**CONCEPT NOTE: PROMOTING MSME FORMALIZATION THROUGH THE COOPERATIVE ENTERPRISE MODEL**

Micro Small and Medium Size Enterprises (MSMEs) are the backbone of many developing economies in Sub-Sharan Africa. The informal sector in emerging and developing economies, to which many MSMEs belong, accounts for 25 to 40 percent of GDP and often more than 60 percent of employment (World Bank 2020). The prevalence of is high in Africa and it varies in its intensity country wise.

The informal sector in Kenya occupies a large space in the country’s economy, contributing 33.8% to economic output in 2015 (MSME Survey Report: KNBS, 2016). Consequently, the sector employs about 80 per cent of Kenya’s working population; the informal sector is a dominant player in the labour market, with statistics showing that in 2017, the sector accounted for 83.4 per cent of the new jobs created (KNBS, 2018). Cumulatively, the informal sector catered for over 70 per cent of total working population in Kenya (World Bank, 2016). In addition, the inequalities between those at the base and the tip of the economic pyramid are pronounced in the informal sector. In today’s globalized economy, income and wealth are concentrated at the tip of the economic pyramid and the formal workforce is trying to hold onto the gains it has made over the years. At the same time, once formal work is being informalized, new forms of informal work are being created and informal workers are facing new challenges with women and youth being victims (WIEGO report 2019).

On the global platform, the sector is reflected in different development agendas (SDG 8:8.3 and AU Agenda 2063:1) whose incentive is to develop and promote frameworks that provide decent jobs, improve standards of living, enhance technology adoption and productivity, inclusive economic growth, entrepreneurship and formalization of MSMEs (Africa Union Commission, 2016; United Nations, 2015). Kenya is not left behind in this endeavor as the Kenya Vision 2030 targets creation of jobs, improvement of productivity and promotion of conducive working conditions for Kenyans in the labour and employment sector.

Some countries such as Botswana, Ghana, Malawi, Ethiopia, Tanzania and Rwanda have made significant progress in lowering output and employment from the informal sector, largely due to policies that reduce the regulatory burdens, strengthen the governance system, and improve resource access to the informal sector (World Bank, 2019). According to Kenya’s Micro and Small Enterprises Act 2012, micro enterprises are defined as a firm, trade, service, industry or a business activity whose annual turnover does not exceed Kshs. 500,000 and whose total employees are less than 10 people. The same statute defined a small enterprise as that has an annual turnover of between Kshs0.5 - 5 million, with the number of employees in the range from 10-50 people. In essence, the law classifies these enterprises based on employment and the annual turnover. Kenya’s Micro and Small Enterprises (MSEs) are further divided into four areas including agriculture, trade, manufacturing and provision of services. This division confirms that Kenya’s MSEs are engaged in all sectors of the economy despite the fact that the disproportionate numbers are found in agriculture and the provision of services. Based on the definition provided above and the diversity of business activities that MSEs in Kenya are involved in, it can be surmised that they have substantial economic contribution and support a large number of livelihood opportunities. That notwithstanding, whereas statistics show that the MSMEs provide close to 85% of employment in the country, they only contribute about 20% of the total GDP which signals the lack of coherent policies for MSME development in Kenya. This justifies the need to rethink approaches to formalization with the right mechanisms to provide a framework for the several good intentions from the government to be implemented.

Such an effort is even more relevant in the current context of the COVID-19 pandemic where many formal businesses worldwide, hit hard by the pandemic’s economic effects, are likely to be forced to pursue income sources through unregistered economic activities, increasing the scale of the informal sector. Furthermore, MSMEs that fall into informality and already informal businesses have limited access to government support, increasing their instability and risk of closure. COVID-related growth in the informal sector underscores the need for appropriate and strategic policy responses.

In light of this, the Kenya government has acknowledged the challenge presented by the persistence of informal sector and worked on a notable government policy Sessional Paper Number 2 of 2005 on development of micro and small enterprises for wealth and employment creation for poverty reduction. Regulations include Micro and Small Enterprise Act of 2012 that established the Micro and Small Enterprise Authority for coordination and harmonizing the micro and small enterprises, and Trade Licensing Act of 2006 that provided registration for business and trade regulation. However, it is clear that the requirements of that law have not been fully implemented by the government.

In 2002, the ILO approved a specific instrument for cooperatives, the Promotion of Cooperatives Recommendation n°193 (2002), which, inter alia, states that cooperatives have an important role to play in the transition from the informal to the formal economy. On the other hand, cooperatives are a main component of the social and solidarity economy, which has become an integral part of the UN agenda through the establishment in 2013 of the UN Inter Agency Task Force on Social and Solidarity Economy, bringing together UN agencies including the ILO, other international organizations such as the OECD, as well as representative organizations including the International Cooperative Alliance.

In 2014, in an ILO paper focusing on the relationship between cooperatives and the United Nations Sustainable Development Goals (SDGs), the issue of the transition towards the formal economy was addressed under SDG 8, namely “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”. Target 8.3. of SDG 8 is worded as follows: “promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small and medium-sized enterprises including through access to financial services”. The ILO paper’s corresponding comment is that “cooperative development policy, as a subset of national policy, plus the appropriate legal and institutional framework, can provide an environment that is conducive to joint entrepreneurship, to the creation of decent jobs, to building bridges between informality and formality, as well as to access to finance.

Towards this end, a survey was conducted in January 2021 by UNDESA to provide useful guidelines to support building a simplified policy framework to promote formalization of MSMEs in Kenya, employing international best practices by leveraging on the cooperative enterprise model.

**Objectives**

Against this backdrop, a webinar will be organized on 11 March by UNDESA in partnership with the Kenya Micro, Small Enterprise Authority (MSEA) to discuss and explore good practices in facilitating MSME formalization through leveraging the cooperative enterprise model and come up with a roadmap on how to address the challenges identified as impeding the MSME sector’s formalization through successful cooperative business models.

The specific objectives of the forum are:

1. To bring together the key decision makers in Government, development partners, cooperative and MSME umbrella organizations, discuss and explore good practices and the approaches to facilitate MSME formalization through the cooperative enterprise model
2. To reach a consensus on a roadmap for addressing the challenges identified for MSME formalization through the cooperative business model
3. To identify recommendations necessary for MSME formalization through the cooperative enterprise model, including policy space, regulations and business support systems.

**Expected Outcomes**

The main expected outcomes of the online forum are:

1. The institutionalization of an advisory forum for dialogue and implementation of the way forward for addressing some of the good practices in facilitating MSME formalization through the cooperative enterprise model
2. The availability of a roadmap for addressing challenges facing MSME formalization through the cooperative enterprise model.
3. Recommendations necessary for MSME formalization through the cooperative enterprise model, including policy space, regulations and business support systems.

**Participants**

The workshop will bring together policymakers, development partners and cooperative/MSME entrepreneurs and other relevant stakeholders.