

Opening Remarks at the Virtual Capacity Development Event on ‘Promoting Micro-, Small and Medium-sized Enterprises (MSMEs) Formalization through the Cooperative Enterprise Model’

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11 March 2021

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Distinguished guests, ladies and gentlemen,

Let me start by thanking the Micro and Small Enterprises Authority of the Republic of Kenya for jointly organizing this capacity building workshop on ‘Promoting Micro-, Small and Medium-sized Enterprises (MSMEs) formalization through the Cooperative Enterprise Model’ with the Division for Sustainable Development Goals of the United Nations Department of Economic and Social Affairs.

This workshop is very timely given the urgency the international community has placed on getting back on track and implement the 2030 Agenda for Sustainable Development and the Sustainable Development Goals following the massive devastation caused by the COVID-19 pandemic that has plunged the global economy into a recession and an unprecedented health crisis. Getting back on track and successfully implementing this ambitious agenda requires the full participation of all stakeholders, including micro-, small and medium-sized enterprises.

MSMEs play a critical role in the economic growth and structural transformation of African economies, including that of Kenya. They contribute to inclusive growth and employment creation, and are a source of livelihoods for the poor, women, youth and people in vulnerable situations.

Most MSMEs in developing countries are informal in nature, and they constitute the backbone of economies across Africa. According to the International Labor Organization, the informal sector provided about 75 per cent of non-agricultural employment and 72 per cent of overall employment in the sub-Saharan Africa in 2016.

Although accounting for the highest proportion in the MSME sector, informal and unregistered MSMEs would need to be supported substantially to improve their economic productivity. In contrast to their contributions to the majority of employment opportunities, informal MSMEs contribute to GDP growth at a lesser scale in sub-Saharan Africa countries, ranging from 20 to 40 per cent. Informal MSMEs are also left with fewer avenues to access credit and business development support, especially during times of crisis, such as the ongoing pandemic. Further, workers in the informal sector constitute most of the working poor and lack access to

social protection and health care and tend to work in inadequate safety conditions. The interplay of these factors exacerbates their vulnerabilities to external shocks.

Incoherent and uncertain regulatory frameworks have been identified as one of the major hurdles for MSME formalization and growth. In that regard, it is encouraging to witness the strong steps taken across the continent to reduce regulatory burdens and establish simplified business registry mechanisms. When fully implemented, such measures have the potential to contribute to cutting the costs of opening and operating businesses, including MSMEs.

Apart from improving registration and regulatory measures, additional efforts should be taken encourage and incentivize MSME entrepreneurs to formalize their business ventures. Capacities of MSME entrepreneurs need to be strengthened. Efforts are also required to raise their awareness of simplified registration mechanisms and to actively pursue benefits related to formalization that include expanded access to credit, market opportunities and business development services. These measures, when fully implemented will not only contribute to the formalization and growth of MSMEs, they will contribute to enhancing their resilience to economic shocks, upholding their roles as engines of job growth.

The majority of MSMEs in Kenya are informal and employ most of the working population in the country. In 2017, MSMEs created 83 per cent of new jobs. MSMEs, including the informal ones, are included in national sustainable development plans, such as the Kenya Vision 2030 and the Big 4 Agenda. These plans recognize their role as job creators and key contributors to inclusive growth.

Considering the significance of MSMEs to sustainable development, innovative policy approaches are therefore needed to improve MSME formalization, and this includes leveraging Kenya's successful experience in the area of cooperative enterprise development.

As you are all aware, cooperatives are about empowerment, inclusion and sustainability. Across the world, cooperatives are working tirelessly to uphold the principles of equality and democratic participation. They embody the principle of the Sustainable Development Goals that no-one should be left behind.

Cooperatives are also recognized as a main component of the solidarity economy and play a critical role in the transition to the formal economy. Cooperative development policies, when embedded within appropriate legal and regulatory measures, can stimulate joint entrepreneurship that bridges between formality and informality. It is with this backdrop that the Division for Sustainable Development Goals conducted a policy study on improving MSME formalization by leveraging the successful experience of cooperative enterprise development in Kenya. Through extensive consultations with diverse stakeholders, the study has reached interesting findings.

The study found that the cooperative enterprise model could contribute to MSME formalization in Kenya. With their membership-based and people-centered structures, cooperatives could stimulate formalization by acting as platforms to reduce the costs of intermediaries, pool expertise and resources, in addition to optimizing the efficiency of coordination between business and government entities. Cooperatives could also provide business development support, including mentoring service and networks to access market opportunities

along various value chains and financial resources, which are critical for business growth. MSME associations, with similar membership-structure as cooperatives, are suggested as the catalyst for MSME formalization. Organized with effective and inclusive structures, MSMEs would be strengthened to tap into regional and global value chains, such as those presented by the emergence of the African Continental Free Trade Area.

Ladies and gentlemen,

Despite the bright prospects that could be pursued through formalization, please also allow me to underline the fact that MSMEs, especially the informal ones, are facing mounting challenges at this moment. The various measures that have been put in place to contain the COVID-19 pandemic, including curfews, lockdowns and social distancing measures, have led to the reduction of revenues, massive job losses and the closure of MSMEs.

In addition to bringing new challenges such as the least customer foot traffic, the pandemic has exacerbated existing challenges facing MSMEs, particularly, limited access to credit. According to a survey of the Kenya Bureau of Statistics in 2016, only 0.8 per cent of informal MSMEs were able to borrow from commercial banks, despite their prevalence in the MSME sector.

Without sufficient cash reserves, informal MSMEs are too vulnerable to weather economic shocks such as those caused by the COVID-19 pandemic. Their informality further renders them less able to access and benefit from economic stimulus packages and emergency credit.

Targeted policy measures that offer timely support to both formal and informal MSMEs would be crucial to revitalize these enterprises if we aim to get back on track and achieve the SDGs. In this regard, I am pleased to note that this event will not only review good practices on leveraging MSME formalization, but also explore how leveraging lessons learned from the cooperative enterprise model could encourage the growth and formalization of MSMEs in Kenya and other countries..

Ladies and gentlemen, I believe our discussion today would be important to identify and map out a way forward to address key issues affecting MSMEs in the post-COVID-19 pandemic era. I encourage your active participation in the discussions and share your insights. Your contributions would be invaluable for us to strengthen the effectiveness of our work in Kenya, which is built on solid partnership with the Ministry of Industrialization, Trade and Enterprise Development, and the Micro and Small Enterprises Authority (MSEA). We are honored for having supported the establishment of the MSEA Strategic Plan 2020-2024, which is closely linked with 2030 Agenda for Sustainable Development and Kenya's own national sustainable development agenda.

Together with the UN Country Team and development partners, we look forward to strengthening the partnership with the Ministry and the Micro and Small Enterprises Authority and explore ways that the Government can use to fully leverage the contributions of MSMEs to achieving the 2030 Agenda for Sustainable Development and the AU Agenda 2063.

Going forward, it will be critical to recognize the heterogeneity of the MSME sector and ensure that sustained policy support is tailor-made to the specific needs of MSMEs as the first responders to the pandemic in terms of protecting jobs and sustaining livelihoods. International

cooperation remains the key for building an enabling policy environment for MSME growth through partnerships, capacity building and policy dialogue.

Let us therefore commit ourselves to working together if we are to effectively and sustainably harness the power of MSMEs to achieve the SDGs and create a world of dignity and opportunity for all.

The United Nations system will continue to support national efforts to promote the growth and formalization of MSMEs as mandated by the General Assembly. Together, we will build sustainable societies through cooperation.

Thank you.
