

## CONCEPT NOTE

### WEBINAR ON “PROMOTING MSME FORMALIZATION AND GROWTH THROUGH THE COOPERATIVE ENTERPRISE MODEL”

Micro-, small and medium-sized enterprises (MSMEs) are the backbones of many developing economies in sub-Saharan 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). Levels of informality and the number of workers trapped in the informal sector are particularly high in sub-Saharan Africa. Despite the high prevalence of informality and the dominance of the informal sector in sub-Saharan Africa, it varies in its intensity across countries, contributing 20 to 25 per cent to formal sector output in Mauritius, South Africa and Namibia to 50 to 65 per cent in Benin, Tanzania and Nigeria (World Bank, 2019).

The MSME sector in Kenya occupies a large space in the country’s economy. MSMEs contributed to 83.4 per cent new jobs created in 2017, of which a majority are created by informal MSMEs. (MSME Survey Report: KNBS 2018). The informal sector’s role in the economy is unrivalled, although informality has been associated with adverse consequences, including the constraint access to credit and business development support, both to the business venture and to the entrepreneurs. This has been the trend in previous years where, cumulatively, the informal sector catered for over 70 per cent of total working population in Kenya (World Bank, 2016). Different development agendas have incorporated the sector in their plans in a bid to improve the livelihoods of those that depend on it. At the global and regional levels, the sector is reflected in different development agendas such as Agenda 2030 for Sustainable Development and AU Agenda 2063. These agendas acknowledge the role played by MSMEs in creating decent jobs, improving standards of living, enhancing technology adoption and productivity, and contributing to inclusive economic growth (Africa Union Commission, 2016; United Nations, 2015). Kenya recognizes these potential MSME contributions to the achievement of national development goals and priorities. In particular, Kenya Vision 2030 targets creation of jobs, improvement of productivity and promotion of conducive working conditions for Kenyans in the labour and employment sector, including in the informal sector. The anchoring of the informal sector in development plans signifies the importance of the sector.

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 which has an annual turnover of between Kshs. 0.5 - 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 MSMEs are further divided into four areas including agriculture, trade, manufacturing and provision of services. This division confirms that Kenya’s MSMEs are engaged in all sectors of the economy even though MSMEs are disproportionately found in agriculture and the provision of services. These enterprises are a key driver towards the achievement of Sustainable Development Goals (SDGs) in Kenya and the Kenya Vision 2030. This justifies the need to rethink approaches to promote the formalization and growth of MSMEs with the right mechanisms to provide a

framework for implementing the government's goals relating to this sector. Such an effort is even more relevant in the current context of the COVID-19 pandemic where both formal and informal MSMEs are hit hardest globally by the various lockdown measures. Furthermore, informal MSMEs have further suffered the limited access to credit and government support and various stimulus measures, increasing their instability and risk of closure.

In light of this, the Kenya government has acknowledged the challenges presented by the persistence of the informal sector and has worked to develop policies, regulations and institutional frameworks to promote the growth and formalization of MSMEs as well as mitigate the consequences of growing informality. 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. The enactment of the law in December 2012 to guide the development and formalization of Micro and Small Enterprises (MSEs) in Kenya was a big policy achievement. However, it is clear that the requirements of that law have not been fully implemented by the government. The interventions by the Government of Kenya notwithstanding, the informal sector continues to be a major player in employment creation and as a source of livelihood, albeit with poor standards of living and low productivity. Therefore, to promote the formalization of the informal sector and improve the sector's performance and contribution to sustainable development, efforts should be made to leverage the country's successful cooperative enterprise model. This entails drawing lessons from those policies and institutional frameworks that have made the cooperative model.

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, the ILO noted 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. The ILO further noted 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 lessons and good practices of the cooperative enterprise model. Results of the survey suggested the cooperative enterprise model could contribute to promoting MSME formalization. Being people-centered and focusing on demands of local communities, cooperatives could be the catalyst to stimulate formalization through the membership structure that acts as platforms to reduce the cost of intermediaries and optimize the efficiency of coordination between business and government entities. The value

of collaborations inherent in cooperatives makes them as effective service providers to members. In addition, the survey also suggested government departments to support the formulation of MSME associations, with similar membership structures, who may provide useful mentoring support to formal and informal business startups. The aspect of inclusiveness needs to be addressed for the establishment and operation of MSME associations which is to ensure the access of entrepreneurs, especially those from the vulnerable groups, to the associations.

## **Objectives**

Against this backdrop, a webinar will be jointly organized on 11 March by the Division for Sustainable Development Goals, United Nations Department of Economic and Social Affairs in partnership with the Micro and Small Enterprise Authority (MSEA), Kenya, private sector, cooperative and MSME umbrella organizations, and development partners to discuss and explore good practices in facilitating MSME formalization through leveraging the cooperative enterprise model and come up with strategic recommendations addressing the challenges identified as impeding the MSME sector's formalization through the cooperative model.

The specific objectives of the forum are:

1. To bring together policymakers, cooperatives and MSME umbrella organizations, the private sector and development partners to discuss and explore the way forward to address identified local and international best practices in facilitating MSME formalization through the cooperative enterprise model.
2. To underline recommendations that encourage the formalization of MSMEs and draw lessons from the successful experience of the cooperative enterprise model in Kenya, with a particular focus on policy space, regulations and business development support systems.

## **Expected Outcomes**

The main expected outcomes of the online forum are:

1. Provide recommendations for strengthening capacity building, dialogue and implementation of the way forward to leverage the cooperative enterprise model for enhancing MSME formalization
2. Suggest evidence-based solutions for addressing key challenges facing MSME formalization and growth through the cooperative enterprise model
3. Formulate key messages that encourage the formalization and growth of MSMEs by drawing lessons from the successful cooperative enterprise model in Kenya

## **Participants**

The participants will include government departments and parastatals, private sector, cooperatives, MSME umbrella organizations, development partners and other stakeholders.