure.
- Industrialisation.
- Affordable housing.
- Energy access.
- Environmental conservation.

D. Sustainable development

Sustainable development refers to development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

It requires balancing three major dimensions:

1. **Economic sustainability:** Ensuring that economic activities generate lasting income, employment and productive opportunities.

2. **Social sustainability:** Ensuring that development promotes fairness, inclusion, education, health and improved living standards.

3. **Environmental sustainability:** Ensuring that natural resources are used responsibly and that pollution, environmental destruction and resource depletion are controlled.

Examples in Kenya:

- Promoting solar and wind energy.
- Protecting forests and water catchment areas.
- Encouraging sustainable farming practices.
- Improving waste management.
- Developing reliable public transport systems.

E. Economic transformation

Economic transformation refers to significant changes in the structure and organisation of an economy that improve productivity, efficiency and the ability to produce higher-value goods and services.

It may involve:

- Modernising agriculture.
- Expanding manufacturing.
- Improving transport and logistics.
- Promoting digital services.
- Developing skilled labour.
- Encouraging innovation and technology.
- Increasing value addition to locally produced raw materials.

Example: Processing locally produced milk into yoghurt, cheese and powdered milk creates higher-value products compared with selling raw milk alone.

F. Balanced regional development

Balanced regional development refers to the distribution of development opportunities, infrastructure and public services across different regions of a country.

It aims to reduce unnecessary differences in economic opportunities and living standards between regions.

Examples:

- Constructing roads in rural counties.
- Improving electricity access in remote communities.
- Establishing vocational training institutions in underserved areas.
- Improving access to healthcare in marginalised regions.
- Supporting local agricultural and tourism activities.

G. Public participation

Public participation refers to the involvement of citizens and stakeholders in identifying development needs, setting priorities, making decisions and monitoring public projects.

In Kenya, public participation is an important part of county and national planning and budgeting processes.

Importance of public participation:

1. Helps identify the actual needs of communities.
2. Promotes transparency in government decisions.
3. Encourages citizens to take ownership of development projects.
4. Improves accountability in the use of public funds.

5. Helps reduce conflicts over development priorities.
6. Gives marginalised groups an opportunity to express their needs.

7. Sectors of Kenya's economy for development and planning

An **economic sector** is a broad area of economic activity in which individuals and organisations produce goods or provide services.

Economic planning considers the needs and contribution of different sectors so that resources can be allocated appropriately and national development objectives achieved.

Kenya's economy is commonly discussed under three broad sectors:

1. Primary sector.
2. Secondary sector.
3. Tertiary sector.

A. Primary sector

The **primary sector** consists of economic activities that involve extracting, harvesting or obtaining natural resources from the environment.

It provides raw materials for industries and supplies food and other essential products.

Major activities in Kenya's primary sector

1. Agriculture

Agriculture involves cultivating crops and rearing animals for food, raw materials and income.

Examples of agricultural activities in Kenya include:

- Growing maize in Trans Nzoia, Uasin Gishu and Nakuru counties.
- Growing tea in Kericho, Nandi and Nyeri counties.
- Growing coffee in Kiambu, Kirinyaga and Murang'a counties.
- Growing sugarcane in parts of western Kenya.
- Growing horticultural crops such as flowers, fruits and vegetables.
- Rearing dairy cattle in Kiambu, Nyandarua and Nakuru counties.
- Keeping beef cattle, sheep and goats in pastoral areas.

Contribution to economic development:

- Provides food for the population.
- Supplies raw materials to manufacturing industries.
- Creates employment for farmers and farm workers.
- Generates income for rural households.
- Earns foreign exchange through agricultural exports.
- Provides markets for farm inputs and machinery.
- Supports transport, storage and food-processing businesses.

2. Forestry

Forestry involves the establishment, management, conservation and harvesting of trees and forest resources.

Examples include:

- Growing trees for timber.
- Producing poles and firewood.
- Establishing commercial tree plantations.
- Harvesting forest products under applicable regulations.
- Promoting agroforestry and community tree planting.

Contribution to development:

- Provides timber and other industrial raw materials.
- Creates employment in tree nurseries and forestry activities.
- Supports water catchment conservation.
- Helps control soil erosion.
- Provides habitats for wildlife.
- Supports tourism and environmental conservation.

3. Fishing and aquaculture

Fishing involves catching fish and other aquatic organisms from natural water bodies, while aquaculture involves farming aquatic organisms under managed conditions.

Examples in Kenya include:

- Fishing in Lake Victoria.
- Fishing in Lake Turkana.
- Marine fishing along the Indian Ocean coast.
- Fish farming in ponds and other managed facilities.
- Rearing fish in suitable aquaculture systems.

Contribution to development:

- Provides food and protein.
- Creates employment for fishers and fish traders.
- Supplies raw materials to fish-processing businesses.
- Generates household income.
- Supports tourism and hospitality businesses.
- Earns revenue through the sale of fish and fish products.

4. Mining and quarrying

Mining involves extracting minerals from the earth, while quarrying involves obtaining construction materials such as stones, sand and other suitable materials.

Examples in Kenya include:

- Cement-related limestone extraction.
- Soda ash production around Lake Magadi.
- Fluorspar mining where operations are undertaken.
- Extraction of construction stones.
- Sand harvesting subject to applicable environmental and legal requirements.
- Mining of selected metallic and non-metallic minerals.

Contribution to development:

- Provides raw materials for manufacturing and construction.
- Creates employment.
- Generates government revenue.
- Attracts investment.
- Supports infrastructure development.
- Earns foreign exchange where minerals are exported.

B. Secondary sector

The **secondary sector** consists of economic activities that involve processing raw materials into finished or semi-finished products and constructing infrastructure and other physical facilities.

It adds value to products obtained from the primary sector.

Major activities in Kenya's secondary sector

1. Manufacturing

Manufacturing involves converting raw materials and other inputs into finished or semi-finished goods using labour, machinery and technology.

Examples include:

- Processing milk into yoghurt, butter and cheese.
- Processing tea and coffee for local and export markets.
- Manufacturing cement.
- Producing textiles and garments.
- Processing maize and wheat into flour.
- Manufacturing soap and detergents.

- Producing plastics and packaging materials.
- Processing meat and other food products.

Contribution to development:

- Adds value to locally produced raw materials.
- Creates employment.
- Reduces dependence on imported finished goods.
- Promotes industrialisation.
- Increases government revenue.
- Promotes technological development.
- Generates foreign exchange through exports.
- Creates markets for agricultural products.

2. Construction

Construction involves building and developing physical structures and infrastructure required for economic and social activities.

Examples include:

- Construction of roads and bridges.
- Construction of houses and commercial buildings.
- Construction of schools and hospitals.
- Development of railway infrastructure.
- Construction of dams and water supply systems.
- Construction of industrial buildings.
- Development of electricity infrastructure.

Contribution to development:

- Creates employment for engineers, technicians and construction workers.
- Improves transport and communication.
- Supports housing development.
- Improves access to essential services.
- Creates demand for cement, steel, timber and other materials.
- Encourages investment and business expansion.

3. Electricity and energy production

This involves generating, transmitting and distributing energy required by households, industries and businesses.

Examples in Kenya include:

- Geothermal electricity generation.

- Hydroelectric power.
- Wind power.
- Solar power.
- Electricity transmission and distribution.
- Other authorised energy-generation activities.

Contribution to development:

- Supplies power to industries and businesses.
- Supports digital services.
- Promotes industrial production.
- Creates employment.
- Supports household activities.
- Attracts investors who require reliable energy.

C. Tertiary sector

The **tertiary sector** consists of economic activities that provide services rather than directly producing physical goods.

It supports the production, distribution, exchange and consumption of goods and services.

Major activities in Kenya's tertiary sector

1. Trade and commerce

Trade involves buying and selling goods and services.

Examples include:

- Wholesale businesses.
- Retail shops.
- Supermarkets.
- E-commerce businesses.
- Import and export businesses.
- Market traders.

Contribution to development:

- Connects producers with consumers.
- Creates employment.
- Facilitates the movement of goods.
- Promotes business expansion.
- Generates government revenue through applicable taxes and fees.

2. Transport and communication

Transport involves moving people and goods from one location to another, while communication involves exchanging information.

Examples include:

- Road transport.
- Railway transport.
- Air transport.
- Water transport.
- Courier services.
- Mobile communication.
- Internet and digital communication services.

Contribution to development:

- Facilitates movement of raw materials and finished products.
- Connects producers with markets.
- Reduces delays in business operations.
- Promotes regional and international trade.
- Supports tourism.
- Encourages investment in different parts of the country.

3. Banking and financial services

These are services involving the management, saving, borrowing, transfer and investment of money.

Examples include:

- Commercial banking.
- Microfinance services.
- SACCO services.
- Insurance services.
- Investment management.
- Mobile financial services.
- Payment services.

Contribution to development:

- Mobilises savings.
- Provides credit to businesses.
- Supports investment.
- Facilitates payments.
- Promotes financial inclusion.

- Helps individuals and businesses manage financial risks.

4. Tourism and hospitality

Tourism involves travel for leisure, business, education and other purposes, while hospitality includes accommodation, food and related services provided to visitors.

Examples in Kenya include:

- Wildlife tourism in Maasai Mara.
- Tourism at Amboseli National Park.
- Beach tourism in Mombasa, Diani and Watamu.
- Cultural tourism.
- Hotel and restaurant services.
- Conference and business tourism.

Contribution to development:

- Earns foreign exchange.
- Creates employment.
- Generates income for local communities.
- Promotes cultural exchange.
- Supports transport and hospitality businesses.
- Encourages conservation of natural and cultural heritage.

5. Education and healthcare services

Education provides knowledge and skills, while healthcare services promote the prevention, diagnosis and treatment of diseases.

Examples include:

- Schools and universities.
- Technical and vocational training institutions.
- Hospitals and health centres.
- Private clinics.
- Medical laboratories.
- Professional training services.

Contribution to development:

- Improves human capital.
- Produces skilled workers.
- Improves labour productivity.

- Promotes innovation.
- Reduces the economic effects of disease.
- Supports a healthier and more productive population.

6. Information and communication technology (ICT)

ICT involves the use of digital devices, networks and software to create, process, store and communicate information.

Examples include:

- Mobile money services.
- Online banking.
- E-commerce.
- Digital learning.
- Software development.
- Data processing.
- Online marketing.
- Digital government services.

Contribution to development:

- Improves business efficiency.
- Creates employment in the digital economy.
- Promotes innovation.
- Expands access to information.
- Supports online trade.
- Improves service delivery.

D. Public sector and private sector in economic development

Economic planning also considers the roles of the public and private sectors.

1. Public sector

The public sector consists of government ministries, departments, agencies and public institutions that provide services and implement government policies.

Its contribution includes:

- Constructing public infrastructure.
- Providing education and healthcare.
- Maintaining law and order.
- Formulating economic policies.
- Supporting vulnerable groups.
- Providing public utilities.

- Regulating business activities.

2. Private sector

The private sector consists of businesses and organisations owned or controlled by individuals, groups or private investors.

Its contribution includes:

- Creating employment.
- Producing goods and services.
- Investing in productive activities.
- Paying taxes.
- Promoting innovation.
- Expanding local and international trade.
- Providing goods and services to consumers.

3. Informal sector and micro, small and medium enterprises (MSMEs)

The informal sector includes economic activities that are not fully covered by formal registration, regulation or employment arrangements. MSMEs may operate formally or informally.

Examples include:

- Small retail shops.
- Market traders.
- Jua kali artisans.
- Small-scale food processors.
- Tailoring businesses.
- Repair workshops.
- Small transport operators.

Their contribution includes:

- Creating self-employment.
- Providing goods and services.
- Supporting household incomes.
- Developing entrepreneurship.
- Creating opportunities for young people.
- Supporting local supply chains.

Important planning point: Economic planning should consider all sectors because they are interconnected. For example, agriculture supplies raw materials to manufacturing, manufacturing supplies goods to trade, while transport, banking, ICT and insurance support activities across the economy.

Kenya's official economic statistics classify and report on activities such as agriculture, manufacturing, construction, tourism, transport, finance, ICT, education and health.

8. Economic planning in Kenya

Economic planning in Kenya involves the preparation and implementation of policies, strategies, programmes and projects intended to achieve national and county development objectives.

The national government and county governments have responsibilities in economic planning. Planning should take into account available resources, public priorities, economic conditions and the needs of different communities.

A. Kenya Vision 2030

Kenya Vision 2030 is Kenya's long-term development blueprint. It aims to transform Kenya into a newly industrialising, middle-income country providing a high quality of life to all its citizens in a clean and secure environment.

It provides a long-term direction for national development.

The Vision is organised around three main pillars:

1. Economic pillar

This pillar aims to achieve sustained economic growth and improve the country's competitiveness.

Its broad areas include:

- Agriculture.
- Tourism.
- Manufacturing.
- Trade.
- Financial services.
- Business process outsourcing and ICT.
- Other productive economic activities.

2. Social pillar

This pillar aims to improve the quality of life of Kenyans through social development.

It covers areas such as:

- Education and training.
- Health.
- Water and sanitation.
- Housing.
- Environment.
- Gender, youth and vulnerable groups.
- Sports, culture and arts.

3. Political pillar

This pillar aims to establish a democratic political system that is issue-based, people-centred, results-oriented and accountable.

It emphasises:

- Rule of law.
- Democracy.
- Good governance.
- Accountability.
- Human rights.
- Public participation.
- National cohesion.

B. Medium-Term Plans (MTPs)

Medium-Term Plans translate the long-term aspirations of Kenya Vision 2030 into programmes, projects and policy interventions to be implemented over five-year periods.

Kenya's Fourth Medium-Term Plan (MTP IV) covers **2023–2027** and is aligned with the Bottom-Up Economic Transformation Agenda (BETA). Its priority areas include agricultural transformation, support for MSMEs and improvement of healthcare, among other development objectives.

State Department for Economic Planning+2

C. Bottom-Up Economic Transformation Agenda (BETA)

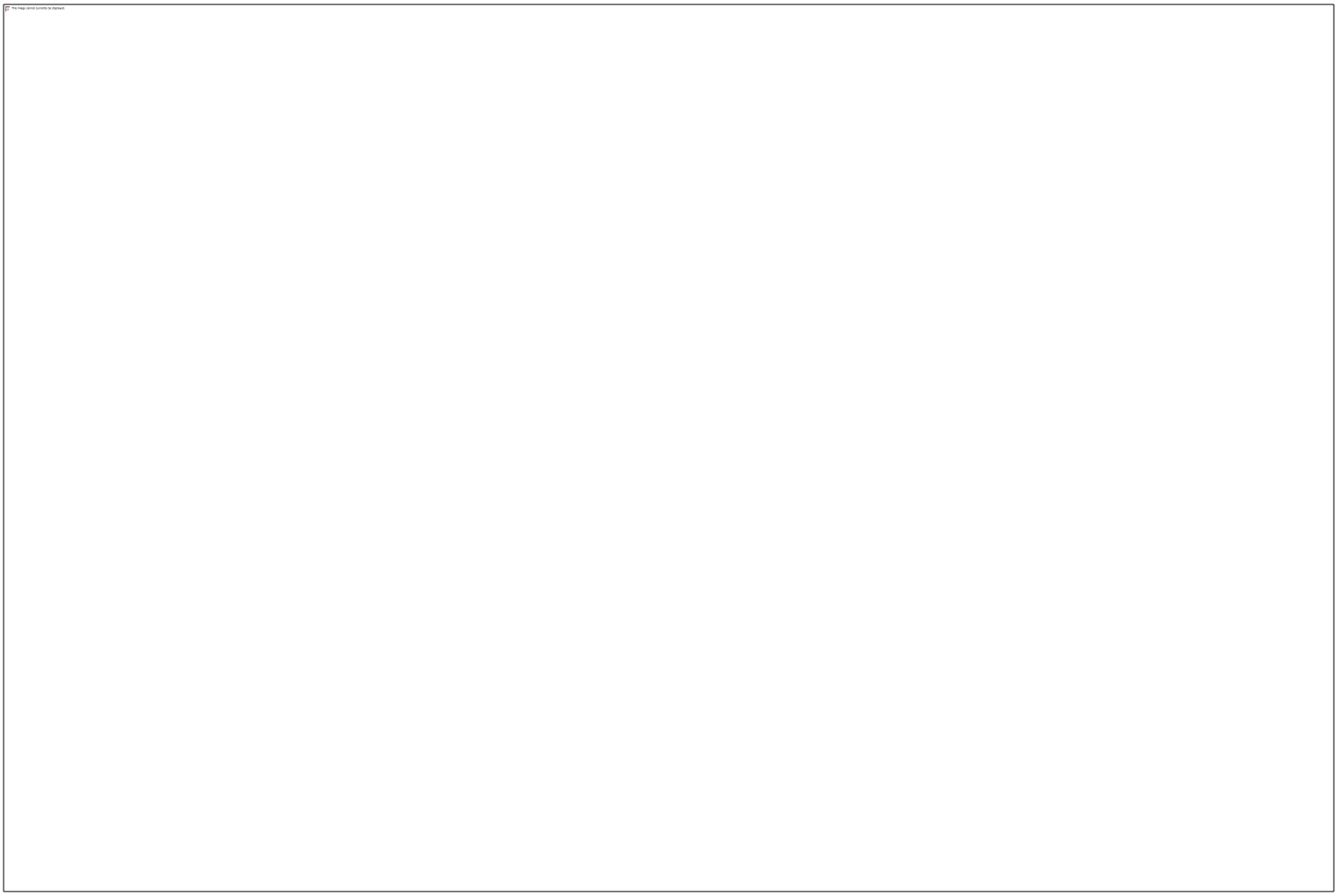
BETA is a government economic transformation agenda intended to promote inclusive economic growth, expand opportunities and improve the livelihoods of ordinary citizens.

Its priority areas include:

1. Agricultural transformation.
2. Support for micro, small and medium enterprises.
3. Affordable housing and settlement.
4. Healthcare services.
5. Digital transformation and related economic opportunities.

Example: Supporting small-scale farmers with improved agricultural services and better access to markets can increase production, raise household incomes and strengthen food security.

D. County Integrated Development Plans (CIDPs)



A **County Integrated Development Plan (CIDP)** is a five-year county development plan that identifies a county's development priorities, objectives, programmes, projects and resource requirements.

Each county prepares its CIDP to guide development activities and inform its annual budget.

Examples of development priorities that may appear in a county CIDP include:

- Improving rural access roads.
- Expanding water supply.
- Supporting agricultural production.
- Improving county health facilities.
- Developing markets.
- Supporting vocational training.
- Improving waste management.
- Promoting tourism and local businesses.

Example from Nakuru County:

A county development plan may prioritise improving agricultural access roads, expanding markets, strengthening water supply and supporting tourism-related businesses. These priorities should be based on local needs, available resources and public participation.

The State Department for Devolution explains that CIDPs guide county development over five years and inform annual budgeting and other county plans.

E. Role of the national and county governments in economic planning

National government

- Develops national economic policies.
- Prepares national development plans.
- Coordinates national infrastructure programmes.
- Prepares the national budget.
- Manages national public finances.
- Promotes international trade and investment.
- Provides national statistics for planning.
- Coordinates development across the country.

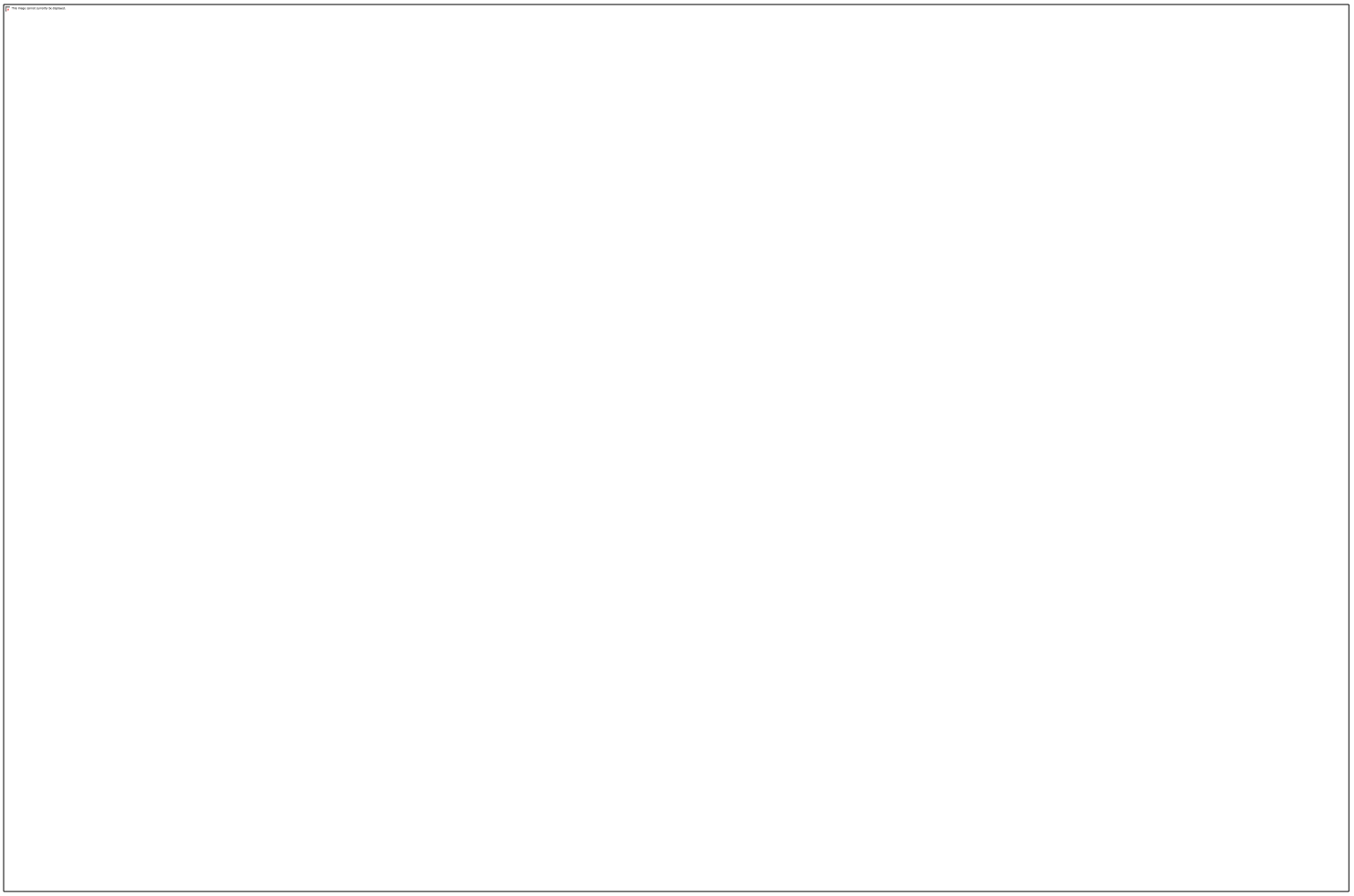
County governments

- Prepare County Integrated Development Plans.
- Identify local development priorities.
- Involve residents in planning and budgeting.
- Provide county-level services.
- Develop local infrastructure.
- Support agriculture and local economic activities within their functions.
- Monitor county development projects.
- Coordinate with the national government on shared development priorities.

9. Stages involved in planning for economic development

Economic development planning follows a series of stages to ensure that resources are used effectively and that planned objectives are achieved.

The stages may vary depending on the nature and level of planning, but the following steps provide a useful general planning process.



Stage 1: Identification of economic needs and problems

This is the first stage, where planners identify the economic and social problems that need to be addressed.

They examine the needs of individuals, businesses, communities and the country.

Examples of issues identified in Kenya:

- Unemployment among young people.
- Food insecurity.
- Poor rural roads.
- Inadequate access to clean water.
- Inadequate healthcare facilities.
- Low industrial production.
- Poverty.
- Regional economic inequalities.
- Limited access to affordable finance.

Importance of this stage:

- Helps establish the actual problems facing the economy.
- Prevents resources from being directed towards unnecessary projects.

- Helps identify the needs of different communities.
- Provides a foundation for setting development priorities.

Stage 2: Collection and analysis of economic information

At this stage, planners collect and analyse relevant information to understand the economic situation and the causes of identified problems.

Information collected may include:

1. Population statistics.
2. Employment and unemployment figures.
3. National and county income levels.
4. Agricultural production statistics.
5. Business performance information.
6. Poverty levels.
7. Infrastructure availability.
8. Government revenue and expenditure.
9. Education and healthcare statistics.
10. Environmental information.

Sources of information in Kenya include:

- Kenya National Bureau of Statistics (KNBS).
- National and county government departments.
- Central Bank of Kenya.
- Research institutions.
- Universities.
- Development organisations.
- Community consultations.
- Business associations.

Importance:

- Helps planners make informed decisions.
- Identifies the causes of economic problems.
- Helps estimate the resources required.
- Improves the accuracy of development targets.

Stage 3: Setting economic development objectives

After identifying needs and analysing information, planners establish the objectives they intend to achieve.

Objectives should be clear, realistic and measurable.

Examples of economic development objectives:

- Increase agricultural productivity.
- Improve access to clean water.
- Expand employment opportunities.
- Reduce poverty.
- Improve road infrastructure.
- Increase manufacturing output.
- Improve access to education and healthcare.
- Promote investment in rural areas.

Importance:

- Provides direction for development activities.
- Helps stakeholders understand the intended results.
- Provides a basis for evaluating performance.
- Helps coordinate the activities of different institutions.

Stage 4: Setting priorities

At this stage, planners determine which objectives and projects should receive attention first.

This is necessary because resources are limited while economic needs are many.

Factors considered when setting priorities:

- Urgency of the problem.
- Number of people likely to benefit.
- Cost of the project.
- Availability of resources.
- Expected economic and social benefits.
- Contribution to national development.
- Environmental effects.
- Ability to complete the project within the planned period.

Example:

A county experiencing severe water shortages may prioritise water supply projects before constructing less urgent facilities.

Stage 5: Identification and mobilisation of resources

Planners determine the resources needed and how they will be obtained.

Resources required may include:

1. Financial resources.
2. Skilled and unskilled labour.
3. Land.
4. Machinery and equipment.
5. Raw materials.
6. Technology.
7. Management expertise.
8. Time.

Possible sources of finance include:

- Government revenue.
- Private investment.
- Government borrowing.
- Grants and development assistance.
- Public-private partnerships.
- Community contributions.
- Savings and investment.

Importance:

- Ensures that planned projects have the necessary resources.
- Helps avoid unnecessary delays.
- Promotes proper budgeting.
- Encourages efficient use of available resources.

Stage 6: Preparation of the economic development plan

At this stage, planners prepare a detailed document showing the activities to be undertaken, the resources required and the expected results.

The plan should indicate:

- Development objectives.
- Priority projects.
- Activities to be carried out.
- Implementation period.
- Responsible institutions.
- Estimated costs.
- Sources of finance.
- Expected outputs and outcomes.

- Monitoring and evaluation arrangements.

Example:

A county may prepare a five-year plan for improving agricultural productivity. The plan may include irrigation projects, farmer training, agricultural market development and improvement of rural access roads.

Stage 7: Public participation and consultation

At this stage, citizens and relevant stakeholders are given opportunities to contribute their views to the planning process.

Participants may include:

- Local residents.
- Farmers.
- Business owners.
- Youth groups.
- Women groups.
- Persons with disabilities.
- Community-based organisations.
- Civil society organisations.
- Professional associations.
- Relevant government agencies.

Importance:

1. Helps identify community priorities.
2. Promotes public ownership of development projects.
3. Encourages transparency.
4. Improves accountability.
5. Helps identify possible disagreements before implementation.
6. Promotes inclusion of different groups.

Stage 8: Approval and budgeting

The proposed development plan is submitted to the relevant authorities for consideration and approval.

The government then makes budgetary arrangements to provide funds for approved programmes and projects.

Activities include:

- Reviewing the proposed plan.

- Approving development priorities.
- Allocating funds.
- Identifying financing gaps.
- Preparing annual budgets.
- Ensuring compliance with relevant laws and procedures.

Example: A county assembly considers and approves the county's development plans and budgets through the applicable county processes.

Stage 9: Implementation of the development plan

Implementation involves putting the approved plans into action.

The responsible institutions undertake the planned activities and use allocated resources to achieve the stated objectives.

Examples:

- Constructing roads.
- Building classrooms.
- Equipping hospitals.
- Establishing irrigation schemes.
- Training farmers.
- Providing business development support.
- Expanding electricity infrastructure.

Importance:

- Converts plans into actual development activities.
- Creates employment.
- Improves access to services.
- Increases productive capacity.
- Helps achieve development objectives.

Stage 10: Monitoring and evaluation

Monitoring refers to the continuous tracking of activities and progress during the implementation of a development plan.

Evaluation refers to the systematic assessment of the relevance, efficiency, effectiveness, impact and sustainability of a programme or project.

Activities involved include:

- Checking whether projects are being implemented as planned.

- Comparing actual expenditure with approved budgets.
- Measuring progress against targets.
- Assessing the quality of completed work.
- Identifying challenges.
- Collecting feedback from beneficiaries.
- Assessing whether intended results have been achieved.

Importance:

1. Identifies implementation challenges early.
2. Promotes accountability.
3. Helps prevent misuse of public resources.
4. Measures the success of development projects.
5. Provides information for future planning.
6. Helps determine whether projects should be adjusted or expanded.

Stage 11: Review and improvement of the plan

After monitoring and evaluation, planners review the plan and make necessary improvements.

Changes may be required because of:

- Unexpected economic conditions.
- Changes in government priorities.
- Shortages of resources.
- Natural disasters.
- New technology.
- Changes in population needs.
- Poor project performance.

Example: If a drought affects agricultural production, planners may revise development priorities to include emergency water supply, drought-resistant crops and additional irrigation support.

Summary of the stages of economic planning

Economic development planning process

1. Identify economic needs and problems.
2. Collect and analyse economic information.
3. Set economic development objectives.
4. Set development priorities.

5. Identify and mobilise resources.
6. Prepare the development plan.
7. Conduct public participation and consultation.
8. Approve the plan and allocate the budget.
9. Implement the development plan.
10. Monitor and evaluate progress.
11. Review and improve the plan.

Note: In practice, public participation may take place at several stages, and monitoring and evaluation should continue throughout implementation rather than only at the end.

10. Indicators of economic growth and development in an economy

An **economic indicator** is a measurable variable or piece of information used to assess the performance, condition or progress of an economy.

Indicators help governments, businesses, researchers and citizens determine whether an economy is improving or experiencing difficulties.

There are two broad groups of indicators:

1. Indicators of economic growth.
2. Indicators of economic development.

A. Indicators of economic growth

These indicators mainly measure changes in the production and economic activity of a country.

1. Increase in real Gross Domestic Product (real GDP)

Real GDP measures the value of final goods and services produced within a country after adjusting for changes in prices.

An increase in real GDP indicates that the economy is producing more goods and services than before.

Example: If Kenya's real GDP increases from one year to another, this indicates that the country's total real output has grown.

2. Increase in real GDP per capita

GDP per capita is the average economic output per person, calculated by dividing GDP by the population.

Real GDP per capita adjusts for price changes and helps show whether average output per person is increasing.

An increase may indicate improving productive capacity per person, although it does not show how income is distributed.

3. Increase in industrial production

This refers to an increase in the output of manufacturing, mining, electricity and other industrial activities.

Example: Increased production of cement, processed foods, textiles and construction materials may indicate growth in industrial activity.

4. Increase in agricultural production

An increase in the quantity and value of agricultural output may indicate growth in the agricultural sector.

Examples include:

- Increased maize production.
- Increased milk production.
- Increased tea production.
- Increased horticultural exports.
- Increased livestock production.

5. Increase in investment

Investment refers to expenditure on productive assets such as machinery, buildings, equipment, transport facilities and infrastructure.

An increase in investment can expand the productive capacity of the economy.

6. Increase in exports

Exports are goods and services sold to other countries.

An increase in the quantity or value of exports may indicate expanding production and international market opportunities.

Examples of Kenyan exports include tea, coffee, horticultural products, flowers and selected manufactured goods.

7. Increase in productivity

Productivity measures how efficiently resources are used to produce goods and services.

For example, if a farmer produces more maize from the same amount of land and similar inputs through improved methods, agricultural productivity has increased.

8. Growth in business activity

An increase in business formation, production, sales and investment may indicate expanding economic activity.

9. Increase in employment

An increase in the number of people engaged in productive economic activities may accompany economic growth.

However, employment growth should also be assessed in terms of job quality, earnings and job security.

10. Growth in government revenue

When economic activities expand, government revenue may increase through taxes and other lawful sources, depending on tax rates, compliance and economic conditions.

B. Indicators of economic development

These indicators measure broader improvements in the quality of life and welfare of people.

1. Increase in life expectancy

Life expectancy refers to the average number of years a person is expected to live under prevailing mortality conditions.

An increase in life expectancy may indicate improvements in healthcare, nutrition, sanitation and general living conditions.

2. Reduction in poverty levels

Poverty reduction refers to a decrease in the proportion of people who cannot adequately meet basic needs.

It may result from:

- Increased employment.
- Improved incomes.
- Access to education.
- Better healthcare.
- Social protection programmes.
- Improved access to productive resources.

3. Improvement in literacy levels

Literacy refers to the ability to read and write with understanding.

An increase in literacy levels may indicate improved access to education and learning opportunities.

4. Improvement in educational attainment

This measures the extent to which people gain access to and complete different levels of education.

Indicators may include:

- School enrolment rates.
- School completion rates.
- Transition rates.
- Access to technical training.
- Adult education participation.

5. Reduction in infant and maternal mortality

Infant mortality refers to deaths of children below one year of age per 1,000 live births.

Maternal mortality concerns deaths associated with pregnancy and childbirth, according to established measurement definitions.

A reduction in these rates may indicate improved healthcare services and maternal and child health.

6. Improved access to clean water

This measures the proportion of people with access to safe and reliable water services.

Improved water access supports health, hygiene, agriculture, schools and business activities.

7. Improved access to sanitation

Access to proper sanitation helps reduce the spread of diseases and improves the dignity and well-being of communities.

8. Reduction in unemployment and underemployment

A reduction in unemployment and underemployment may indicate that more people are obtaining productive work and using their skills.

9. Improvement in housing conditions

This includes access to adequate, safe and affordable housing, proper sanitation and essential household facilities.

10. Reduction in income inequality

Income inequality refers to differences in the distribution of income among individuals or households.

A reduction in excessive inequality may indicate that economic opportunities and benefits are becoming more fairly distributed.

11. Improvement in access to healthcare

This may be measured through access to health facilities, healthcare personnel, essential medicines and preventive healthcare services.

12. Improved access to electricity and technology

Increased access to electricity, internet services and digital technology can improve education, communication, production and business opportunities.

13. Improvement in food and nutrition security

Food security exists when people have reliable access to sufficient, safe and nutritious food.

Improved food security supports health, productivity and general welfare.

14. Improvement in environmental quality

This may be indicated by:

- Reduced pollution.
- Improved waste management.
- Increased forest cover.

- Better conservation of water resources.
- Sustainable use of natural resources.

C. Composite indicators of development

Some indicators combine several dimensions of human welfare.

Human Development Index (HDI)

The Human Development Index is a composite measure used by the United Nations Development Programme to assess achievements in three broad dimensions:

1. Health, measured using life expectancy.
2. Education, measured using education-related indicators.
3. Standard of living, measured using Gross National Income per capita.

HDI provides a broader picture of human development than GDP alone.

Important distinction: GDP measures economic output, while HDI considers selected aspects of people's health, education and standard of living.

Comparison of economic growth and development indicators

Economic growth indicators	Economic development indicators
Real GDP growth	Life expectancy
Real GDP per capita	Literacy and education
Industrial output	Poverty levels
Agricultural output	Infant and maternal mortality
Investment levels	Access to clean water
Export performance	Access to healthcare
Labour productivity	Housing conditions
Business activity	Income inequality
Employment levels	Sanitation and nutrition

Note: Some indicators, such as employment and GDP per capita, can provide information about both economic growth and development. They should be interpreted alongside other indicators.

How economic performance is measured in Kenya

The Kenya National Bureau of Statistics (KNBS) publishes Economic Surveys and other statistical reports used in planning, budgeting and monitoring economic performance. These reports provide information on GDP, employment, agriculture, manufacturing, trade, education, health and other sectors.

11. Factors influencing economic growth and development in a country

Economic growth and development are influenced by several factors. Some promote economic progress, while others may slow down development.

A. Availability of natural resources

Natural resources include land, water, forests, minerals, wildlife, fisheries and energy resources.

How natural resources influence development:

1. They provide raw materials for industries.
2. They support agricultural production.
3. They create employment opportunities.
4. They attract domestic and foreign investment.
5. They generate government revenue.
6. They support tourism and recreation.
7. They provide energy and other inputs required for production.

Kenyan examples:

- Fertile agricultural land in parts of the Rift Valley supports crop production.
- Wildlife resources support tourism.
- Geothermal resources support electricity generation.
- Mineral resources provide inputs for manufacturing and construction.

Limitation: Natural resources alone do not guarantee development. They must be managed efficiently and sustainably.

B. Availability of skilled and productive labour

Labour refers to the physical and mental effort provided by people during production.

A skilled, healthy and productive workforce contributes to economic growth and development.

How labour influences development:

1. Skilled workers improve the quality of production.
2. Educated workers adopt modern technology more easily.
3. Healthy workers are more productive.
4. Technical skills promote industrial development.
5. Professional expertise improves management.
6. A productive workforce encourages investment.

Kenyan example: Training young people in electrical installation, building construction, ICT, agriculture and mechanical engineering increases the supply of skills required by businesses.

C. Availability of capital

Capital refers to man-made resources used in production, such as machinery, tools, buildings, equipment and vehicles.

How capital influences development:

- Enables businesses to expand production.
- Improves efficiency.

- Supports industrialisation.
- Encourages modern agricultural methods.
- Creates employment opportunities.
- Improves the quality of goods and services.

Example: A dairy farmer who acquires a milking machine may improve milk production and reduce the time required for milking.

D. Availability of technology

Technology refers to the application of scientific knowledge, skills and techniques to production and service delivery.

How technology influences development:

1. Increases productivity.
2. Reduces production costs.
3. Improves product quality.
4. Promotes innovation.
5. Improves communication.
6. Expands access to markets.
7. Reduces wastage.
8. Supports digital business activities.

Kenyan examples:

- Mobile money services.
- Digital banking.
- Agricultural irrigation technology.
- Online learning platforms.
- Digital marketing.
- Modern manufacturing equipment.

E. Quality of infrastructure

Infrastructure refers to the basic physical and organisational facilities required for economic activities.

Examples include:

- Roads.
- Railways.
- Airports.
- Seaports.
- Electricity networks.

- Water supply systems.
- Communication networks.
- Storage facilities.

How infrastructure influences development:

1. Facilitates movement of goods and people.
2. Reduces transport costs.
3. Improves access to markets.
4. Supports industrial production.
5. Encourages domestic and foreign investment.
6. Improves access to education and healthcare.
7. Promotes regional trade.
8. Supports rural development.

Example: Improved rural roads help farmers transport milk, vegetables, maize and other agricultural products to markets more efficiently.

F. Political stability and security

Political stability refers to a condition in which a country experiences predictable governance, peaceful political processes and continuity of public institutions.

Security involves protecting people, property and businesses from threats such as crime, violence and insecurity.

How political stability and security influence development:

- Encourage investors to establish businesses.
- Promote continuity of development projects.
- Support tourism.
- Protect business property.
- Encourage trade.
- Reduce disruptions to production.
- Improve public confidence.

G. Good governance and effective leadership

Good governance involves responsible, transparent, accountable and lawful management of public affairs.

How good governance promotes development:

1. Promotes proper use of public resources.
2. Reduces corruption and wastage.

3. Improves public service delivery.
4. Encourages investor confidence.
5. Promotes fair enforcement of laws.
6. Supports public participation.
7. Improves accountability in development projects.

Example: Proper management of county development funds can improve the delivery of roads, water projects, health services and markets.

H. Entrepreneurship and innovation

Entrepreneurship involves identifying business opportunities, organising resources and taking calculated risks to establish and operate businesses.

Innovation involves introducing new or improved products, processes and business methods.

How entrepreneurship influences development:

- Creates employment.
- Encourages competition.
- Introduces new products.
- Promotes investment.
- Expands markets.
- Improves production methods.
- Increases household incomes.
- Encourages self-employment.

Kenyan examples:

- Small-scale food processing.
- Digital businesses.
- Fashion and tailoring enterprises.
- Agricultural value addition.
- Online retail businesses.
- Jua kali manufacturing activities.

I. Availability of financial services

Financial services include banking, savings, credit, insurance, investment and payment services.

How financial services influence development:

1. Mobilise savings.
2. Provide credit for business expansion.
3. Support agricultural production.

4. Facilitate trade payments.
5. Help manage business risks.
6. Encourage investment.
7. Promote financial inclusion.

Example: A small business owner may obtain a loan from a regulated financial institution to purchase stock, equipment or business premises.

J. Domestic and foreign investment

Investment involves committing resources to productive activities with the expectation of obtaining future benefits.

Domestic investment is investment made by individuals and organisations within the country.

Foreign investment involves investment by individuals or organisations from other countries.

How investment influences development:

- Increases productive capacity.
- Creates employment.
- Introduces technology.
- Improves infrastructure.
- Expands industrial production.
- Promotes exports.
- Increases government revenue.

Example: A foreign company establishing a manufacturing plant in Kenya may create employment, purchase local raw materials and introduce modern production technology.

K. Savings and capital formation

Savings refer to the portion of income that is not spent on current consumption.

Capital formation refers to the accumulation of productive assets that can be used to increase future production.

How savings influence development:

1. Provide funds for investment.
2. Support business expansion.
3. Promote capital formation.
4. Reduce excessive dependence on external borrowing.
5. Strengthen financial institutions.
6. Support long-term economic growth.

L. Education and training

Education develops knowledge, skills, attitudes and values required for productive participation in society.

How education influences development:

- Produces skilled workers.
- Encourages innovation.
- Improves labour productivity.
- Promotes entrepreneurship.
- Supports technological advancement.
- Improves people's ability to make informed economic decisions.
- Reduces skills shortages.

Kenyan example: Technical and vocational education and training institutions equip learners with practical skills in areas such as plumbing, electrical installation, automotive engineering, hospitality and construction.

M. Population growth and demographic structure

Population growth refers to an increase in the number of people living in a country over time.

The size, age structure, distribution and skills of the population influence economic development.

Positive effects of a well-managed growing population:

1. Provides a larger labour force.
2. Expands the domestic market.
3. Creates demand for goods and services.
4. Encourages business expansion.
5. Increases the potential for innovation.

Possible challenges of rapid population growth:

- Increased pressure on schools.
- Increased demand for healthcare.
- Higher demand for housing.
- Pressure on water and sanitation services.
- Increased competition for employment.
- Greater demand for infrastructure.

N. International trade

International trade involves the exchange of goods and services between countries.

It includes exports and imports.

How international trade influences development:

1. Expands markets for locally produced goods.
2. Earns foreign exchange.
3. Provides access to imported machinery and technology.

4. Encourages specialisation.
5. Promotes competition.
6. Creates employment.
7. Encourages investment.
8. Strengthens international business relationships.

Kenyan examples:

- Exporting tea and coffee.
- Exporting flowers and horticultural products.
- Importing machinery and industrial equipment.
- Trading manufactured goods within the East African Community.

O. Environmental conditions and climate

Environmental conditions affect the availability of natural resources and the performance of different economic activities.

How the environment influences development:

- Rainfall affects agricultural production.
- Drought may reduce livestock and crop production.
- Flooding may destroy infrastructure.
- Soil fertility affects agricultural productivity.
- Water availability affects households and industries.
- Climate conditions influence tourism and energy production.

Kenyan example: Prolonged drought in arid and semi-arid areas may reduce livestock production, increase food insecurity and lower household incomes.

P. Government economic policies

Government policies influence the environment in which businesses and households operate.

Examples include:

- Taxation policies.
- Monetary policies.
- Trade policies.
- Agricultural policies.
- Industrial policies.
- Investment policies.
- Education policies.
- Infrastructure policies.

How government policies influence development:

1. Encourage or discourage investment.
2. Influence the cost of doing business.
3. Affect household purchasing power.
4. Promote particular economic sectors.
5. Support employment creation.
6. Influence domestic production and international trade.

Q. Availability of markets

Markets provide opportunities for producers to sell goods and services.

How markets influence development:

- Encourage increased production.
- Provide outlets for agricultural products.
- Support business expansion.
- Encourage competition.
- Promote specialisation.
- Improve income generation.

Example: Farmers who have reliable markets for milk, potatoes, vegetables and fruits are more likely to increase production and invest in improved farming methods.

R. Global economic conditions

Global economic conditions refer to changes in the international economy that affect trade, investment, prices, production and employment.

Examples include:

- Global recessions.
- International conflicts.
- Changes in oil prices.
- Exchange rate movements.
- Changes in international interest rates.
- Global supply chain disruptions.
- Changes in demand for exports.

How global conditions influence development:

1. May increase the cost of imported goods.
2. May affect export earnings.
3. May influence foreign investment.
4. May affect tourism.
5. May change the cost of borrowing.

6. May create new international market opportunities.

Summary: Factors influencing economic growth and development

Factor	How it influences development
Natural resources	Provides raw materials and productive resources
Skilled labour	Improves productivity and quality
Capital	Expands production capacity
Technology	Improves efficiency and innovation
Infrastructure	Facilitates business activities
Political stability	Encourages investment and business confidence
Good governance	Promotes accountability and efficient resource use
Entrepreneurship	Creates businesses and employment
Financial services	Supports savings, credit and investment
Investment	Expands productive capacity
Education	Develops human capital
Population	Influences labour supply and market size
International trade	Expands markets and earns foreign exchange
Environmental conditions	Influence agriculture and resource availability
Government policies	Shape the business environment
Markets	Provide opportunities to sell goods and services
Global conditions	Influence trade, investment and prices

12. Importance of economic planning, growth and development to a country

Economic planning, growth and development are important because they help a country use its resources effectively, improve people's welfare and achieve national development objectives.

A. Importance of economic planning

1. Promotes proper allocation of resources

Economic planning helps the government distribute scarce resources among competing needs and activities.

For example, funds may be allocated to roads, schools, hospitals, water projects and agricultural programmes according to identified priorities.

2. Helps set national development priorities

Planning identifies the areas that require urgent attention and helps the government focus on important development objectives.

3. Reduces wastage of resources

Through proper budgeting, coordination and monitoring, planning helps reduce unnecessary expenditure and duplication of projects.

4. Promotes coordination of economic activities

It enables ministries, county governments, businesses and other stakeholders to work towards common development goals.

5. Encourages investment

Clear development priorities and infrastructure plans can create confidence among domestic and foreign investors.

6. Promotes balanced regional development

Planning helps distribute development opportunities across different counties and regions.

7. Helps address unemployment

It enables the government to identify sectors with potential for employment creation and develop appropriate support programmes.

8. Promotes food security

Planning supports investment in agriculture, irrigation, storage, agricultural research and food distribution systems.

9. Supports infrastructure development

Economic plans guide the development of roads, railways, airports, electricity networks, water systems and communication infrastructure.

10. Promotes accountability

Planning establishes objectives, budgets and expected results against which government institutions can be assessed.

11. Supports environmental conservation

It helps integrate environmental protection into development decisions.

12. Helps prepare for future needs

Planning enables a country to anticipate future requirements such as schools, hospitals, housing, transport and energy.

B. Importance of economic growth

1. Increases national output

Economic growth increases the quantity and value of goods and services produced in a country.

2. Creates employment opportunities

Expansion of agriculture, manufacturing, construction, trade and services can create jobs.

3. Increases business opportunities

Growing economic activity creates demand for products, services and investment opportunities.

4. Increases government revenue

An expanding economy may increase government revenue through taxes on income, consumption, business activities and trade.

5. Improves household incomes

When economic growth creates productive employment and business opportunities, household incomes may increase.

6. Promotes industrialisation

Economic growth may encourage investment in manufacturing and other productive industries.

7. Expands domestic and international trade

Increased production can improve the supply of goods and services for local and foreign markets.

8. Encourages investment

Growing markets and production opportunities may attract domestic and foreign investors.

9. Improves infrastructure

Economic expansion can increase the resources and demand for investment in transport, energy, communication and water infrastructure.

10. Promotes technological advancement

Businesses may invest in improved machinery, production methods and digital systems to increase efficiency.

C. Importance of economic development

1. Reduces poverty

Economic development improves opportunities for people to earn income and access essential services.

2. Improves living standards

It promotes better housing, education, healthcare, nutrition, water and sanitation.

3. Improves education

Development increases opportunities for people to access quality education, technical training and lifelong learning.

4. Improves healthcare

It encourages investment in hospitals, health centres, medical equipment, medicines and healthcare personnel.

5. Reduces regional inequalities

Development programmes can improve access to infrastructure and services in underserved regions.

6. Promotes social welfare

It supports the well-being of vulnerable groups and improves access to essential services.

7. Promotes gender equality and inclusion

Economic development can expand opportunities for women, youth and persons with disabilities to participate in economic activities.

8. Improves food security

Higher agricultural productivity, better food distribution and increased household incomes improve access to food.

9. Promotes environmental sustainability

Sustainable development encourages conservation of forests, water, wildlife and other natural resources.

10. Improves national competitiveness

A country with skilled workers, reliable infrastructure, productive businesses and effective institutions is better positioned to compete internationally.

11. Promotes national unity and social stability

More inclusive development opportunities can reduce feelings of marginalisation and strengthen social cohesion.

12. Improves the quality of public services

Development can strengthen public institutions and improve the delivery of services to citizens.

13. Encourages innovation and entrepreneurship

A more developed economy provides better opportunities for new businesses, research and technology.

14. Promotes long-term economic resilience

A diversified and productive economy is better able to withstand economic shocks, climate-related challenges and changes in international markets.

13. Relationship between economic planning, economic growth and economic development

Economic planning, economic growth and economic development are closely connected.

- Economic planning identifies the goals and activities required to improve the economy.
- Implementation of development plans can increase production, investment and productivity.
- Increased production may result in economic growth.
- When growth creates employment, improves incomes and supports better public services, it can contribute to economic development.
- Effective planning helps ensure that the benefits of growth are more widely shared and that resources are used sustainably.

How the three concepts are connected

ECONOMIC PLANNING

Setting objectives, priorities, budgets and development strategies

IMPLEMENTATION OF PLANS

Investment, infrastructure, education, production and business support

ECONOMIC GROWTH

Increased production, productivity and economic activity

ECONOMIC DEVELOPMENT

Improved living standards, reduced poverty and better social welfare

Important: Economic growth does not automatically lead to economic development. Growth should be inclusive, create decent employment, reduce poverty, improve public services and protect the environment.

REVISION QUESTIONS

ECONOMIC PLANNING, GROWTH AND DEVELOPMENT IN KENYA

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. What is economic planning?

A. The process of increasing prices in an economy.

B. The deliberate process of setting economic objectives and allocating resources to achieve them.

C. The process of importing goods from other countries.

D. The activity of selling goods to consumers.

2. Economic growth mainly refers to:

A. A reduction in population.

B. An increase in the production of goods and services.

C. A decrease in business activities.

D. An increase in government expenditure only.

3. Which of the following best describes economic development?

A. An increase in the number of shops.

B. An increase in the price of goods.

C. Improvement in people's living standards and general welfare.

D. An increase in the number of imports.

4. Which of the following is a common measure of economic growth?

A. Life expectancy.

B. Literacy level.

C. Real Gross Domestic Product.

D. Infant mortality rate.

5. Which of the following is an example of a primary economic activity?

A. Banking. B. Tourism.

C. Fishing. D. Retail trade.

6. The conversion of milk into yoghurt and cheese is an activity in the:

A. Primary sector.

B. Secondary sector.

C. Tertiary sector.

D. Informal sector only.

7. Which of the following activities belongs to the tertiary sector?

A. Mining.

B. Fishing.

C. Banking.

D. Crop farming.

8. The long-term development blueprint of Kenya is known as:

A. Kenya Vision 2030.

B. Kenya Vision 2020.

C. Economic Survey 2025.

D. County Annual Budget.

9. A County Integrated Development Plan is generally prepared for a period of:

A. One year.

B. Two years.

C. Five years.

D. Ten years.

10. Which institution is responsible for producing official national statistics used in economic planning in Kenya?

A. KNBS.

B. KEBS.

C. KRA.

D. NTSA.

11. Which of the following is an indicator of economic development?

A. Increased industrial output only.

B. Increased life expectancy.

C. Increased imports only.

D. Increased prices of goods.

12. Which of the following is a factor that promotes economic growth?

A. Political instability.

B. Poor infrastructure.

C. Skilled labour.

D. Corruption.

13. The first stage in a general economic planning process involves:

A. Implementing the development plan.

B. Identifying economic needs and problems.

C. Evaluating completed projects.

D. Paying contractors.

14. Public participation in economic planning helps to:

A. Prevent citizens from expressing their views.

B. Identify community needs and priorities.

C. Increase misuse of public resources.

D. Eliminate the need for budgeting.

15. Which of the following is an example of physical infrastructure?

A. Literacy. B. Roads.

C. Entrepreneurship. D. Management skills.

16. Which of the following is a natural resource?

A. Machinery.

B. Roads.

C. Forests.

D. Bank accounts.

17. The Human Development Index considers:

A. Exports, imports and inflation only.

B. Health, education and standard of living.

C. Population, roads and taxation only.

D. Government expenditure only.

18. Which of the following may reduce economic growth and development?

A. Technological advancement.

B. Good governance.

C. Political instability.

D. Skilled labour.

19. An increase in the productivity of workers is likely to:

A. Reduce productive capacity.

B. Improve economic output.

C. Stop investment.

D. Reduce the supply of labour.

20. Which of the following is an example of sustainable development?

A. Clearing all forests for settlement.

B. Discharging industrial waste into rivers.

C. Using natural resources responsibly while protecting future generations.

D. Exhausting mineral resources without rehabilitation.

21. Which sector is mainly concerned with processing raw materials into finished goods?

A. Primary sector. B. Secondary sector.

C. Tertiary sector. D. Household sector.

22. A farmer who uses modern irrigation to increase crop output is contributing to:

A. Reduced productivity.

B. Economic stagnation.

C. Increased agricultural productivity.

D. Reduced capital formation.

23. Which of the following is an example of economic growth?

A. A reduction in national production.

B. An increase in real GDP.

C. An increase in infant mortality.

D. A decline in industrial output.

24. Which of the following best describes monitoring?

A. Tracking the progress of a development project during implementation.

B. Abandoning a development project.

C. Increasing the cost of a project.

D. Preparing a list of business competitors.

25. Which of the following is a possible source of finance for economic development?

A. Tax revenue.

B. Wastage of resources.

C. Uncontrolled inflation.

D. Destruction of infrastructure.

26. One importance of economic planning is that it:

A. Encourages duplication of projects.

B. Promotes proper allocation of scarce resources.

C. Prevents public participation.

D. Eliminates all economic risks.

27. Which of the following is an example of the tertiary sector in Kenya?

A. Tea growing.

B. Cement manufacturing.

C. Tourism.

D. Mineral extraction.

28. Which of the following may indicate improvement in people's living standards?

A. Increased poverty.

B. Improved access to clean water.

C. Increased infant mortality.

D. Reduced school enrolment.

29. Foreign direct investment may contribute to economic development by:

A. Reducing all business activities.

B. Introducing capital, technology and employment opportunities.

C. Preventing industrialisation.

D. Reducing the country's productive capacity.

30. Economic growth may fail to bring about economic development when:

A. Its benefits are widely shared.

B. It creates productive employment.

C. Income inequality and poverty remain high.

D. Access to healthcare improves.

SECTION B: SHORT-ANSWER QUESTIONS

1. Define the following terms:

a) Economic planning.

b) Economic growth.

c) Economic development.

d) Gross Domestic Product.

e) Sustainable development.

2. State eight characteristics of economic planning.

3. Differentiate between economic growth and economic development using six points.

4. Identify the three broad sectors of Kenya's economy.

5. State six economic activities undertaken in the primary sector.

6. Explain six contributions of agriculture to Kenya's economic development.

7. Identify six activities undertaken in the secondary sector of Kenya's economy.

8. State six contributions of manufacturing to economic development.

9. Identify eight activities undertaken in the tertiary sector.

10. Explain six contributions of the tertiary sector to Kenya's economy.

11. Identify the three pillars of Kenya Vision 2030.

12. State six objectives of economic planning in a country.

13. Identify eight stages involved in planning for economic development.

14. State eight types of information required during economic planning.

15. Identify eight indicators of economic growth.

16. State eight indicators of economic development.

17. Explain the meaning of the Human Development Index.

18. Identify ten factors that influence economic growth and development in a country.

19. State eight ways in which infrastructure promotes economic growth and development.

20. Explain eight benefits of economic planning to a country.

21. State eight benefits of economic growth to a country.

22. Explain eight benefits of economic development to the people of a country.

23. Identify six sources of finance for economic development programmes.

24. State six reasons why public participation is important in economic planning.

25. Explain six challenges that may affect the implementation of economic development plans.

SECTION C: STRUCTURED QUESTIONS

1.

a) Define economic planning. (2 marks)

b) Explain six reasons why economic planning is important to Kenya. (12 marks)

2.

a) Differentiate between economic growth and economic development. (4 marks)

b) Explain six indicators used to measure economic development. (12 marks)

3.

a) Identify the three broad sectors of Kenya's economy. (3 marks)

b) Explain five contributions of each sector to Kenya's economic development. (15 marks)

4.

a) What is Kenya Vision 2030? (2 marks)

b) Explain the three pillars of Kenya Vision 2030. (9 marks)

c) State four ways in which Kenya Vision 2030 contributes to economic planning. (4 marks)

5.

a) Define a County Integrated Development Plan (CIDP). (2 marks)

b) Explain six reasons why county governments prepare CIDPs. (12 marks)

6.

a) Identify six stages involved in planning for economic development. (6 marks)

b) Explain six activities undertaken during the implementation of an economic development plan. (12 marks)

7.

a) Define Gross Domestic Product. (2 marks)

b) Explain six indicators of economic growth. (12 marks)

8.

a) What is sustainable development? (2 marks)

b) Explain six ways in which a country can promote sustainable development. (12 marks)

9.

Explain eight factors that influence economic growth and development in Kenya. (16 marks)

10.

Discuss eight ways in which economic development improves the living standards of people in a country. (16 marks)

SECTION D: APPLICATION QUESTIONS

11. Case study: Agricultural development

A county government in Kenya has identified low agricultural production as a major challenge. Many farmers depend on rainfall, have poor access to markets and use traditional farming methods.

The county government intends to improve agricultural productivity through irrigation, farmer training, better roads and access to agricultural markets.

a) Identify the economic sector involved. (2 marks)

b) Explain five ways in which the proposed activities may promote economic growth and development in the county. (10 marks)

c) Identify three resources required to implement the proposed development activities. (3 marks)

12. Case study: Industrial development

A company establishes a food-processing factory in Kenya. It purchases agricultural products from local farmers and processes them into packaged products for local and international markets.

a) Identify the economic sector in which the company operates. (2 marks)

b) Explain six ways in which the factory contributes to economic development. (12 marks)

c) Identify two other sectors that benefit from the factory's activities. (2 marks)

13. Case study: County development planning

Residents of a county complain about poor roads, inadequate water supply, unemployment and limited access to healthcare. The county government decides to prepare a five-year development plan.

a) Identify the plan that the county government should prepare. (2 marks)

b) Explain five stages that should be followed when preparing the plan. (10 marks)

c) State four reasons why residents should participate in the planning process. (4 marks)

14. Case study: Economic growth and living standards

A country records an increase in real GDP for several years. However, many people continue to experience poverty, unemployment, inadequate housing and limited access to healthcare.

a) Identify the economic concept reflected by the increase in real GDP. (2 marks)

b) Explain five reasons why economic growth may fail to improve the living standards of all citizens. (10 marks)

c) Suggest four measures that the government can take to promote inclusive economic development. (8 marks)

15. Case study: Infrastructure and development

A county government constructs rural roads, expands electricity supply and improves water infrastructure. The projects are intended to support farmers, traders and manufacturers.

a) Identify three types of infrastructure involved. (3 marks)

b) Explain five ways in which infrastructure contributes to economic growth. (10 marks)

c) State three economic activities that may benefit from the projects. (3 marks)

16. Case study: Economic indicators

The government of a country wants to establish whether its economy is improving. It collects information on GDP, employment, literacy, life expectancy, poverty and access to clean water.

a) Define an economic indicator. (2 marks)

b) Classify the information collected into indicators of economic growth and development. (6 marks)

c) Explain four reasons why governments use economic indicators. (8 marks)

17. Case study: Sustainable development

A community in Kenya depends on farming, forestry and livestock production. However, deforestation, soil erosion and poor water management are reducing agricultural productivity.

The county government intends to introduce tree planting, soil conservation, water harvesting and sustainable agricultural practices.

a) Identify the concept of development reflected in the proposed activities. (2 marks)

b) Explain five benefits of the proposed activities to the community. (10 marks)

c) Identify three challenges that may affect the implementation of the activities. (6 marks)

PRACTICAL LEARNING ACTIVITIES

Activity 1: Economic sectors investigation

In groups:

1. Identify businesses operating in your community.
2. Classify them into primary, secondary and tertiary sectors.
3. Explain how each business contributes to employment and income generation.
4. Present your findings using a table or poster.

Activity 2: Economic planning research

Research the development priorities of your county.

Find out:

- The main economic activities in the county.
- Major development challenges.
- Development projects being undertaken.
- Resources required for the projects.
- How residents participate in planning.
- The expected economic and social benefits.

Present your findings to the class.

Activity 3: Planning a community development project

Assume that your school community requires a reliable clean-water supply.

In groups:

1. Identify the problem.
2. Set the project objectives.
3. Identify the resources required.
4. Estimate the project costs.
5. Identify possible sources of finance.
6. Prepare an implementation schedule.
7. Suggest ways of monitoring and evaluating the project.

Activity 4: Economic indicators investigation

Use information from KNBS publications or other reliable sources to investigate selected economic indicators in Kenya.

Compare information relating to:

- GDP growth.
- Employment.
- Agricultural production.
- Education.
- Health.
- Poverty.
- Access to electricity.

Explain what the information suggests about economic growth and development.

KEY TERMS AND THEIR MEANINGS

Term	Meaning
Economic planning	Deliberate process of setting economic goals and allocating resources to achieve them
Economic growth	Increase in the production of goods and services over time
Economic development	Improvement in living standards and general economic and social welfare
GDP	Total value of final goods and services produced within a country during a specified period
Real GDP	GDP adjusted for changes in prices

GDP per capita	GDP divided by the population
Economic sector	A broad category of economic activities
Primary sector	Activities involving the extraction and harvesting of natural resources
Secondary sector	Activities involving processing and manufacturing of goods and construction
Tertiary sector	Activities involving provision of services
Sustainable development	Development that meets present needs without compromising future generations
Infrastructure	Basic facilities that support economic and social activities
Investment	Commitment of resources to productive activities for expected future benefits
Productivity	Efficiency with which resources are used to produce goods and services
Human capital	Knowledge, skills, experience and health of people
Resource allocation	Distribution of scarce resources among competing uses
Resource mobilisation	Obtaining resources required for development activities
Public participation	Involvement of citizens in government planning and decision-making
Monitoring	Continuous tracking of progress during implementation
Evaluation	Systematic assessment of a programme or project
HDI	Composite measure of health, education and standard of living

STRAND 4.0: GOVERNMENT AND GLOBAL INFLUENCE IN BUSINESS

SUB-STRAND 4.5: INTERNATIONAL TRADE

1. Introduction to international trade

International trade is an important part of the modern business environment. Countries exchange goods and services because they have different natural resources, production capacities, technologies, skills and consumer needs.

Kenya participates in international trade by exporting products such as tea, coffee, flowers, fruits, vegetables and selected manufactured goods. It also imports products such as machinery, petroleum products, vehicles, medicines, electronics and industrial raw materials.

International trade creates opportunities for businesses to access wider markets, obtain goods that are not sufficiently produced locally, earn foreign exchange and promote economic cooperation among countries.

Learning outcomes

By the end of this sub-strand, the learner should be able to:

1. Explain the meaning of international trade.
2. Identify and describe documents used in international trade.
3. Explain the importance of documents used in international trade.
4. Explain reasons for trade restrictions in international trade.
5. Describe methods of restricting international trade.
6. Identify ethical and unethical practices in international trade.
7. Explain the effects of ethical and unethical practices on developing countries.
8. Demonstrate integrity, responsibility and fairness when engaging in international trade.
9. Apply knowledge of trade documents and procedures to a simulated import or export transaction.

Key competencies developed

- **Communication and collaboration:** Discussing international trade documents and procedures in groups.
- **Critical thinking and problem-solving:** Analysing the effects of trade restrictions and unethical practices.
- **Digital literacy:** Researching international trade procedures and documentation.
- **Citizenship:** Appreciating fair trade, responsible business conduct and international cooperation.
- **Learning to learn:** Investigating trade practices and applying new knowledge to business situations.
- **Entrepreneurship:** Identifying opportunities in importing and exporting goods.

2. Meaning of international trade

International trade refers to the exchange of goods and services between individuals, businesses or organisations located in different countries.

It involves the buying and selling of products and services across national borders.

International trade takes place when a business in one country sells goods or services to a buyer in another country or purchases goods or services from a foreign supplier.

Examples in the Kenyan context:

- A Kenyan tea company selling tea to buyers in the United Kingdom.
- A Kenyan flower exporter supplying flowers to the Netherlands.
- A Kenyan business importing computers from China.
- A Kenyan manufacturer importing machinery from Germany.
- A Kenyan pharmaceutical distributor importing medicines from India.

- A Kenyan tourism company selling travel services to international visitors.

Main parties involved in international trade

1. **Exporter:** A person or business that sells goods or services to a buyer in another country.
2. **Importer:** A person or business that purchases goods or services from another country.
3. **Foreign buyer:** An individual or organisation purchasing goods from a supplier in another country.
4. **Foreign supplier:** A person or business that supplies goods to buyers in another country.
5. **Customs authority:** A government agency responsible for controlling goods entering or leaving a country and administering customs procedures.
6. **Freight forwarder:** An agent who organises the transportation and handling of goods on behalf of importers or exporters.
7. **Shipping company or carrier:** A business that transports goods by sea, air, road or rail.
8. **Insurance company:** An organisation that provides insurance cover against specified risks during transportation or other stages of a trade transaction.
9. **Bank or payment service provider:** An institution that facilitates international payments and trade finance.
10. **Clearing agent:** An authorised person or business that assists importers or exporters in completing customs clearance procedures.

Types of international trade

A. Import trade

Import trade refers to the purchase of goods and services from another country for use or sale in the importing country.

Examples:

- Kenya importing machinery.
- Kenyan businesses importing electronics.
- Importation of petroleum products.
- Importation of specialised medical equipment.

B. Export trade

Export trade refers to the sale of goods and services produced or supplied in one country to buyers in another country.

Examples:

- Exporting Kenyan tea.
- Exporting Kenyan coffee.
- Exporting flowers and fresh vegetables.
- Providing tourism and professional services to foreign customers.

C. Entrepôt trade (re-export trade)

Entrepôt trade refers to the importation of goods into a country for the purpose of storing, processing or repackaging them before exporting them to another country, subject to applicable customs rules.

For example, goods may enter a regional trade and logistics hub before being distributed to other markets.

Difference between imports and exports

Imports	**Exports**
Goods and services purchased from other countries	Goods and services sold to other countries
Bring foreign products into the country	Send locally supplied products to foreign markets
Payments are generally made to foreign suppliers	Payments are generally received from foreign buyers
May increase the supply of goods available locally	May increase foreign exchange earnings
Example: importing machinery into Kenya	Example: exporting Kenyan tea

3. Importance of international trade

International trade is important to Kenya and other countries for the following reasons.

1. **Expands markets:** Businesses can sell goods and services to customers in other countries, increasing their potential market size.
2. **Earns foreign exchange:** Exporters receive payments in foreign currencies, which can help a country pay for imports and meet international obligations.
3. **Promotes specialisation:** Countries can concentrate on producing goods and services in which they have suitable resources, skills or competitive advantages.
4. **Encourages efficient production:** Competition from international businesses can encourage local firms to improve quality, reduce costs and use resources efficiently.
5. **Provides access to goods not produced locally:** Countries can import machinery, medicines, technology and other products that are unavailable or insufficiently produced locally.
6. **Promotes industrial development:** Businesses can obtain imported machinery, equipment and raw materials needed for manufacturing.
7. **Creates employment:** Exporting, importing, transport, warehousing, insurance, banking and clearing services create jobs.
8. **Encourages technology transfer:** Countries can acquire modern production methods, technical knowledge and skills through international business relationships.

9. **Promotes international cooperation:** Trade encourages countries to establish economic partnerships and strengthen diplomatic relationships.
10. **Improves consumer choice:** Consumers can access a wider range of goods and services from different countries.
11. **Encourages investment:** Access to international markets can attract investors who wish to establish production and distribution businesses.
12. **Generates government revenue:** International trade can generate revenue through lawful customs duties, taxes, fees and levies.
13. **Promotes regional integration:** Trade strengthens economic relationships among neighbouring countries, such as members of the East African Community.
14. **Supports economic growth:** Increased exports, investment and productive activities can contribute to national economic growth.

4. Mandatory and other important documents used in international trade

Meaning of international trade documents

International trade documents are official or commercial records prepared, exchanged or presented by buyers, sellers, transporters, banks, insurers and government authorities during the importation and exportation of goods and services.

They provide evidence of the transaction, describe the goods, establish contractual obligations, facilitate transportation and payment, and support customs clearance.

International trade documents are important because goods often pass through several countries and are handled by different organisations before reaching the final buyer.

SHIPMENT DOCUMENTATION

Commercial Invoice



- Customer name and detalls
- Product description
- Quantity
- Value
- Payment terms

Packing List



- Container number
- Seal number
- Packing details

Certificate of Origin



- Customs clearance
- Compliance with trade agreements
- Determining duties of taxes

Health Certificate



- Food and pharmaceeutical products
- Products that require special handling or certification

Bill of Lading



- Proof of ownership
- Receipt for goods
- Contract of carriage Enables the holder to clear or transfer the container at the destination port



COMMERCIAL INVOICE

Invoice No: INV12345
Invoice Date: 15/01/2023

Exporter:
Global Trading Ltd
123 Trade Lane
Johannesburg, South Africa

Consignee:
Zambezi Imports
Lusaka, Zambia

Description of Goods	HS Code	Quantity	Unit Price	Total Value
Electronic Components	8542.31	100	$50.00	$5,000.00

Total Amount: USD 5,000.00
Incoterms: EXW Johannesburg
Payment Terms: T/T in Advance
Country of Origin: South Africa

Duties & Taxes Summary

Customs Duty:	$750.00
VAT:	$900.00

Signature & Company Stamp



PACKING LIST

Packing List No: PL98765
Date: 15/01/2023

Exporter:
Global Trading Ltd, Johannesburg, South Africa

Consignee:
Zambezi Imports, Lusaka, Zambia

Item Description	Carton No.	Qty	Weight (kg)	Dimensions (cm)
Electronic Components	CTN 1 - 5	100	120 kg	40 x 30 x 25

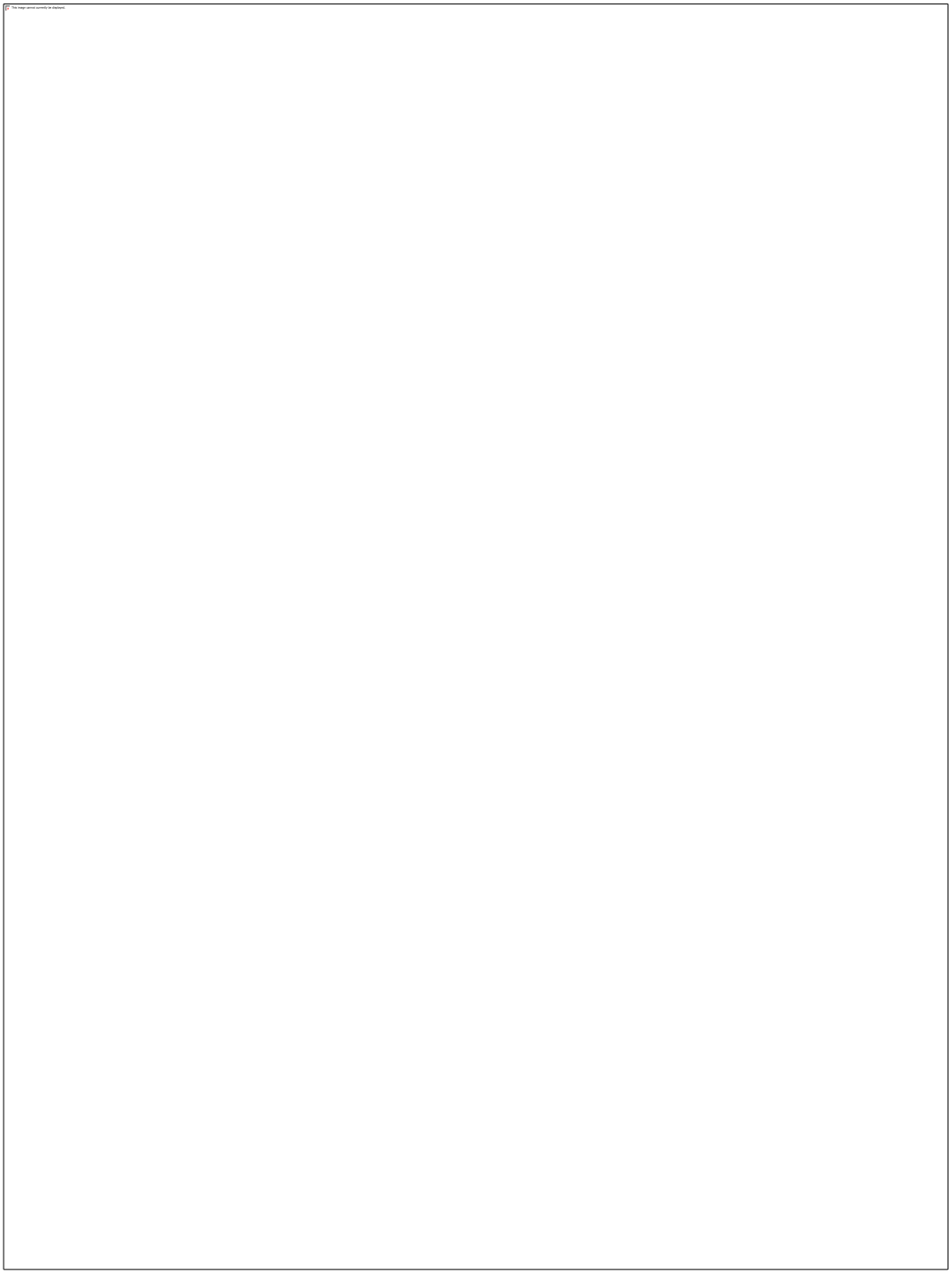
Total Packages: 5 Cartons
Total Weight: 120 kg
Volume: 0.15 CBM

Contents: Packed on Pallets
Handling: Fragile - Handle with Care
Seal No: ABC12345

Importance of documents used in international trade

1. **Provide evidence of transactions:** They show that a buyer and seller have entered into a business transaction.
2. **Facilitate customs clearance:** They provide information required by customs authorities to assess and release goods.
3. **Support payment:** They help banks and other payment service providers verify transactions.
4. **Facilitate transportation:** They provide carriers with information about the goods and their destination.
5. **Establish ownership or control where applicable:** Certain transport documents, especially negotiable bills of lading, may represent title to goods.
6. **Assist in identifying goods:** They show the nature, quantity, weight, packaging and value of the consignment.
7. **Support insurance claims:** They may be used as evidence when goods are lost, damaged or delayed.
8. **Confirm compliance:** They demonstrate that goods meet applicable standards, origin rules and regulatory requirements.
9. **Prevent misunderstandings:** They provide written records of agreed prices, quantities and delivery conditions.
10. **Promote accountability:** They help businesses and authorities trace the movement of goods and payments.

A. Bill of lading



Definition: A bill of lading is a transport document issued by a shipping company or its authorised agent to acknowledge receipt of goods for shipment by sea and record the terms of carriage.

It is commonly used when goods are transported from one country to another by ship.

Main functions of a bill of lading

1. **Evidence of receipt of goods:** It confirms that the carrier or shipping company has received the goods for shipment.
2. **Evidence of the contract of carriage:** It records or evidences the terms under which the carrier agrees to transport the goods.
3. **Document of title where negotiable:** A negotiable bill of lading can represent title to the goods and may be transferred according to its terms.

4. **Identifies the goods:** It describes the cargo, including the number of packages, marks and other relevant details.
5. **Shows shipment details:** It indicates the port of loading, port of discharge and other transport information.
6. **Assists in cargo collection:** It may be required to obtain release of the goods at the destination port, depending on the type of bill and release arrangements.
7. **Supports banking transactions:** It may be required when payment is made through a documentary letter of credit.

Information contained in a bill of lading

- Name and address of the shipper.
- Name and address of the consignee.
- Name of the shipping company or carrier.
- Description of the goods.
- Number and type of packages.
- Gross weight and other cargo measurements.
- Port of loading.
- Port of discharge.
- Vessel details.
- Shipment date.
- Freight payment terms.
- Bill of lading number.

Example

A Kenyan tea exporter sells tea to a buyer in the United Kingdom. The shipping company receives the packed tea containers at the port of Mombasa and issues a bill of lading showing the shipper, consignee, cargo description and destination port.

Important: A bill of lading is mainly associated with sea transport. Its legal effect depends on whether it is negotiable or non-negotiable and on the terms under which it is issued.

B. Airway bill (air waybill)

KENYA AIRWAYS CARGO — **AWB**

DATE OF EXPORT	NO. OF PIECES	TERMS OF SALE	REFERENCE	CURRENCY
			881 - Jomo Kenyatta International Airport Nairobi (NBO)	KES

SHIPPER'S NAME & ADDRESS	CONSIGNEE'S NAME & ADDRESS
Global Exporters Ltd. Ground Floor, Unit A Jomo Kenyatta International Airport Nairobi, Kenya Kenya	East Africa Importers Mombasa Road Industrial Area Nairobi, Kenya Kenya

COUNTRY OF ULTIMATE DESTINATION	IMPORTER (IF DIFFERENT THAN CONSIGNEE)
Jomo Kenyatta International Airport Nairobi (NBO)	Name
COUNTRY OF MANUFACTURE	Address 1
United States	Address 2
INTERNATIONAL AIRWAYBILL NUMBER	Kenya
881 - 1909 9286	

Nature and Quantity of GOODS	Nature of Goods	Dimensions	Total Weight (KG)	QUANTITY	UNIT VALUE	TOTAL VALUE
Industrial Machinary Parts and Electronics			215.5 K	and		
			Chargeable Weight (KG)		Freight Charges	
			215.5 K		Freight Prepaid	KES 150,000
			Total Pieces		PP PP	
				PP	CC CC	

No. of Pieces	Gross Weight	Nature of Goods	Dimensions	Other Charges	
				Total	KES

881 - 1909 9286 **NOT NEGOTIABLE AIR WAYBILL** Original 1 - For Shipper **881 - 1909 9286**

Definition: An airway bill is a transport document issued by an airline or its authorised agent as evidence that goods have been accepted for transportation by air.

It is used when goods are transported internationally through aircraft.

Functions of an airway bill

1. Confirms that the airline or its agent has received the cargo.
2. Provides evidence of the contract of carriage by air.
3. Identifies the sender and receiver of the goods.
4. Describes the goods being transported.
5. Shows the airport of departure and destination.
6. Provides instructions for handling and delivery.
7. Helps track the movement of the cargo.
8. Supports customs processing and cargo identification.

Information contained in an airway bill

- Name of the shipper.
- Name of the consignee.
- Airline or issuing agent.
- Airport of departure.
- Airport of destination.
- Description of the goods.
- Number of packages.
- Weight and dimensions.
- Freight charges.
- Airway bill number.
- Special handling instructions.

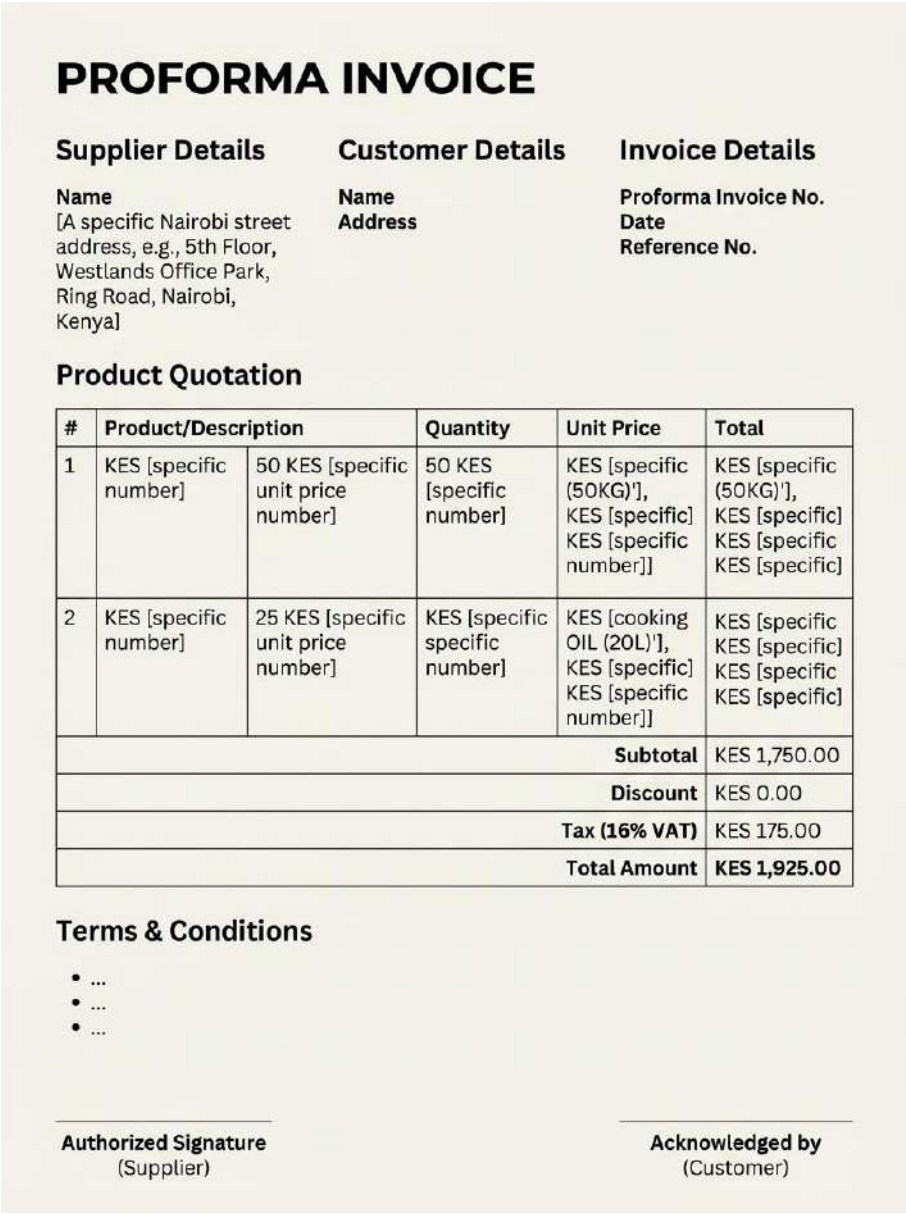
Example

A Kenyan flower exporter sends fresh flowers to a buyer in the Netherlands by air. The airline issues an airway bill to identify the cargo, the sender, the receiver and the destination airport.

Difference between a bill of lading and an airway bill

Bill of lading	**Airway bill**
Mainly used in sea transportation	Used in air transportation
Issued by a shipping company or its agent	Issued by an airline or its agent
May be negotiable and serve as a document of title	Generally non-negotiable and not a document of title
Identifies goods transported by ship	Identifies goods transported by aircraft
Used for cargo handled through seaports	Used for cargo handled through airports

C. Pro forma invoice



PROFORMA INVOICE

Supplier Details

Name
[A specific Nairobi street address, e.g., 5th Floor, Westlands Office Park, Ring Road, Nairobi, Kenya]

Customer Details

Name
Address

Invoice Details

Proforma Invoice No.
Date
Reference No.

Product Quotation

#	Product/Description		Quantity	Unit Price	Total
1	KES [specific number]	50 KES [specific unit price number]	50 KES [specific number]	KES [specific (50KG)'], KES [specific] KES [specific number]]	KES [specific (50KG)'], KES [specific] KES [specific KES [specific]
2	KES [specific number]	25 KES [specific unit price number]	KES [specific specific number]	KES [cooking OIL (20L)'], KES [specific] KES [specific number]]	KES [specific KES [specific] KES [specific KES [specific]
				Subtotal	KES 1,750.00
				Discount	KES 0.00
				Tax (16% VAT)	KES 175.00
				Total Amount	**KES 1,925.00**

Terms & Conditions

- ...
- ...
- ...

Authorized Signature
(Supplier)

Acknowledged by
(Customer)

Definition: A pro forma invoice is a preliminary invoice issued by a seller to a prospective buyer showing the description, quantity, estimated price and other proposed terms of a transaction before the final commercial invoice is issued.

It serves as a formal quotation or offer for the proposed supply of goods.

Functions of a pro forma invoice

1. **Provides estimated costs:** It informs the buyer of the expected cost of the goods.
2. **Helps the buyer make a purchasing decision:** The buyer uses the information to decide whether to proceed with the transaction.
3. **Supports import planning:** It provides information that may be required during preliminary import procedures.
4. **Assists in arranging finance:** A buyer may use it when applying for trade finance or arranging payment facilities.
5. **Promotes price agreement:** It helps the buyer and seller agree on prices, quantities and other terms.

6. **Provides a basis for the purchase order:** The buyer may prepare a purchase order after accepting the seller's offer.
7. **Helps estimate import costs:** The importer can use it to estimate freight, insurance, duties and other charges, although the final customs value is determined under applicable customs rules.

Information contained in a pro forma invoice

- Name and address of the seller.
- Name and address of the prospective buyer.
- Pro forma invoice number.
- Date of issue.
- Description of goods.
- Quantity of goods.
- Unit price.
- Total estimated value.
- Currency of transaction.
- Proposed delivery terms.
- Payment terms.
- Estimated delivery date.
- Validity period of the quotation.

Example

A Kenyan school supplier intends to import 100 computers from a company in China. The Chinese supplier issues a pro forma invoice showing the models, quantity, unit price, total estimated cost and proposed delivery terms.

The Kenyan buyer uses it to assess the cost and decide whether to place an order.

Important: A pro forma invoice is not the same as a final commercial invoice. It is preliminary and does not, by itself, prove that the goods have been supplied or that payment has been made.

D. Commercial invoice

COMMERCIAL INVOICE

DATE OF EXPORT	TERMS OF SALE	REFERENCE	CURRENCY
			KENYAN SHILLINGS (KES)

SHIPPER/ EXPORTER	CONSIGNEE
Name AFRICA TRADING GROUP LTD. Address 1 14 THIKA ROAD, GIKOMBA MARKET, Address 2 NAIROBI, KENYA City, State, Zip, Country	Name KENYA APPAREL EXPORTS CO. Address 1 10 INDUSTRIAL AREA, DUNGA ROAD, Address 2 NAIROBI, KENYA City, State, Zip, Country

COUNTRY OF ULTIMATE DESTINATION	IMPORTER (IF DIFFERENT THAN CONSIGNEE)
KENYA	Name Address 1 Address 2 City, State, Zip, Country
COUNTRY OF MANUFACTURE	
KENYA	
INTERNATIONAL AIRWAYBILL NUMBER	

FULL DESCRIPTION OF GOODS	WEIGHT (KGS)	QUANTITY	UNIT VALUE (KES)	TOTAL VALUE (KES)
TEA LEAVES (PACKAGED)	20.00	1000	KES 250.00	KES 250,000.00
COFFEE BEANS (UNROASTED)	50.00	500	KES 600.00	KES 300,000.00

Definition: A commercial invoice is a document issued by the seller to the buyer showing the actual goods sold, their quantities, prices and the amount payable in an international trade transaction.

It is an important document used in customs valuation, payment and trade records.

Functions of a commercial invoice

1. **Shows the actual sale:** It provides a record of the goods sold by the exporter.
2. **Indicates the value of goods:** It shows the prices and total amount charged.
3. **Supports customs valuation:** Customs authorities use it together with other information to assess the value of imported goods.
4. **Facilitates payment:** It informs the buyer of the amount payable to the seller.
5. **Supports accounting records:** Both the buyer and seller use it to record the transaction.
6. **Assists in trade finance:** Banks may use it when processing documentary payments.
7. **Helps resolve disputes:** It provides written evidence of the goods and prices agreed upon.

Information contained in a commercial invoice

- Seller's name and address.
- Buyer's name and address.

- Invoice number.
- Invoice date.
- Description of goods.
- Quantity supplied.
- Unit price.
- Total price.
- Currency used.
- Country of origin, where required.
- Delivery terms.
- Payment terms.
- Freight and insurance details, where applicable.

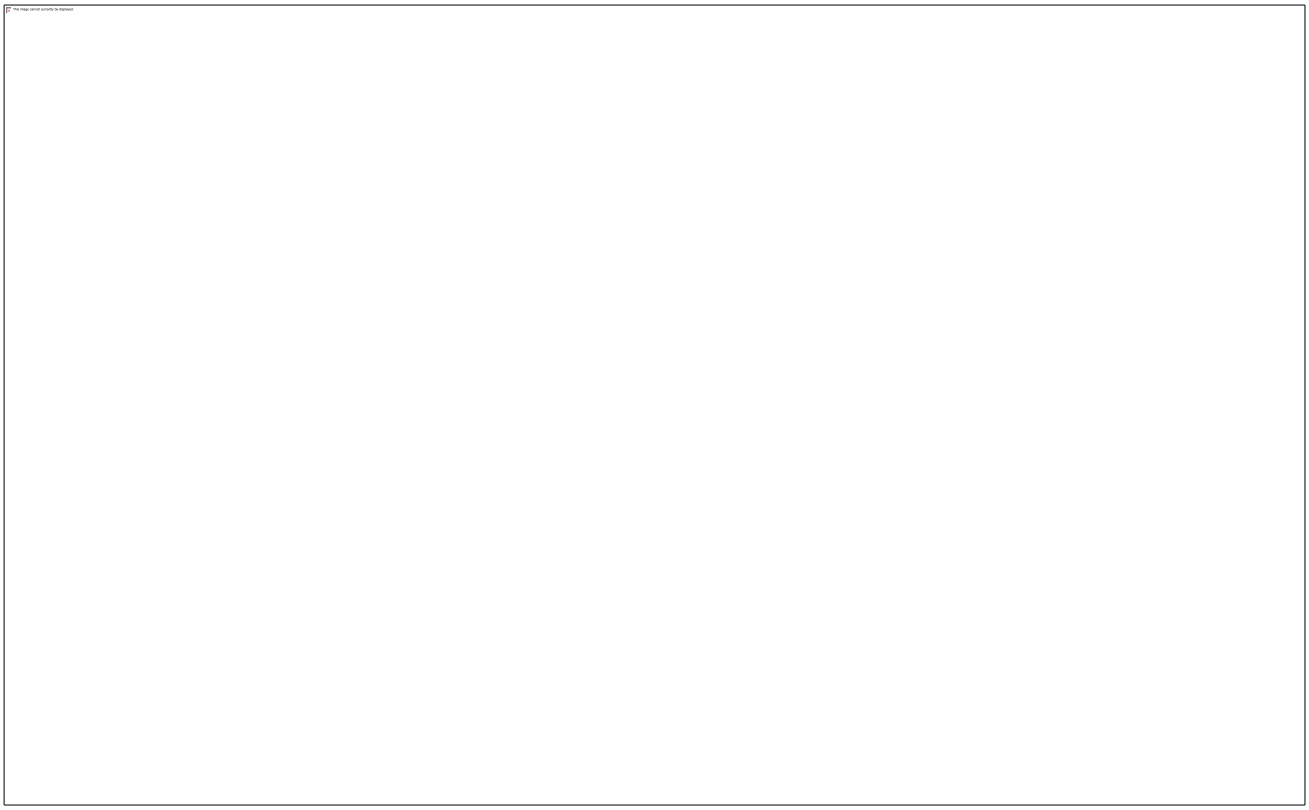
Example

A Kenyan company imports 50 industrial sewing machines from a manufacturer in India. After the sale is confirmed, the supplier issues a commercial invoice showing the actual quantity, price per machine and total amount payable.

Difference between a pro forma invoice and a commercial invoice

Pro forma invoice	**Commercial invoice**
Preliminary document	Final sales document
Issued before the final sale or shipment arrangements	Issued to record the actual sale
Shows estimated or proposed costs	Shows the actual amount charged
Helps the buyer decide whether to purchase	Supports payment and customs procedures
Does not by itself prove that goods have been supplied	Provides evidence of the sale transaction

E. Packing list



Definition: A packing list is a document prepared by the exporter or supplier showing how goods in a consignment have been packed and the details of the individual packages.

It helps the buyer, transporter, warehouse operator and customs authorities identify and verify the goods.

Functions of a packing list

1. Identifies the packages in a consignment.
2. Shows the quantity of goods packed.
3. Indicates the type of packaging used.
4. Shows the weight of individual packages and the total consignment.
5. Indicates the dimensions of packages where necessary.
6. Helps customs officers inspect and verify goods.
7. Assists warehouse staff in receiving and storing goods.
8. Helps the buyer check whether the delivered goods match the order.
9. Supports the identification of missing or damaged packages.
10. Helps transporters plan cargo loading and handling.

Information contained in a packing list

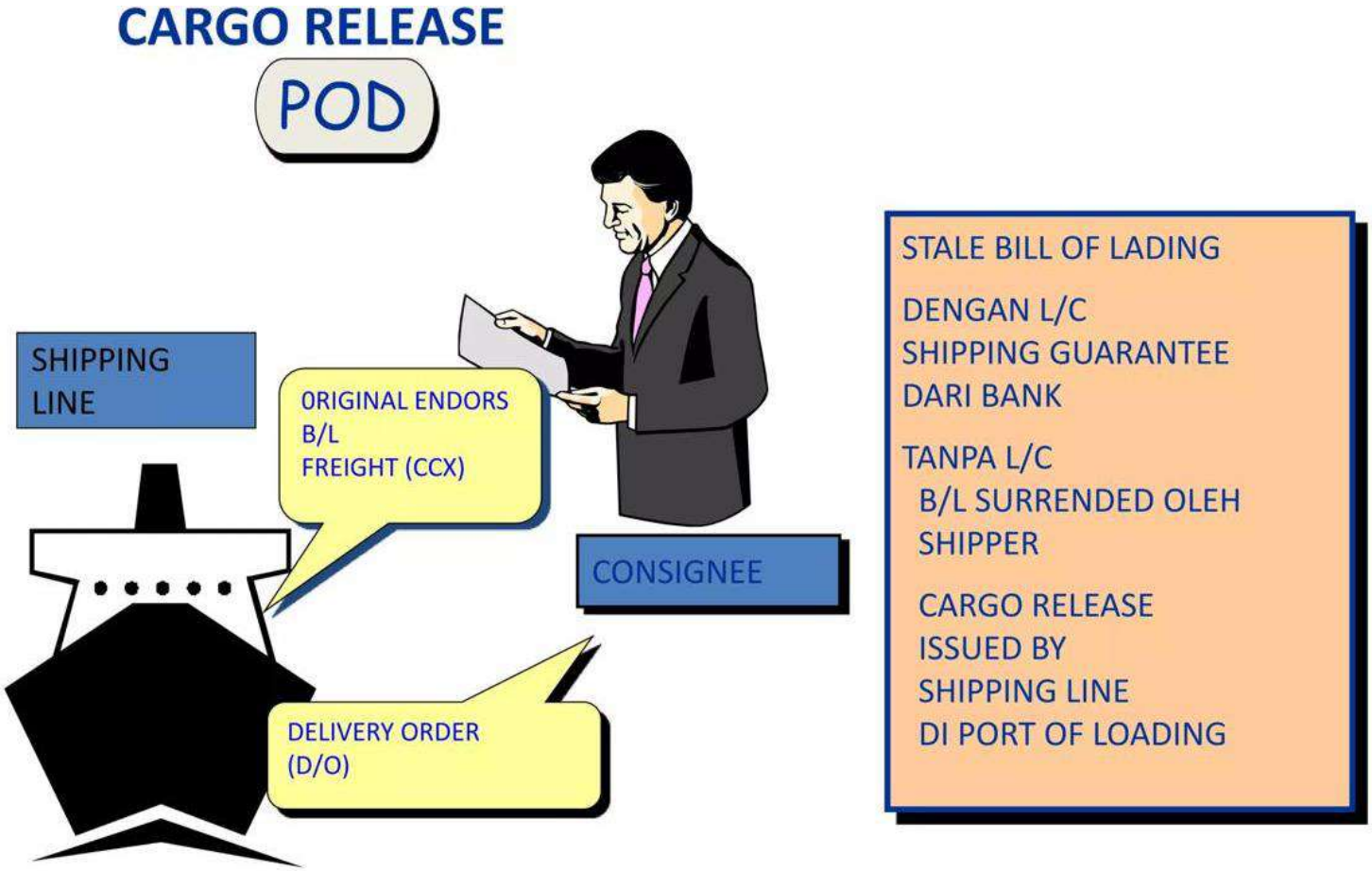
- Exporter's name and address.
- Importer's name and address.
- Packing list number.
- Date of preparation.

- Invoice or shipment reference.
- Description of goods.
- Number of packages.
- Package identification marks.
- Type of packaging.
- Gross weight.
- Net weight.
- Dimensions of packages.
- Total number of packages.

Example

A Kenyan exporter sends 500 cartons of packed tea to a foreign buyer. The packing list indicates the number of cartons, the weight of each carton, the total weight and the identifying marks on the packages.

F. Delivery order



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Definition: A delivery order is a document issued by a shipping company, carrier or authorised party instructing the release or delivery of specified goods to an authorised consignee or their representative.

In international shipping, a delivery order is commonly used to facilitate the release of cargo from a port, terminal or warehouse after the relevant requirements have been met.

Functions of a delivery order

1. Authorises the release or delivery of specified goods.
2. Identifies the consignee or authorised recipient.
3. Identifies the cargo to be released.
4. Helps port and warehouse operators verify delivery instructions.
5. Supports the cargo collection process.
6. Helps prevent unauthorised collection of goods.
7. Provides a record of cargo release arrangements.

Information contained in a delivery order

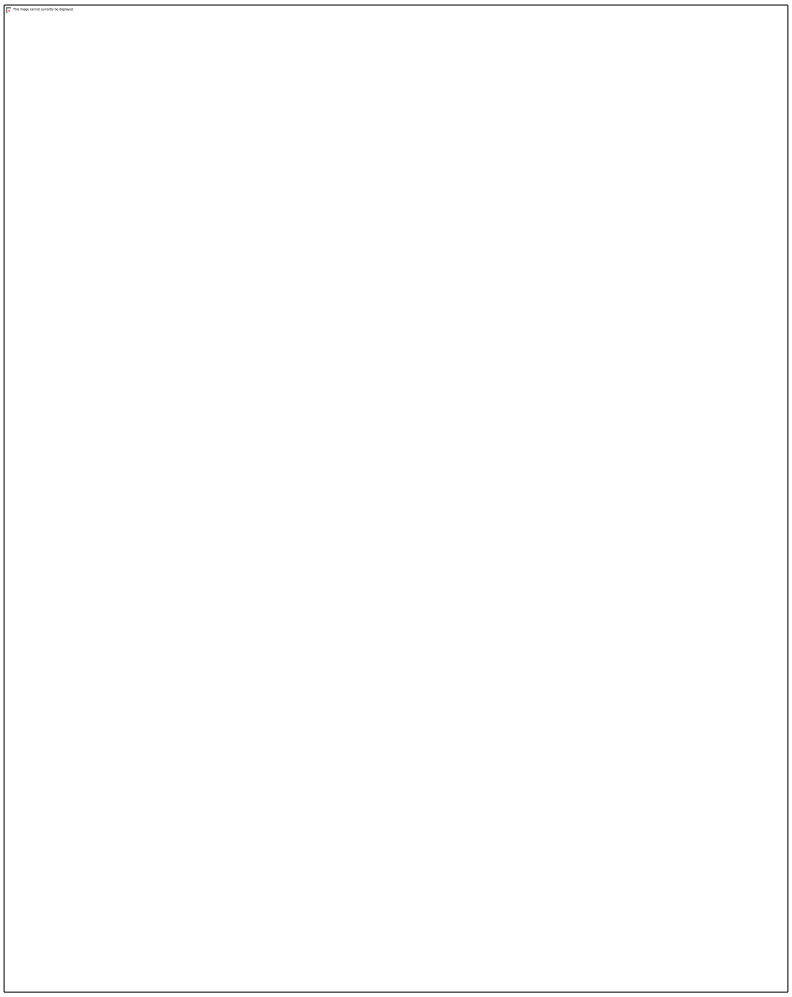
- Name of the shipping company or issuing party.
- Name of the consignee.
- Delivery order number.
- Bill of lading or shipment reference.
- Description of goods.
- Number of packages.
- Port or warehouse location.
- Name of the authorised collection party.
- Delivery instructions.
- Date of issue and validity, where applicable.

Example

A Kenyan importer receives machinery at the port of Mombasa. After meeting the shipping line's release requirements, the shipping line or its agent issues a delivery order to facilitate collection of the cargo.

Important: A delivery order is not the same as a bill of lading. The bill of lading relates to receipt and carriage of goods, while a delivery order gives instructions for releasing or delivering cargo.

G. Purchase order



Definition: A purchase order is a formal document issued by a buyer to a seller requesting the supply of specified goods or services under stated conditions.

It communicates the buyer's intention to purchase and, once accepted or otherwise made binding under the applicable arrangement, may form part of the contractual agreement.

Functions of a purchase order

1. **Requests goods or services:** It formally communicates what the buyer wants to purchase.
2. **Specifies quantities:** It indicates the number or amount of goods required.
3. **Shows agreed prices:** It records the prices offered or agreed upon.
4. **Provides delivery instructions:** It indicates where and when the goods should be delivered.
5. **Supports business planning:** It helps the supplier plan production and delivery.
6. **Supports financial control:** It helps the buyer monitor purchases and expenditure.
7. **Provides evidence of the order:** It creates a written record of the buyer's request.
8. **Reduces misunderstandings:** It clarifies the goods, quantities and terms required.

Information contained in a purchase order

- Buyer's name and address.
- Seller's name and address.
- Purchase order number.

- Date of issue.
- Description of goods.
- Quantity ordered.
- Unit price.
- Total order value.
- Delivery address.
- Delivery date.
- Payment terms.
- Authorised approval or signature.

Example

A Kenyan supermarket orders 1,000 cartons of cooking oil from a manufacturer in another country. It issues a purchase order showing the quantity, product specifications, price and delivery requirements.

H. Payment slip



KCB Bank

KCB Bank Kenya Limited
International Transaction Services

TRANSFER CONFIRMATION

Transfer Created Monday, 20XX	**Transfer Funded** Monday, 20XX
Paid out Monday, 20XX	**Transfer #** #7455
Swift code TUBDDEDDXXX	

Your details

Account name KENYA IMPORT LOGISTICS LTD.	**Address** NAIROBI, KENYA

Transfer overview

Amount paid by KENYA IMPORT LOGISTICS LTD.	**Fee** 1,000.00 KES
Amount 5,000,000.00 KES	
Amount send to NAIROBI AGRI-TECH SERVICES	**Exchange rate** 1 USD = 145.00 KES

KCB Bank Kenya Limited is regulated by the Central Bank of Kenya.
All monetary values are in KES and reflect Kenyan context.

Definition: A payment slip is a document or electronic record showing that a payment has been initiated or made through a bank or another authorised payment service.

In international trade, payment evidence may be generated through a bank transfer, electronic payment platform or other agreed payment method.

Functions of a payment slip

1. Provides evidence of a payment transaction.

2. Shows the amount paid.
3. Identifies the payer and intended recipient.
4. Indicates the date and reference number of the payment.
5. Helps the seller trace incoming payments.
6. Supports accounting and financial record keeping.
7. Helps resolve disputes about payment.
8. Assists in reconciling invoices with amounts received.

Information contained in a payment slip

- Name of the payer.
- Name of the recipient or beneficiary.
- Amount paid.
- Currency used.
- Date of payment.
- Payment reference or transaction number.
- Bank or payment service provider.
- Account or transaction details, where appropriate.
- Purpose of payment.

Example

A Kenyan importer pays a foreign supplier USD 8,000 through a bank transfer. The bank generates a transaction confirmation or payment advice showing the amount, date, beneficiary and transaction reference.

Important: A payment slip is evidence of a payment instruction or transaction, but the buyer should confirm that the funds have actually been received and settled by the beneficiary.

I. Receipt



Definition: A receipt is a written or electronic acknowledgement issued by a person or business confirming that money or other payment has been received.

In international trade, a receipt may be issued by a seller, transporter, warehouse, shipping agent or service provider after receiving payment.

Functions of a receipt

1. Confirms that payment has been received.
2. Provides evidence of a financial transaction.
3. Helps the buyer maintain payment records.
4. Supports accounting and auditing.
5. Helps prevent disputes over whether payment was made.
6. Shows the amount and purpose of payment.

7. Supports reconciliation of business accounts.

Information contained in a receipt

- Name of the business issuing the receipt.
- Receipt number.
- Date of issue.
- Name of the payer.
- Amount received.
- Currency.
- Purpose of payment.
- Method of payment.
- Signature or authorised confirmation, where applicable.

Example

A Kenyan importer pays a freight-handling company for cargo handling charges. The company issues a receipt acknowledging the amount received.

Difference between a payment slip and a receipt

Payment slip	**Receipt**
Usually generated by a bank or payment service	Usually issued by the person or business receiving payment
Shows a payment instruction or transaction	Acknowledges receipt of money
May show that a transfer has been initiated	Confirms that the issuer has received the payment
Helps trace the payment	Helps prove that payment was received

J. Certificate of origin



Definition: A certificate of origin is an official document certifying the country in which goods originate, according to the applicable rules of origin.

It is used in international trade to establish the origin of goods for customs, trade agreement and regulatory purposes.

Functions of a certificate of origin

1. Identifies the country where goods originate.

2. Helps customs authorities determine applicable customs treatment.
3. Supports claims for preferential tariff treatment under relevant trade agreements.
4. Helps enforce rules of origin.
5. Assists in implementing trade restrictions and trade remedies.
6. Supports the identification of goods subject to country-specific measures.
7. Provides evidence of origin to foreign buyers.
8. Helps prevent false claims about the origin of goods.

Information contained in a certificate of origin

- Name and address of the exporter.
- Name and address of the importer.
- Country of origin.
- Description of goods.
- Quantity and weight.
- Invoice reference.
- Transport details, where applicable.
- Declaration by the exporter.
- Name and authentication of the authorised issuing body.

Example

A Kenyan exporter sells tea to a buyer in another country. A certificate of origin may be required to establish that the tea qualifies as originating in Kenya under the applicable rules.

Importance to Kenya

A certificate of origin can help Kenyan exporters benefit from preferential market access where the relevant trade agreement allows qualifying goods to receive reduced or zero customs duties.

For imports into Kenya, KRA has issued guidance on the mandatory certificate-of-origin requirement, together with specified exemptions and supporting evidence. Importers should check the current applicable requirements for their particular consignment.

K. Certificate of conformity (CoC)



Definition: A Certificate of Conformity is a document issued by an authorised conformity assessment body or competent authority confirming that specified goods have been assessed and found to meet the applicable standards, technical regulations or approved specifications.

In Kenya, the Kenya Bureau of Standards (KEBS) operates the Pre-Export Verification of Conformity (PVoC) programme for applicable imported products.

Functions of a certificate of conformity

1. Confirms that goods have met the applicable standards and specifications.
2. Helps protect consumers from unsafe or substandard products.
3. Supports customs clearance for regulated goods.

4. Helps prevent the entry of non-compliant products.
5. Promotes fair competition between imported and locally manufactured goods.
6. Supports environmental and public health protection.
7. Helps importers demonstrate regulatory compliance.
8. Facilitates the movement of compliant goods through customs procedures.

Information contained in a certificate of conformity

- Name of exporter.
- Name of importer.
- Description of the goods.
- Product identification.
- Applicable standards or specifications.
- Country of origin or supply, where relevant.
- Inspection or testing details.
- Certificate number.
- Date of issue.
- Name of the issuing conformity assessment body.
- Authorised authentication.

Example

A Kenyan business imports electrical appliances from another country. Where the products fall under the applicable KEBS PVoC requirements, they may need to be inspected and certified before shipment. The certificate of conformity helps demonstrate that the products meet the required Kenyan standards.

Important: A Certificate of Conformity is not automatically required for every imported product. Its requirement depends on the product, applicable regulations and any exemptions.

L. Other documents that may be required in international trade

Apart from the documents discussed above, the following may be required depending on the goods, destination, transport method, payment arrangement and applicable laws.

1. Import Declaration Form (IDF)

A document or electronic declaration used in the import process to provide required information about goods intended for importation.

2. Customs declaration or entry

A formal declaration submitted to customs authorities showing the details of imported or exported goods for customs processing.

3. Import or export permit

An authorisation issued by a relevant government authority allowing specified goods to be imported or exported.

4. Insurance certificate

A document showing that goods have been insured against specified risks during transportation or other agreed stages.

5. Certificate of inspection

A document confirming that goods have been inspected according to agreed or regulatory requirements.

6. Phytosanitary certificate

A certificate issued by an authorised plant health authority confirming that plants or plant products meet applicable plant health requirements for international movement.

7. Health certificate

A certificate issued by a competent authority confirming that specified food, animal or other regulated products meet applicable health requirements.

8. Letter of credit

A payment undertaking issued by a bank on behalf of a buyer, under which the bank agrees to pay the seller if the seller presents documents that comply with the stated terms and conditions.

9. Freight invoice

A document issued by a carrier or freight service provider showing transportation charges payable for moving goods.

10. Export declaration

A declaration submitted to customs authorities providing information about goods being exported.

Summary table: International trade documents

Document	**Main purpose**
Bill of lading	Evidence of receipt and carriage of sea cargo
Airway bill	Evidence of receipt and carriage of air cargo
Pro forma invoice	Preliminary quotation or offer
Commercial invoice	Records the actual sale and value of goods
Packing list	Shows how goods are packed
Delivery order	Authorises or facilitates cargo release

Purchase order	Formal request by buyer to purchase goods
Payment slip	Evidence of a payment transaction
Receipt	Acknowledges money received
Certificate of origin	Confirms the origin of goods
Certificate of conformity	Confirms compliance with applicable standards
Import permit	Authorises importation of regulated goods
Insurance certificate	Provides evidence of insurance cover
Phytosanitary certificate	Confirms compliance with plant health requirements

Kenyan import documentation note: KRA identifies documents such as commercial invoices, pro forma invoices, bills of lading or airway bills, certificates of origin, certificates of conformity for regulated products, packing lists, permits where applicable and purchase orders or contracts among the documents that may support import clearance. The exact list depends on the goods and transaction.

5. Reasons for trade restrictions in international trade

Meaning of trade restrictions

Trade restrictions are measures imposed by governments to control, limit or regulate the importation or exportation of goods and services between countries.

They may be introduced to protect domestic industries, safeguard consumers, promote national security, protect the environment or address unfair trading practices.

A country may restrict trade through taxes, limits on quantities, licensing requirements, product standards or complete bans on certain goods.

Reasons why governments restrict international trade

1. To protect infant industries

Infant industries are newly established domestic industries that have not yet developed enough capacity, experience or efficiency to compete with well-established foreign businesses.

Governments may temporarily protect such industries from excessive foreign competition.

Explanation:

- New businesses may have high production costs.
- They may lack modern machinery and technology.
- They may have limited access to finance.
- They may not enjoy economies of scale.
- Temporary protection can give them time to grow and become competitive.

Example: A government may provide lawful temporary support to a developing local manufacturing industry so that it can improve production capacity.

2. To protect domestic employment

Governments may restrict certain imports to protect jobs in local industries that are threatened by unfair or sudden increases in foreign competition.

Explanation:

- Excessive imports may reduce demand for locally manufactured goods.
- Local firms may reduce production.
- Some businesses may close.
- Workers may lose their jobs.
- Carefully designed trade measures may help domestic industries adjust.

Example: A country may investigate a sudden increase in imported products that is seriously harming its local manufacturing industry.

3. To protect domestic industries from unfair competition

Some foreign businesses may engage in unfair trading practices, such as dumping or benefiting from certain trade-distorting subsidies.

Governments may introduce trade remedies in accordance with applicable laws and international trade rules.

Explanation:

- Dumped products may be sold at unfairly low prices.
- Local producers may struggle to compete.
- Domestic businesses may lose market share.
- Anti-dumping or countervailing measures may be applied after the required investigation.

4. To protect consumers from harmful or substandard goods

Governments restrict the importation of products that may endanger consumers or fail to meet required quality and safety standards.

Examples:

- Unsafe electrical appliances.
- Contaminated food products.
- Expired medicines.
- Counterfeit products.
- Products containing prohibited substances.
- Goods that fail required technical standards.

Kenyan example: KEBS applies product conformity requirements to applicable imported goods to help ensure that they meet relevant Kenyan standards.

5. To protect public health

Some goods may introduce diseases, dangerous substances or health risks into a country.

Governments may restrict or prohibit their importation to protect the population.

Examples:

- Contaminated food.
- Unsafe medicines.
- Diseased animals.
- Plant products carrying dangerous pests.
- Prohibited hazardous substances.

Explanation:

- Prevents the spread of diseases.
- Protects consumers.
- Reduces pressure on healthcare systems.
- Promotes food and product safety.

6. To protect national security

Governments may restrict the movement of goods that could threaten national security or public safety.

Examples:

- Certain weapons and ammunition.
- Restricted military equipment.
- Controlled security-related technology.
- Goods prohibited under national security laws.

Such goods may require special permits or may be completely prohibited.

7. To conserve natural resources

Governments may restrict the exportation or importation of certain natural resources to prevent overexploitation and promote sustainable use.

Explanation:

- Protects endangered species.
- Prevents illegal wildlife trade.
- Helps conserve forests and fisheries.
- Protects minerals and other strategic resources.
- Promotes environmental sustainability.

Kenyan example: International trade in protected wildlife species and products is subject to relevant national laws and international conservation requirements.

8. To protect domestic agriculture and food security

Governments may introduce trade measures to protect farmers and maintain reliable food supplies.

Explanation:

- Protects local farmers from sudden import competition.
- Encourages domestic agricultural production.
- Helps maintain strategic food supplies.
- Supports rural employment.
- Reduces excessive dependence on imported food.

Example: A government may introduce lawful measures to manage imports of selected agricultural products during a period of market disruption.

9. To correct balance of trade or balance of payments difficulties

A country experiencing persistent external payment difficulties may consider trade measures as part of a broader economic policy response, subject to applicable international obligations.

Explanation:

- High import expenditure may increase demand for foreign currency.
- Limited foreign exchange may make it difficult to pay for essential imports.
- Trade and macroeconomic measures may be used to address external imbalances.

Important: Restricting imports does not automatically solve a country's balance of payments problems. The effects depend on the structure of the economy and the measures used.

10. To raise government revenue

Governments may impose customs duties and other lawful charges on imported or exported goods.

Explanation:

- Customs duties can generate public revenue.
- Revenue may support government programmes.
- Import taxes may also influence the prices and quantities of imported products.

Example: Customs duties collected on taxable imports contribute to government revenue under the applicable customs laws.

11. To prevent the importation of illegal goods

Governments restrict trade in products that are prohibited under national laws or international agreements.

Examples:

- Illicit drugs.
- Counterfeit goods.

- Illegal wildlife products.
- Certain prohibited chemicals.
- Goods that violate intellectual property laws.

Importance:

- Promotes law and order.
- Protects consumers.
- Protects legitimate businesses.
- Supports national and international security.

12. To promote industrialisation

Trade restrictions may be used as part of an industrial policy intended to encourage local production and value addition.

Explanation:

- Encourages domestic manufacturing.
- Promotes the processing of local raw materials.
- Supports local enterprises.
- Creates opportunities for technological development.
- Reduces excessive dependence on imported finished products.

13. To respond to trade restrictions imposed by other countries

A country may introduce lawful countermeasures when another country imposes unfair or discriminatory trade restrictions against its products.

Such responses must comply with applicable international trade rules and dispute settlement arrangements.

14. To protect cultural and social interests

Some governments may restrict particular goods to protect cultural heritage, public morals or other recognised public interests.

Examples:

- Restrictions on illegal trade in cultural artefacts.
- Controls on prohibited publications or materials.
- Restrictions on products that violate public safety or moral laws.

15. To prevent the spread of pests and diseases

Agricultural imports may carry pests, plant diseases and animal diseases that threaten domestic farming.

Governments may require inspection, treatment, quarantine or certification before such goods are allowed into the country.

Example: Plant products imported into Kenya may be subject to plant health requirements administered by the relevant authorities, including KEPHIS.

6. Methods of trade restrictions in international trade

Governments use different methods to restrict or regulate international trade. These methods are broadly classified into tariff and non-tariff measures.

A. Tariff barriers

Definition: A tariff is a tax or customs duty imposed on goods when they are imported or exported.

Tariffs increase the cost of traded goods and may reduce the quantity imported or exported, depending on the rate and market conditions.



Types of tariffs

1. Import tariff

An import tariff is a tax imposed on goods entering a country.

Example: A government imposes customs duty on imported footwear to protect local manufacturers and collect revenue.

2. Export tariff

An export tariff is a tax imposed on certain goods when they are exported to another country.

It may be used to raise revenue or discourage the exportation of particular resources.

3. Specific tariff

A specific tariff is charged as a fixed amount per unit of imported or exported goods.

Example: A duty of KSh 100 per imported unit of a specified product.

4. Ad valorem tariff

An ad valorem tariff is calculated as a percentage of the customs value of the goods.

Example: If the applicable tariff is 10% of goods valued at KSh 100,000, the tariff would be KSh 10,000, assuming the full value is the correct customs duty base.

5. Compound tariff

A compound tariff combines a specific amount per unit with a percentage of the value of the goods.

Effects of tariffs

- Increase the price of imported goods.
- May reduce the quantity of imports.
- May protect domestic producers from foreign competition.
- Generate government revenue.
- May encourage local production.
- May increase the cost of imported raw materials and machinery.
- May lead to higher prices for consumers.
- May encourage trading partners to take retaliatory measures.

B. Non-tariff barriers

Definition: Non-tariff barriers are trade-restricting measures other than customs duties that affect the movement of goods and services across international borders.

Some non-tariff measures are legitimate and necessary, especially those intended to protect health, safety and the environment. Others may be used unnecessarily or discriminatorily to restrict trade.

1. Import quotas

An **import quota** is a government-imposed limit on the quantity or value of a particular product that may be imported into a country within a specified period.

Example: A government allows only a specified quantity of a particular agricultural product to be imported during a year, where such a restriction is legally permitted.

Effects:

- Limits the quantity of imported goods.
- May protect domestic producers.
- May increase the price of restricted products.
- May reduce consumer choice.
- May create opportunities for illegal trading if poorly administered.

2. Import licensing

Import licensing is a system in which an importer must obtain government authorisation before importing specified goods.

Explanation:

- The importer submits an application.
- The relevant authority examines the application.
- A licence or permit may be issued if the requirements are met.
- The licence may specify the goods, quantities or period covered.

Example: Certain restricted goods entering Kenya require permits or approvals from the relevant authorities.

3. Import prohibition or embargo

An **import prohibition** is a complete ban on the importation of specified goods.

An **embargo** is a prohibition or restriction on trade with a particular country or on specified products, often for political, security or legal reasons.

Examples:

- Prohibiting the importation of certain illegal products.
- Restricting trade in specified goods under international sanctions.
- Banning products that present serious health or security risks.

Effects:

- Prevents the entry of prohibited goods.
- Protects national security or public health.
- May reduce the supply of affected products.
- May affect businesses that depend on the restricted goods.

4. Quality and technical standards

Governments may require imported goods to meet prescribed quality, safety, technical and environmental standards before being allowed into the domestic market.

Examples:

- Electrical appliances must meet applicable safety standards.
- Food products must meet relevant health and safety requirements.
- Imported vehicles must meet applicable regulatory requirements.
- Products may need appropriate labelling and packaging.

Kenyan example: KEBS uses the PVoC programme to assess applicable imported products against relevant Kenyan standards and specifications.

5. Sanitary and phytosanitary measures

These are measures used to protect human, animal and plant health from risks associated with imported products.

Examples:

- Requiring health certificates for certain animal products.
- Requiring phytosanitary certificates for plants and plant products.
- Inspecting imported agricultural products.
- Requiring treatment or quarantine where necessary.

Importance:

- Prevents the spread of pests and diseases.
- Protects agricultural production.
- Safeguards food safety.
- Protects livestock and plant health.

6. Foreign exchange controls

Foreign exchange controls are government measures regulating access to or use of foreign currencies.

Explanation:

- A government may regulate foreign currency transactions.
- Importers may face controls on certain foreign exchange transactions.
- Such controls may affect the ability to pay foreign suppliers.
- They may be used as part of broader economic or financial policies.

7. Subsidies to domestic producers

A subsidy is financial or other economic support provided by the government to domestic producers.

Subsidies may reduce production costs and make local goods more competitive against imports.

Examples:

- Financial support to farmers.
- Support for agricultural inputs.
- Assistance to selected manufacturing industries.
- Research and technology development support.

Effects:

- Reduces production costs for supported businesses.
- May encourage domestic production.
- May protect employment.
- Can place foreign producers at a competitive disadvantage.
- May lead to trade disputes if subsidies violate international trade rules.

8. Anti-dumping duties

An anti-dumping duty is an additional customs duty imposed on imported products after an investigation establishes dumping and injury to a domestic industry in accordance with applicable rules.

Dumping occurs when a product is exported at a price lower than its normal value under the relevant trade rules.

Example: If imported products are found to be dumped and to cause material injury to a Kenyan industry, the government may take lawful anti-dumping action following the required investigation.

9. Countervailing duties

A countervailing duty is an additional import duty imposed to offset certain harmful subsidies provided by a foreign government to its exporters or producers, after the required investigation.

Purpose:

- Counteracts the effects of certain trade-distorting subsidies.
- Helps restore fair competition.
- Protects domestic producers from injury caused by subsidised imports.

10. Safeguard measures

Safeguard measures are temporary trade measures used when a sudden increase in imports causes or threatens to cause serious injury to a domestic industry, subject to applicable legal requirements.

Examples:

- A temporary increase in import duties.
- Temporary quantitative restrictions where legally permitted.

Purpose:

- Gives domestic industries time to adjust.
- Helps prevent serious injury.
- Allows businesses to improve efficiency and competitiveness.

11. Administrative and customs procedures

Governments may require importers and exporters to complete specified customs procedures and provide supporting documents.

Examples:

- Customs declarations.
- Import permits.
- Certificates of origin.
- Product conformity documents.
- Inspection records.
- Customs valuation information.

Explanation: These requirements help ensure lawful trade, accurate tax assessment and compliance with safety standards. However, unnecessary delays, excessive paperwork or discriminatory administration can become barriers to trade.

12. Local content requirements

Local content requirements are rules that require businesses to use a specified proportion of locally produced goods, services, labour or inputs in certain activities.

Example: A government may establish lawful procurement or investment policies that encourage the use of locally produced materials.

Possible effects:

- Creates demand for local products.
- Supports domestic industries.
- Promotes employment.
- May increase production costs if local inputs are unavailable or unsuitable.

Summary of methods of trade restrictions

Method	Explanation
Tariffs	Taxes imposed on imported or exported goods
Quotas	Limits on quantities or values of goods traded
Import licensing	Requiring permission before specified imports
Embargoes	Bans or restrictions on trade with a country or in specified goods
Quality standards	Requiring goods to meet prescribed standards
Sanitary measures	Protecting human and animal health
Phytosanitary measures	Protecting plant health
Foreign exchange controls	Regulating access to foreign currency
Subsidies	Supporting domestic producers financially or economically
Anti-dumping duties	Measures against proven dumping that injures domestic industry
Countervailing duties	Measures against certain harmful foreign subsidies
Safeguards	Temporary measures against serious injury from increased imports
Administrative controls	Customs and regulatory procedures governing trade
Local content requirements	Encouraging or requiring use of specified local inputs

International trade rule: Trade restrictions are not automatically lawful simply because a government introduces them. Countries that belong to the World Trade Organization (WTO) are subject to agreed rules on tariffs, quotas, subsidies, technical standards, non-discrimination and trade remedies.

7. Ethical practices in international trade

Meaning of ethical practices

Ethical practices in international trade refer to business behaviours and decisions that are guided by honesty, fairness, integrity, respect for human rights, responsibility and compliance with applicable laws when conducting business across national borders.

Ethical international trade promotes trust, fair competition, consumer protection, decent working conditions and environmental sustainability.

Examples of ethical practices in international trade

1. Honesty in business transactions

Businesses should provide truthful information about the goods and services they sell.

Explanation:

- Sellers should accurately describe their products.
- They should not misrepresent product quality.
- They should disclose important product information.
- They should provide genuine invoices and trade documents.
- They should avoid making false claims about the country of origin.

Example: A Kenyan coffee exporter should correctly state the grade, quantity and origin of coffee supplied to a foreign buyer.

2. Fair pricing

Fair pricing involves charging reasonable and transparent prices that reflect the agreed terms of trade.

Explanation:

- Businesses should avoid deceptive pricing.
- Buyers should be informed about additional charges.
- Sellers should honour agreed prices.
- Businesses should avoid exploiting vulnerable suppliers or consumers.
- Prices should comply with relevant competition and trade laws.

Example: A foreign buyer purchasing flowers from a Kenyan exporter should honour the agreed contract price and payment conditions.

3. Respect for workers' rights

Ethical international trade requires businesses to respect workers' rights and provide decent working conditions.

Explanation:

- Workers should receive lawful wages.
- Employers should provide safe working environments.
- Child labour should not be used in prohibited circumstances.

- Forced labour should be avoided.
- Workers should be treated with dignity.
- Workers should be protected from discrimination and exploitation.

Example: An export-oriented flower farm should provide safe working conditions, appropriate protective equipment and lawful employment arrangements.

4. Environmental conservation

Businesses should conduct international trade in ways that minimise environmental damage.

Explanation:

- Avoid illegal disposal of industrial waste.
- Use natural resources responsibly.
- Reduce unnecessary pollution.
- Promote sustainable agricultural practices.
- Minimise excessive packaging.
- Encourage recycling and responsible waste management.
- Comply with environmental laws in relevant countries.

Example: A Kenyan horticultural exporter should manage water, chemicals and packaging waste responsibly to protect workers, consumers and the environment.

5. Respect for international laws and regulations

Businesses should comply with relevant national laws, international agreements and regulatory requirements.

Explanation:

- Obtain required import and export permits.
- Pay applicable customs duties and taxes.
- Meet product safety requirements.
- Follow rules of origin.
- Comply with international sanctions where applicable.
- Observe intellectual property laws.
- Avoid trading in prohibited products.

Example: A Kenyan exporter of agricultural products should comply with applicable export documentation and plant health requirements.

6. Fair competition

Fair competition involves conducting business without using dishonest or unlawful methods to defeat competitors.

Explanation:

- Avoid collusion and price-fixing.

- Avoid fraudulent business practices.
- Do not misuse confidential business information.
- Avoid false claims about competitors.
- Compete through quality, innovation and efficiency.

Example: Two Kenyan exporters competing for a foreign contract should compete through product quality, reliable delivery and fair pricing rather than secretly agreeing to manipulate prices.

7. Respect for intellectual property rights

Intellectual property rights protect creations, inventions, brands, designs and other legally recognised forms of intellectual property.

Ethical businesses should respect the rights of owners of:

- Trademarks.
- Patents.
- Copyrights.
- Industrial designs.
- Protected geographical indications.

Example: An importer should not sell counterfeit products bearing another company's registered brand without authorisation.

8. Transparency in business dealings

Transparency involves openly providing relevant and accurate information to business partners and other stakeholders.

Explanation:

- Disclose relevant contract terms.
- Provide accurate product specifications.
- State the correct value of goods.
- Avoid hidden charges.
- Maintain proper records.
- Explain payment and delivery conditions.

9. Timely payment of suppliers

Ethical businesses should honour agreed payment obligations.

Explanation:

- Pay suppliers according to contract terms.
- Avoid deliberately delaying payments.
- Communicate honestly about payment difficulties.
- Maintain proper financial records.

- Respect agreed payment methods.

Example: A foreign supermarket purchasing Kenyan agricultural products should pay the Kenyan supplier according to the agreed payment schedule.

10. Protection of consumer health and safety

Exporters and importers should ensure that goods are safe and suitable for their intended use.

Explanation:

- Avoid selling expired goods.
- Avoid supplying contaminated food.
- Provide accurate product labels.
- Meet relevant product standards.
- Provide necessary safety instructions.
- Recall dangerous products where required by law.

11. Responsible sourcing

Responsible sourcing involves obtaining raw materials and products from suppliers who follow acceptable legal, labour, environmental and ethical standards.

Example: A Kenyan clothing exporter may obtain cotton from suppliers who respect workers' rights and environmental requirements.

12. Proper payment of taxes and customs duties

Businesses should declare goods honestly and pay applicable taxes, duties and charges.

Explanation:

- Avoid customs fraud.
- Do not deliberately understate the value of goods.
- Declare the correct quantity and nature of products.
- Avoid smuggling.
- Maintain genuine trade documents.

13. Respect for cultural differences

International businesses should respect the cultural practices, languages and business customs of their trading partners.

Explanation:

- Use respectful communication.
- Avoid discriminatory behaviour.
- Understand different business customs.
- Respect local laws and traditions.
- Avoid cultural exploitation.

14. Avoidance of corruption

Ethical businesses should not offer or accept bribes to obtain unfair business advantages.

Explanation:

- Avoid bribing customs officials.
- Avoid paying illegal commissions.
- Reject fraudulent licensing arrangements.
- Report corrupt practices through appropriate channels.
- Maintain transparent procurement procedures.

15. Fair treatment of small-scale producers

Businesses should treat small-scale farmers, artisans and suppliers fairly.

Explanation:

- Provide clear purchasing terms.
- Avoid exploitation through unfair contracts.
- Pay agreed prices.
- Respect delivery agreements.
- Support reasonable and transparent quality requirements.

Example: A tea buyer should not manipulate grading information to unfairly reduce payments to farmers.

8. Unethical practices in international trade

Meaning of unethical practices

Unethical practices in international trade are dishonest, unfair, exploitative or irresponsible activities undertaken by individuals, businesses or organisations when buying and selling goods and services across national borders.

Such practices may violate laws, undermine fair competition, exploit workers, harm consumers and damage the economies of trading countries.

Examples of unethical practices in international trade

1. Dumping

Dumping occurs when a business exports a product at a price lower than its normal value under the applicable trade rules.

It may involve selling goods abroad at extremely low prices to gain market share or dispose of surplus products.

Why it may be harmful:

- Local producers may fail to compete.
- Domestic industries may lose market share.
- Businesses may close.

- Workers may lose their jobs.
- The importing country may become dependent on foreign suppliers.

Example: A foreign company sells imported manufactured goods at unusually low prices in Kenya, causing serious injury to local producers.

Important: Dumping is a specific trade-law concept. A low export price alone does not automatically establish unlawful dumping; the applicable legal tests and evidence must be considered.

2. Smuggling

Smuggling is the illegal movement of goods across national borders to avoid customs controls, taxes or restrictions.

Examples:

- Bringing goods into a country without making required declarations.
- Transporting prohibited goods across borders.
- Concealing imported products to avoid customs duties.
- Exporting restricted products without the required authorisation.

Effects:

- Reduces government revenue.
- Encourages illegal business activities.
- Undermines legitimate businesses.
- May introduce dangerous products into the market.
- Weakens border security.

3. Trade in counterfeit goods

Counterfeiting involves producing, importing or selling fake goods that imitate genuine products or unlawfully use protected trademarks.

Examples:

- Fake mobile phones.
- Counterfeit medicines.
- Fake branded clothing.
- Imitation electrical products.
- Counterfeit vehicle spare parts.

Effects:

- Deceives consumers.
- Damages legitimate brands.
- Reduces sales for genuine manufacturers.
- May endanger consumers.

- Discourages innovation and investment.

4. Bribery and corruption

Bribery involves offering, giving, requesting or receiving an improper benefit to influence a business or official decision.

Examples:

- Bribing customs officials to release goods illegally.
- Paying officials to obtain import permits fraudulently.
- Offering illegal payments to win government supply contracts.
- Paying bribes to avoid product inspections.

Effects:

- Increases business costs.
- Undermines fair competition.
- Encourages illegal trade.
- Reduces government revenue.
- Weakens public confidence in institutions.

5. False declaration of goods

This involves providing incorrect information about goods during importation or exportation.

Examples:

- Understating the value of imported goods.
- Declaring expensive products as cheaper products.
- Falsifying the quantity of goods.
- Misrepresenting the country of origin.
- Declaring prohibited goods under false descriptions.

Effects:

- Leads to incorrect customs assessments.
- Causes loss of government revenue.
- May result in penalties.
- Encourages fraudulent trade.
- Distorts international trade statistics.

6. Exploitation of workers

This occurs when businesses take advantage of workers through unfair employment practices.

Examples:

- Paying unlawful wages.

- Using forced labour.
- Employing children in prohibited forms of work.
- Providing unsafe working conditions.
- Withholding workers' lawful entitlements.
- Discriminating against employees.

Effects:

- Causes poverty.
- Violates human rights.
- Reduces worker morale.
- Damages the reputation of businesses.
- Creates unfair competition between producers.

7. Environmental pollution

This occurs when businesses release harmful substances into the environment during the production or transportation of goods.

Examples:

- Discharging untreated industrial wastewater into rivers.
- Releasing excessive harmful emissions.
- Dumping hazardous waste.
- Using prohibited agricultural chemicals.
- Destroying forests to obtain export commodities.

Effects:

- Causes environmental degradation.
- Affects human health.
- Reduces agricultural productivity.
- Harms wildlife.
- Increases environmental restoration costs.

8. Tax evasion and customs fraud

Tax evasion involves deliberately avoiding the payment of taxes and duties that are legally due.

Examples:

- Concealing imports.
- Falsifying invoices.
- Under-declaring the value of goods.

- Using false customs documents.
- Misrepresenting the origin of products to obtain unlawful tax benefits.

Effects:

- Reduces government revenue.
- Increases the tax burden on compliant businesses.
- Encourages unfair competition.
- Weakens public services.

9. Unfair pricing and price manipulation

This involves manipulating prices through dishonest, collusive or exploitative practices.

Examples:

- Secret agreements among competing businesses to fix prices.
- Manipulating supply to create artificial shortages.
- Charging hidden fees.
- Misleading buyers about the actual cost of products.

Effects:

- Harms consumers.
- Reduces fair competition.
- Increases business uncertainty.
- Undermines market confidence.

10. Misrepresentation of product quality

This occurs when sellers provide false or misleading information about the nature, quality, quantity or safety of goods.

Examples:

- Selling low-grade products as high-grade products.
- Mislabeling the ingredients of food products.
- Supplying expired products.
- Providing false product certificates.
- Misrepresenting the weight or quantity of goods.

Effects:

- Deceives buyers.
- Causes financial losses.
- May endanger public health.
- Damages business relationships.

11. Intellectual property theft

This involves using protected inventions, brands, designs or creative works without the necessary permission.

Examples:

- Copying patented technology unlawfully.
- Producing counterfeit branded products.
- Reproducing protected designs without authorisation.
- Selling pirated software.

Effects:

- Discourages innovation.
- Reduces earnings of genuine creators.
- Damages brand reputation.
- Discourages foreign investment.

12. Unfair contract practices

These occur when businesses impose misleading, exploitative or excessively one-sided contract conditions on trading partners.

Examples:

- Hiding important payment conditions.
- Changing agreed prices without justification.
- Imposing unreasonable penalties.
- Deliberately failing to disclose delivery risks.
- Refusing to honour valid contractual obligations.

13. Late or deliberate non-payment

This involves deliberately failing to pay suppliers for goods or services received according to agreed contractual conditions.

Effects:

- Causes cash-flow problems for suppliers.
- May force small businesses to borrow.
- Discourages international partnerships.
- Can lead to legal disputes.
- May result in business closure.

14. Misuse of certificates and trade documents

This involves preparing, altering or using false documents to obtain unlawful benefits.

Examples:

- Using fake certificates of origin.
- Presenting forged certificates of conformity.
- Altering commercial invoices.
- Using false payment confirmations.
- Misusing another company's shipping documents.

Effects:

- Delays customs clearance.
- May lead to confiscation of goods.
- Causes financial losses.
- Damages trust in trade documentation.
- May result in prosecution.

15. Unfair exploitation of developing countries

Some businesses may take advantage of weak bargaining power, limited technology, inadequate regulatory capacity or dependence on foreign markets.

Examples:

- Buying raw materials from small producers at exploitatively low prices.
- Imposing unfair contract conditions.
- Transferring environmental costs to developing countries.
- Taking advantage of weak labour protections.
- Using market power to control suppliers.

9. Impact of ethical and unethical practices in international trade on developing countries

Meaning of developing countries

Developing countries are countries that are working towards improving their economic productivity, infrastructure, industrial capacity and people's living standards.

They may face challenges such as poverty, unemployment, limited access to technology, inadequate infrastructure and dependence on primary commodity exports.

Kenya is a developing economy that participates in regional and global trade.

A. Positive impacts of ethical international trade practices on developing countries

1. Promotes economic growth

Ethical trade encourages fair business relationships, investment and market access.

Explanation:

- Businesses obtain reliable markets.
- Exporters increase sales.

- Production expands.
- Investment opportunities increase.
- National economic activity improves.

2. Creates employment opportunities

Ethical international trade supports business expansion and the growth of industries.

Explanation:

- Exporting businesses employ more workers.
- Agricultural production expands.
- Manufacturing industries grow.
- Transport and logistics services expand.
- Supporting businesses create additional jobs.

Example: Increased demand for Kenyan flowers may create employment in flower farms, packing facilities, transport companies and export services.

3. Promotes fair income for producers

Ethical trade encourages transparent contracts and fairer relationships between buyers and suppliers.

Explanation:

- Farmers may receive more reliable payments.
- Small businesses may improve their bargaining position.
- Producers may obtain more predictable markets.
- Household incomes may improve.

4. Promotes human rights and workers' welfare

Ethical businesses respect labour rights and provide safer working conditions.

Benefits include:

- Better working conditions.
- Reduced exploitation.
- Improved worker safety.
- Respect for human dignity.
- Greater job satisfaction.
- Better household welfare.

5. Encourages foreign investment

Countries that promote transparent, fair and responsible business practices may become more attractive to investors.

Explanation:

- Investors have greater confidence in business relationships.
- Legal and regulatory compliance reduces uncertainty.
- Responsible business practices improve corporate reputation.
- Long-term investment opportunities may increase.

6. Promotes technology transfer

Ethical international business relationships can encourage the exchange of technology, skills and knowledge.

Examples:

- Modern agricultural equipment.
- Improved food-processing methods.
- Digital business systems.
- Modern manufacturing machinery.
- Training in international quality standards.

7. Improves product quality

Ethical producers follow relevant quality and safety standards.

Benefits include:

- Greater consumer confidence.
- Better access to foreign markets.
- Reduced rejection of export products.
- Improved business reputation.
- Increased competitiveness.

8. Promotes environmental sustainability

Ethical businesses use resources responsibly and reduce pollution.

Benefits include:

- Conservation of natural resources.
- Protection of water sources.
- Reduced environmental degradation.
- Improved agricultural sustainability.
- Protection of biodiversity.
- Better health for communities.

9. Expands access to international markets

Ethical practices improve the reputation of businesses and countries.

Explanation:

- Foreign buyers develop trust.
- Exporters can establish long-term contracts.
- Businesses may access new markets.
- Product acceptance improves.
- International partnerships become stronger.

10. Increases government revenue

Ethical businesses comply with tax and customs requirements.

Benefits include:

- Increased lawful tax collection.
- Reduced customs fraud.
- More resources for public services.
- Improved infrastructure funding.
- Stronger public institutions.

11. Promotes fair competition

Ethical practices encourage businesses to compete through quality, efficiency, innovation and service delivery.

This creates a healthier business environment and encourages productivity.

12. Promotes international cooperation

Ethical trade strengthens trust between countries and their business communities.

It may encourage:

- Regional economic integration.
- International investment.
- Technical cooperation.
- Research partnerships.
- Peaceful economic relationships.

B. Negative impacts of unethical international trade practices on developing countries

1. Loss of government revenue

Unethical practices such as smuggling, tax evasion and customs fraud reduce the amount of revenue collected by governments.

Effects:

- Reduces funds available for development.
- Weakens public service delivery.
- Increases pressure on compliant taxpayers.

- Limits investment in infrastructure.
- Undermines national development programmes.

2. Destruction of local industries

Unfair trade practices such as harmful dumping can damage domestic industries.

Effects:

- Local businesses lose customers.
- Domestic manufacturers reduce production.
- Factories may close.
- Investment declines.
- Industrial development slows down.

3. Increased unemployment

When local businesses close or reduce production, workers may lose their jobs.

Effects:

- Household incomes decline.
- Poverty may increase.
- Dependence on family support may rise.
- Government expenditure on social support may increase.
- Social instability may worsen.

4. Exploitation of workers

Unethical international businesses may exploit workers through poor wages, unsafe working conditions and forced labour.

Effects:

- Workers experience poverty.
- Human dignity is undermined.
- Occupational injuries may increase.
- Worker morale declines.
- Inequality may increase.

5. Environmental degradation

Unethical businesses may ignore environmental regulations when producing goods for export or operating in foreign markets.

Effects:

- Water pollution.
- Air pollution.
- Soil degradation.

- Deforestation.
- Loss of biodiversity.
- Increased climate-related risks.
- Higher environmental restoration costs.

6. Increased poverty

Unfair trading practices can reduce the incomes of farmers, workers and small businesses.

Effects:

- Households struggle to meet basic needs.
- Children may have limited access to education.
- Access to healthcare may decline.
- Living standards may deteriorate.
- Economic inequality may increase.

7. Dependence on foreign products

Unfair competition and the destruction of local industries may increase a country's dependence on imported finished products.

Effects:

- Domestic productive capacity may weaken.
- Foreign exchange demand may increase.
- Local industries may become less competitive.
- The country may become vulnerable to international supply disruptions.

8. Loss of foreign exchange

Unethical trade practices may discourage exports and investment, while increasing dependence on imports.

Effects:

- Export earnings may decline.
- Pressure on foreign currency reserves may increase.
- The country may experience difficulties meeting international payment obligations.
- Exchange rate pressures may worsen.

9. Health risks to consumers

Counterfeit, contaminated, expired and substandard goods can harm consumers.

Examples:

- Counterfeit medicines.
- Unsafe electrical appliances.
- Contaminated food.

- Poor-quality vehicle spare parts.
- Products containing harmful substances.

Effects:

- Increased illnesses and injuries.
- Higher healthcare costs.
- Loss of consumer confidence.
- Possible loss of life.

10. Loss of government confidence and international reputation

Countries associated with widespread fraud, smuggling, corruption or counterfeit goods may face reputational challenges.

Effects:

- Foreign buyers may avoid their products.
- Investors may become reluctant to invest.
- Exporters may face stricter inspections.
- Trade relationships may deteriorate.
- Access to certain markets may become more difficult.

11. Increased business costs

Unethical practices may create additional expenses for legitimate businesses.

Examples:

- Bribes demanded at border points.
- Costs of replacing counterfeit goods.
- Legal disputes.
- Additional inspections.
- Delayed deliveries.
- Increased security expenses.

12. Reduced technological development

Businesses that rely on counterfeiting, intellectual property theft and unfair competition may discourage innovation.

Effects:

- Genuine inventors lose income.
- Research and development investment declines.
- Technology transfer may be discouraged.
- Local industries may remain less productive.

13. Increased income inequality

Unethical trade may concentrate profits in the hands of powerful businesses while small producers and workers receive very little.

Effects:

- Wealth becomes concentrated.
- Poor households become more vulnerable.
- Small-scale producers lose bargaining power.
- Social and economic inequality increases.

14. Weakening of local agriculture

Unfair pricing, exploitative contracts and illegal agricultural trade can harm farmers.

Effects:

- Farmers may receive low prices.
- Agricultural investment may decline.
- Production may reduce.
- Rural poverty may increase.
- Food security may be threatened.

15. Increased international trade disputes

Unethical business conduct may create disagreements between businesses and governments.

Effects:

- Legal costs increase.
- Goods may be delayed or rejected.
- Trade relationships deteriorate.
- Businesses lose contracts.
- International cooperation may weaken.

C. Comparison of the impacts of ethical and unethical trade practices

Ethical practices	**Unethical practices**
Promote fair competition	Encourage unfair competition
Protect workers' rights	Exploit workers
Improve product quality	Promote substandard products
Encourage responsible sourcing	Encourage exploitation of suppliers
Protect the environment	Cause environmental degradation
Promote consumer confidence	Reduce consumer confidence
Encourage investment	Discourage investment
Support local industries	May destroy local industries

Promote lawful tax payment	Encourage tax evasion
Improve international relationships	Cause trade disputes
Encourage innovation	Discourage innovation
Promote sustainable development	Undermine sustainable development

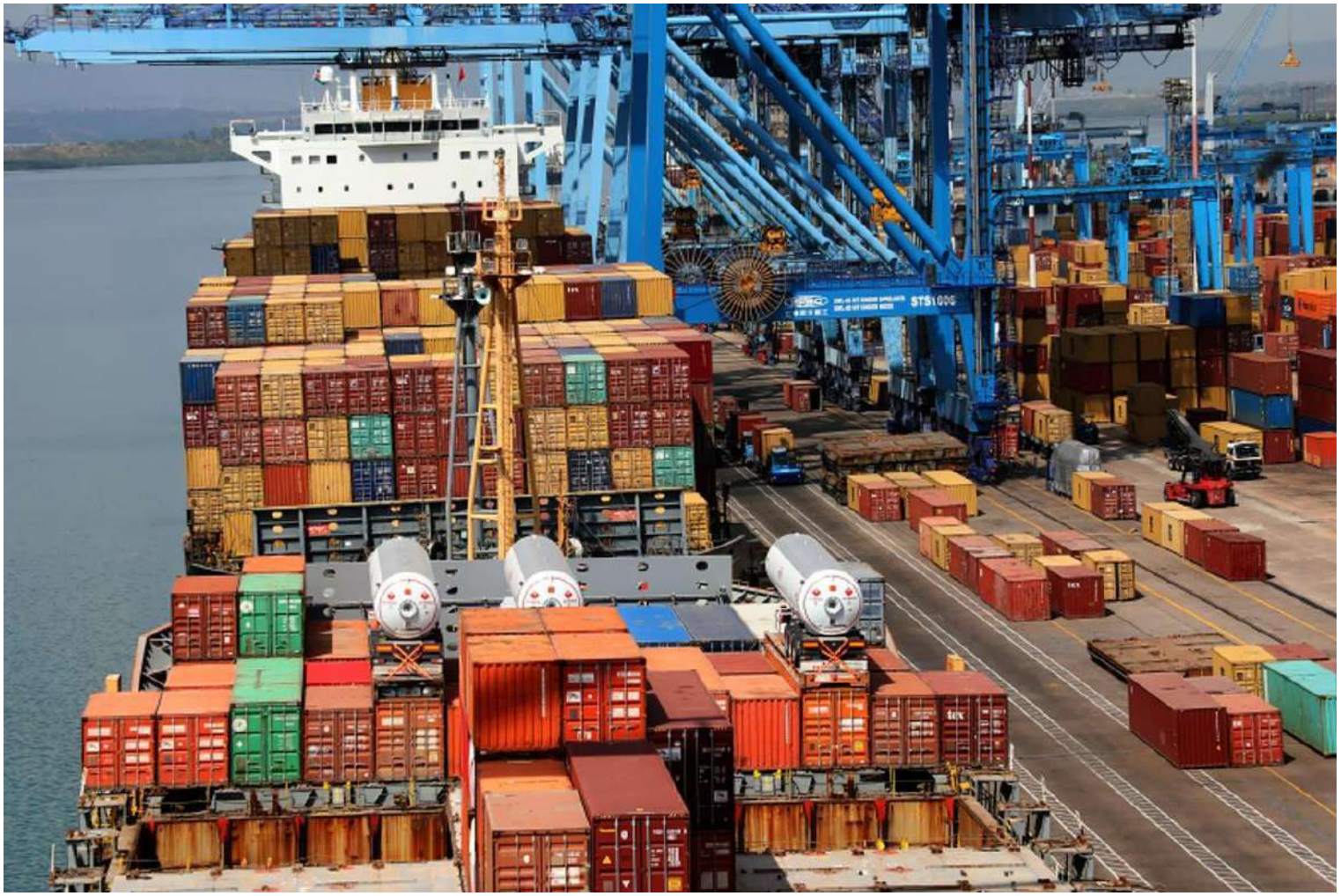
10. Ways of promoting ethical international trade in Kenya

Kenya can promote ethical international trade through the following measures:

1. **Strengthening trade laws:** Enforce laws governing imports, exports, competition, customs and consumer protection.
2. **Improving customs controls:** Strengthen border inspections and use digital systems to detect fraud and smuggling.
3. **Promoting fair labour practices:** Ensure businesses respect workers' rights and occupational safety requirements.
4. **Strengthening product standards:** Ensure that imported and exported goods comply with applicable standards.
5. **Combating corruption:** Investigate and prosecute bribery and other corrupt practices.
6. **Promoting environmental protection:** Enforce environmental regulations and encourage sustainable production.
7. **Educating business owners:** Train importers and exporters on legal, ethical and documentation requirements.
8. **Supporting local producers:** Improve access to finance, technology, training and markets.
9. **Promoting transparency:** Encourage accurate declarations, genuine invoices and clear contracts.
10. **Protecting intellectual property:** Strengthen efforts against counterfeit and pirated products.
11. **Improving international cooperation:** Work with other countries to combat smuggling, fraud and illegal trade.
12. **Encouraging responsible sourcing:** Promote supply chains that respect workers, communities and the environment.
13. **Promoting fair trade:** Encourage transparent and mutually beneficial relationships between producers and buyers.
14. **Improving dispute resolution:** Provide effective mechanisms for resolving trade and contractual disputes.
15. **Strengthening consumer protection:** Ensure that unsafe and misleading products are controlled.

11. Case study: International trade transaction in Kenya


YELLOW LABEL
Lipton
UN SORBO
de la energía del sol



A Kenyan company based in Kericho produces and packages tea for export to a buyer in the United Kingdom.

The buyer requests a quotation for 500 cartons of tea. The exporter prepares a pro forma invoice showing the proposed price, quantity and delivery terms.

After reviewing the quotation, the buyer issues a purchase order. The exporter accepts the order and prepares the goods for shipment.

The exporter prepares the commercial invoice and packing list. The goods are inspected and the required trade and regulatory documents are obtained. The shipping company receives the cargo and issues a bill of lading.

The relevant customs declarations are completed and the goods are shipped to the buyer. Payment is made according to the agreed payment terms.

Questions based on the case study

1. Identify the type of international trade taking place.
2. Identify the exporter in the transaction.
3. Identify the importer in the transaction.
4. State the purpose of the pro forma invoice.
5. Explain the importance of the purchase order.
6. Identify the document showing the actual value of the goods sold.
7. State the document showing how the tea cartons are packed.
8. Identify the document issued by the shipping company.
9. Explain why a certificate of origin may be required.
10. State four ethical practices that the exporter should observe.

12. Competency-based learning activities

Activity 1: Identification of international trade documents

Instructions:

Work in groups and collect or prepare sample versions of the following documents:

- Pro forma invoice.
- Commercial invoice.
- Purchase order.
- Packing list.
- Bill of lading.
- Airway bill.
- Certificate of origin.
- Certificate of conformity.
- Receipt.
- Payment slip.

Tasks:

1. Identify each document.
2. State the person or organisation that prepares or issues it.
3. Explain its purpose.
4. Identify five important details appearing on it.
5. Present your findings to the class.

Activity 2: Simulated import transaction

Your group is a Kenyan business importing 20 computers from a supplier in another country.

Prepare a simulated international trade transaction showing:

1. The buyer and seller.
2. The pro forma invoice.
3. The purchase order.
4. The commercial invoice.
5. The packing list.
6. The airway bill.
7. The certificate of origin.
8. Any applicable conformity documents.
9. Payment evidence.
10. The receipt.

Discuss the importance of each document.

Activity 3: Investigation of trade restrictions

Research the trade restrictions used by Kenya to regulate imports and exports.

Find out:

- The meaning of tariffs.
- The meaning of import quotas.
- The importance of import permits.
- The role of KEBS in product conformity.
- The importance of certificates of origin.
- The importance of customs inspections.

Present your findings using a poster or short class presentation.

Activity 4: Ethical and unethical trade practices

In groups, discuss the following situations:

1. A company sells counterfeit medicines in another country.
2. A Kenyan exporter pays workers fairly and provides protective equipment.

3. An importer falsely declares the value of goods to avoid customs duties.
4. A foreign buyer pays a Kenyan farmer according to the agreed contract.
5. A factory releases untreated wastewater into a river.

For each situation:

- Identify whether the practice is ethical or unethical.
- Explain your answer.
- State its effects on the people involved.
- Suggest appropriate corrective measures.

Activity 5: Role-play

Organise a role-play involving:

- A Kenyan exporter.
- A foreign importer.
- A customs officer.
- A clearing agent.
- A shipping company representative.
- A bank representative.

Demonstrate how the parties use international trade documents to complete an export transaction.

REVISION QUESTIONS

Sub-strand 4.5

INTERNATIONAL TRADE

SECTION A: MULTIPLE-CHOICE QUESTIONS

Choose the correct answer from the alternatives provided.

1. International trade refers to:

A. Buying and selling goods within one town.

B. Exchange of goods and services between countries.

C. Exchange of goods between departments of one business.

D. Production of goods for household consumption.

2. A country that sells goods to another country is engaging in:

A. Import trade.

B. Retail trade.

C. Export trade.

D. Entrepôt trade.

3. Which of the following is an example of an export from Kenya?

A. Imported machinery.

B. Foreign vehicles.

C. Kenyan tea sold to foreign buyers.

D. Imported electronic equipment.

4. Which document is issued by a shipping company as evidence of receipt of goods for sea transportation?

A. Airway bill.

B. Bill of lading.

C. Purchase order.

D. Payment slip.

5. An airway bill is mainly used in:

A. Road transport.

B. Railway transport.

C. Sea transport.

D. Air transport.

6. Which document provides a preliminary quotation to a prospective buyer?

A. Commercial invoice.

B. Pro forma invoice.

C. Receipt.

D. Packing list.

7. A commercial invoice is mainly used to:

A. Show the actual goods sold and their value.

B. Authorise the release of cargo.

C. Show the method of packing goods only.

D. Confirm that a bank transfer has been received.

8. Which document shows the number, type and weight of packages in a consignment?

A. Purchase order.

B. Packing list.

C. Receipt.

D. Airway bill.

9. Which document is issued by a buyer to request the supply of goods?

A. Purchase order.

B. Certificate of origin.

C. Delivery order.

D. Insurance certificate.

10. Which document identifies the country in which goods originate?

A. Commercial invoice.

B. Certificate of origin.

C. Packing list.

D. Payment slip.

11. A Certificate of Conformity is used to show that specified products:

A. Have been paid for.

B. Have been packed.

C. Meet applicable standards and specifications.

D. Have been transported by sea.

12. A delivery order is mainly used to:

A. Provide an estimated quotation.

B. Authorise or facilitate the release of cargo.

C. Show the country of origin.

D. Confirm the payment of customs duty.

13. Which document acknowledges that money has been received?

A. Purchase order.

B. Receipt.

C. Packing list.

D. Certificate of origin.

14. Which of the following is a reason for restricting international trade?

A. To encourage unlimited smuggling.

B. To protect infant industries.

C. To encourage counterfeit goods.

D. To promote tax evasion.

15. A tariff is:

A. A tax imposed on imported or exported goods.

B. A document showing the packing of goods.

C. A contract for transporting goods.

D. A certificate of product quality.

16. A quota refers to:

A. A tax on imported goods.

B. A limit on the quantity or value of goods traded.

C. A payment receipt.

D. A certificate of origin.

17. A government requiring an importer to obtain permission before importing specified goods is using:

A. Dumping.

B. Import licensing.

C. Entrepôt trade.

D. Price fixing.

18. Which of the following is an example of an ethical international trade practice?

A. Smuggling.

B. Bribery.

C. Fair payment of suppliers.

D. Selling counterfeit goods.

19. Dumping in international trade involves:

A. Exporting goods at a price below their normal value under relevant trade rules.

B. Destroying imported goods.

C. Paying customs duties.

D. Preparing a packing list.

20. Which of the following is an unethical trade practice?

A. Respecting workers' rights.

B. Paying taxes lawfully.

C. Providing accurate product information.

D. Falsifying certificates of origin.

21. One effect of smuggling on a developing country is:

A. Increased government revenue.

B. Reduced government revenue.

C. Improved product quality.

D. Increased transparency.

22. Which of the following may protect consumers from substandard imported products in Kenya?

A. KEBS conformity assessment.

B. Price fixing.

C. Smuggling.

D. False declarations.

23. A country may impose an import quota in order to:

A. Increase the quantity of imports without limits.

B. Limit the quantity of specified imports.

C. Encourage illegal trade.

D. Eliminate customs procedures.

24. Which of the following is an example of an unethical labour practice?

A. Providing protective equipment.

B. Paying lawful wages.

C. Using forced labour.

D. Providing safe working conditions.

25. Which of the following is a positive effect of ethical international trade?

A. Environmental degradation.

B. Improved workers' welfare.

C. Increased corruption.

D. Increased smuggling.

26. A foreign company selling counterfeit medicines in Kenya is engaging in:

A. Ethical sourcing.

B. Fair competition.

C. Unethical international trade.

D. Sustainable production.

27. A payment slip is mainly used to:

A. Show how goods have been packed.

B. Provide evidence of a payment transaction.

C. Confirm the origin of goods.

D. Authorise cargo release.

28. Which of the following is an example of a non-tariff trade restriction?

A. Import duty.

B. Export tax.

C. Import quota.

D. Ad valorem tariff.

29. One benefit of international trade to Kenya is:

A. Reduction of all consumer choices.

B. Access to wider markets for Kenyan products.

C. Elimination of all competition.

D. Increased dependence on illegal trade.

30. Which of the following best promotes ethical international trade?

A. Corruption and bribery.

B. False declarations.

C. Transparency and respect for trade laws.

D. Exploitation of workers.

SECTION B: SHORT-ANSWER QUESTIONS

1. Define the following terms:

a) International trade.

b) Import trade.

c) Export trade.

d) Entrepôt trade.

e) Trade restrictions.

2. State eight benefits of international trade to Kenya.

3. Identify ten parties involved in international trade.

4. Define an international trade document.

5. State eight reasons why documents are important in international trade.

6. Identify ten documents used in international trade.

7. Explain six functions of a bill of lading.

8. State six functions of an airway bill.

9. Explain six functions of a pro forma invoice.

10. State eight details contained in a commercial invoice.

11. Explain six functions of a packing list.

12. State six functions of a delivery order.

13. Explain six functions of a purchase order.

14. State six functions of a certificate of origin.

15. Explain six functions of a Certificate of Conformity.

16. Differentiate between the following documents:

a) Bill of lading and airway bill.

b) Pro forma invoice and commercial invoice.

c) Payment slip and receipt.

d) Purchase order and delivery order.

17. State eight reasons why governments restrict international trade.

18. Explain five reasons for protecting infant industries.

19. Identify eight methods of restricting international trade.

20. Differentiate between tariff barriers and non-tariff barriers.

21. Explain five effects of tariffs on an economy.

22. State six examples of non-tariff trade restrictions.

23. Define ethical practices in international trade.

24. Identify ten ethical practices in international trade.

25. Explain eight unethical practices in international trade.

26. State eight positive effects of ethical international trade on developing countries.

27. Explain ten negative effects of unethical international trade on developing countries.

28. State eight ways of promoting ethical international trade in Kenya.

SECTION C: STRUCTURED QUESTIONS

1.

a) Define international trade. (2 marks)

b) Explain six benefits of international trade to Kenya. (12 marks)

2.

a) What is a bill of lading? (2 marks)

b) Explain six functions of a bill of lading in international trade. (12 marks)

3.

a) Differentiate between a pro forma invoice and a commercial invoice. (4 marks)

b) Explain six functions of a commercial invoice. (12 marks)

4.

a) Identify six documents used in international trade. (6 marks)

b) Explain the importance of each document identified. (12 marks)

5.

a) Define trade restrictions. (2 marks)

b) Explain six reasons why governments restrict international trade. (12 marks)

6.

a) Define a tariff. (2 marks)

b) Explain six methods used by governments to restrict international trade. (12 marks)

7.

a) What are non-tariff barriers? (2 marks)

b) Explain six examples of non-tariff barriers used in international trade. (12 marks)

8.

a) Define ethical practices in international trade. (2 marks)

b) Explain eight ethical practices that businesses should observe when trading internationally. (16 marks)

9.

a) Define unethical practices in international trade. (2 marks)

b) Explain eight examples of unethical practices in international trade. (16 marks)

10.

Discuss eight positive effects of ethical international trade practices on developing countries. (16 marks)

11.

Explain ten negative effects of unethical international trade practices on developing countries. (20 marks)

12.

Discuss eight ways through which Kenya can promote ethical international trade. (16 marks)

SECTION D:

13: Importation of computers

A Kenyan business intends to import 100 computers from a supplier in another country. The supplier sends a document showing the proposed prices and delivery terms. The Kenyan business accepts the offer and places an order.

The computers are packed and transported by air. The airline issues a transport document, while the exporter prepares documents showing the goods and their value.

a) Identify the document that provides the preliminary quotation. (2 marks)

b) Identify the document issued by the buyer to request the computers. (2 marks)

c) Name the document issued by the airline. (2 marks)

d) Identify the document showing the actual value of the computers sold. (2 marks)

e) Explain four reasons why the documents are important in the transaction. (8 marks)

14: Exportation of Kenyan tea

A tea-processing company in Kenya receives an order from a foreign buyer. The company prepares the tea for export and arranges transportation by sea.

a) Identify the type of international trade taking place. (2 marks)

b) State four documents that may be required in the transaction. (4 marks)

c) Explain five functions of the documents identified in (b). (10 marks)

d) State two reasons why a certificate of origin may be required. (4 marks)

15: Trade restrictions

The government of a developing country notices that imported manufactured products are rapidly replacing locally manufactured goods. Several local factories are reducing production and laying off workers.

The government considers introducing measures to protect domestic manufacturers.

a) Identify the economic problem facing the local industries. (2 marks)

b) Explain five reasons why the government may restrict the importation of certain manufactured goods. (10 marks)

c) Identify four methods that may be used to restrict international trade. (4 marks)

d) Explain two possible disadvantages of excessive trade restrictions. (4 marks)

16: Unethical international trade

A foreign company imports counterfeit electrical appliances into Kenya. The company falsely declares the goods at a lower value to avoid paying the correct customs duties. Some appliances are sold to consumers despite being unsafe.

a) Identify three unethical practices in the case study. (3 marks)

b) Explain five negative effects of these practices on Kenya. (10 marks)

c) Suggest three measures that can be used to prevent such practices. (6 marks)

17: Ethical sourcing

A Kenyan agricultural exporter enters into an agreement with small-scale farmers to purchase fresh produce for export. The company provides training, agrees on transparent prices and pays farmers according to the contract.

a) Identify the ethical practices demonstrated in the case study. (4 marks)

b) Explain five benefits of these practices to farmers. (10 marks)

c) State three benefits of ethical sourcing to the exporting company. (6 marks)

18: Environmental protection in international trade

A manufacturing company exports products to foreign markets. During production, the factory releases untreated wastewater into a nearby river and disposes of waste materials irresponsibly.

a) Identify the unethical practice taking place. (2 marks)

b) Explain six effects of this practice on the surrounding community and economy. (12 marks)

c) Suggest three measures that can promote environmental responsibility in international trade. (6 marks)

19: Fair competition

Two companies export similar products to the same international market. One company improves its quality and provides reliable delivery services. The other company bribes foreign officials and falsifies product certificates to win contracts.

a) Identify the ethical practice demonstrated by the first company. (2 marks)

b) Identify two unethical practices demonstrated by the second company. (4 marks)

c) Explain five negative effects of the unethical practices on developing countries. (10 marks)

d) State two ways in which fair competition promotes international trade. (4 marks)

KEY TERMS AND MEANINGS

Term	Meaning

International trade	Exchange of goods and services between countries
Import trade	Purchase of goods and services from other countries
Export trade	Sale of goods and services to other countries
Entrepôt trade	Importing goods for re-export after storage, processing or repackaging
Exporter	A person or business that sells goods to another country
Importer	A person or business that buys goods from another country
Bill of lading	Document acknowledging receipt of goods for sea transportation
Airway bill	Document acknowledging receipt of goods for air transportation
Pro forma invoice	Preliminary invoice showing proposed goods, prices and terms
Commercial invoice	Final sales document showing actual goods and their value
Packing list	Document showing the details of packages in a consignment
Delivery order	Document authorising or facilitating cargo release
Purchase order	Formal request by a buyer to purchase goods
Payment slip	Evidence of a payment transaction
Receipt	Acknowledgement of money received
Certificate of origin	Document identifying the origin of goods
Certificate of conformity	Document confirming compliance with applicable standards
Tariff	Tax imposed on imported or exported goods
Quota	Limit on the quantity or value of goods traded
Embargo	Prohibition or restriction on trade in specified goods or with a country
Dumping	Exporting goods at a price below their normal value under applicable trade rules
Subsidy	Government support provided to producers or businesses
Import licensing	Requirement to obtain permission before importing specified goods
Ethical trade	Trade conducted honestly, fairly and responsibly
Unethical trade	Trade involving dishonest, unfair or exploitative practices
Smuggling	Illegal movement of goods across national borders
Counterfeit goods	Fake goods that imitate genuine products or unlawfully use protected brands
Foreign exchange	Foreign currencies used in international transactions
Fair competition	Competition conducted honestly and in accordance with applicable laws
Responsible	Obtaining goods from suppliers who meet acceptable legal, social and

sourcing	environmental standards

