

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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Thank you very much Mr. Amson Sibanda, Chief National Strategies and Capacity Building Branch in UNDESA, distinguished guests, my fellow contributors, ladies and gentlemen Good Morning/Afternoon as applicable.

I am pleased to feature in this very important and timely discussion and I want to convey the greetings of our chief guest Madam Betty Maina, Cabinet Secretary in charge of industrialization trade and Enterprise Development in Kenya. This discussion could not have come at a better time appreciating the challenges that the whole world and especially the country Kenya is facing in the area of trying to address the challenges of Covid-19. Allow me to start my presentation by thanking the department of Economic and Social Affairs of the United Nations and my fellow partners in this discussion for organizing this very important discussion that brings together serious thought leaders, industry stakeholders and other stakeholders in the Micro and Small Medium Enterprises environment to come up with practical suggestions that would really influence policy, not just in Africa but in the entire world in trying to adapt strategies of formalization of Micro and Small medium enterprises. I am pleased by the high level participation that is here and I want to really welcome most sincerely all participants that are here. I am convinced that together we will be able to add to the existing thoughts, existing policy leadership that will assist us in this discussion.

Over the next few hours, I want to believe that you will have very rich discussions and I want to assure you that as the micro and small medium enterprises fraternity in Kenya in particular, we are very excited by this discussion. Allow me in a snap shot paint the picture that the micro and small medium entrepreneurs are facing in the country as we speak. Statistics from the Kenya Bureau of statistics indicates that over 83% of formal employment in Kenya comes from these segments that we are discussing today. Indeed, in countries that are small developed than Kenya like South Africa, since accounts for 68% of employment and I think that is a statistic that you cannot ignore. The same studies by the Kenya Bureau of statistics, factures are on 7.4 million enterprises that are either micro small or medium in the country. But the greatest challenge which makes this discussion very relevant today is that over 78% of those are actually informal and that is something that is really worrying especially during this period because the experience of the country has been that, any stimulus package targeting this sector especially during the covid-19 period has been facing challenges because identifying the sectors where the micro and small entrepreneurs operate the businesses they do, the number of people operating in those areas for any intervention would be a challenge and I am convinced that this is not just an isolated case in the country but even in other countries. In the past one year, Kenya has been trying to stimulate liquidity at the household level as a strategy to cope with the challenges of the covid-19 and one of the policy challenges and the lessons learnt during this period, is that the country must have adequate and reliable data of the number of players in this particular segment. On the positive side Kenya’s vision 2030 and the Big

Four Agenda that prioritizes on factoring food security among others recognizes the prime position that will be played by the micro small medium sized enterprises in particular it is appreciated that to unlock manufacturing as a message in the vision 2030 in Kenya we must push and support the micro small medium enterprises to play their role in manufacturing across the diverse sectors so that manufacturing can achieve the target of contributing at least 15% towards the gross domestic product for the country and that is a very important observation.

As a country, the focus has been for micro small and medium enterprises policy support and I am happy to observe that they are various policies that we will be looking at today that have been put in place by the country to ensure that we support this very crucial sector. In 2012 Kenya came up with a very important policy by developing the micro small and medium enterprises act of 2012 whose intention was not just pushing for formulization of the micro and small enterprises but more importantly coming up with a structured policy intervention that will mainstream the role of the micro and small entrepreneurs in the countries industrialization and development agenda in general. Maybe it is important for me to indicate to our listeners the definition of a micro entrepreneur in the country and this will form a very important basis of the discussion today. As per the law in Kenya a macro enterprise employs not more than 9 people and that enterprise as an annual turnover of not more than approximately 4,500 USD per year that would indicate that most of the households in the country are actually in the micro enterprise bracket. I want to just ask us a question, from the experiences learnt across the world during this covid-19 period where households are facing dwindling income levels, where the social fiber that binds together small businesses in Africa in particular has been destroyed by the covid-19 restrictions, what are countries doing to avoid similar devastating impacts as we move forward to the coming years? Kenya is one of the leaders in the cooperative movement in Africa and I am happy to note that over the years the cooperative movement in Kenya has evolved from just largely producer oriented cooperatives to serious value addition cooperatives marketing cooperatives and savings and credit cooperatives that are very important in mobilizing financial service, financial resources and creating intermediation avenues that are very important especially for the micro small and medium enterprises. I would dare say that for Kenya, East Africa and largely Africa to be able to formulize the 78% enterprises in this sector that are not licensed we must ask ourselves what incentives we need to create to push for formalization. On a light note I would wish to mention that most of the informal enterprises in the country run away as seriously I have asked for formalization and the main reason is that our members equate or do not separate formalization and taxation and I would dare say that is what is happening in most of the countries. I hope that the discussion today would come up and appreciate best practice in incentivizing formalization in micro small and medium enterprises and the cooperative movement in particular is most likely the best answer. Why do I say so? Cooperative movement is socially integrated in the African context in that in every village in the country we have some form of cooperatives. In every village in the country we have some form however basic credit oriented grouping that forms the basis for incentivizing formalization of the small enterprises across the country. The cooperative movement in Kenya is very important because Kenya is largely an agricultural country, we started a lot with coffee farmers' cooperative societies very limited value addition we have a lot of cooperatives in this sector and other value chains.

This discussion should explore the opportunity for promoting industrialization and value addition in particular through cooperatives as an incentive. In the past two years, popular discussion in especially the Ministry of Agriculture has been on how to promote various agricultural value chains through cooperatives from production to marketing as a strategy for increasing household income and various policy interventions have been made but I want only to mention two that the country came up with a commodities exchange and the commodities exchange is expected to promote value realizations for our agricultural produce and promote marketing exchange and modernization of our agricultural marketing. I was laying out the key policy interventions that the country is taking that has a huge bearing on the success of the agricultural sector formalization of enterprise through stabilizing the sector and I was saying that we as a country have come up with a commodities exchange that is supposed to among other things create a modern platform for trading in various commodities within the agricultural value chains. This commodities exchange is interlinked with the cooperatives across the country and the intention is to stabilize not just the production, the marketing but also link the farmer's cooperatives the farmers produce the agri-business players to a financing arrangement that will be supported by warehouse receipting and I think that is one of the incentives that I would say the country is creating to push for more formal approach in the agricultural sector especially for the agri-business players across the value chains. The other thing that is happening in the country is that the authority that is the micro and small enterprises authority has operationalized a very important office that is the office of the registrar of micro and small entrepreneurs. This office is expected to push for formalization of micro and small enterprises across the country. The greatest challenge that we are facing is what I mentioned earlier that micro and small entrepreneurs are fearing the leader of the tax authorities and that is why I have been talking about incentivizing formalization. What then do we need to do as stakeholders if both the cooperative movement, MSME players and other stakeholders to create incentives? That is a question that should be answered today.

Our micro small and medium enterprises across the country are facing various challenges that I think have in a way contributed to low level of formalization. The first one, is the challenge of internal governance in the various associations marketing associations and to a lower extent the savings and credit cooperatives across the country. So capacity building on issue of governance will be very important if we are to achieve what we are looking for today. There is a serious opportunity for us succeeding in using the cooperative model to formalize the micro small and medium enterprises if we will encourage more value addition and diversification especially in agriculture. Kenya's agriculture is largely exported in raw form of marginal value addition we need to push for more value addition through cooperatives and create interlinkages with the industrial cooperate sector and cooperatives as an incentive for formalization and upscaling agripreneurs towards formalization. Kenya is doing extremely well in using the cooperative movement as an intermediation mechanism to unlock access to finance. A lot of billions has been mobilized through this a lot of saving and trading cooperatives have been created across the country and this has been one of the positive lessons to learn from the country in incentivizing informal players across the sectors to join cooperatives to become more formal for the sake of benefits that I have mentioned. The question of sustainability of our businesses or most likely be best addressed through cooperatives. Any attempts for capacity building for example faces challenges where micro and small entrepreneurs are operating as disparate units but if we bring them together

through cooperatives we have a sustainable approach not to just formalization but to value addition and value realization in agriculture that would be very important in this discussion. All the players must invest in strong capacity building and especially invest in technology so that we are able to add value to the traditional cooperative movement ensure that there is better financial and governance probity in these institutions and encourage more and more members to join the cooperative movement that is very important for us. Allow me to just mention one or two other policy issues both in the MSME sector and in the cooperative movement that will be of relevance to this discussion. Kenya is coming up with a micro and small enterprises development fund and this fund is structured in such a way that cooperatives will be strong vehicles for intermediation. Financial institutions be they banks, or micro finances institutions are also strong vehicles that will be used in that regard and I think that is very important to ensure that we create more incentives for micro entrepreneurs to join to become formal to register and to learn through this. Huge investment in infrastructure across the country is going on and allow me to mention for example that in agriculture the government is developing various cold storage facilities to support agricultural cooperatives in preserving agricultural produce before marketing and that again is riding on the cooperative movement as aggregators for agricultural produce for market that is very important. Kenya has a cooperative tribunal and that tribunal is very important because it speaks to the issue of governance and especially dispute resolution that would negatively impact the quest for a strong cooperative movement and the quest for more on boarding of micro and small entrepreneurs in this regard. Last year the country developed a very progressive micro and small enterprises development policy which is just about to be gazetted. And that policy in particular deliberately identifies formalization as a key objective and proposes several incentives that will push micro and small entrepreneurs towards more formalization. That policy again recognizes the crucial role of the cooperative movement in this agenda.

There are other initiatives in the country that are all important to encourage the micro and small entrepreneurs to become more formal. As I come to a close, I want to mention three things and the first one is the discussion of formalization of micro small and medium enterprises would not be complete if we explored the role of the cooperative movement. The act of 2012 that I mentioned is actually premised on the association model as a strategy for managing the micro and small enterprise sector in Kenya. We are in the process of ensuring that the certificate given by the office of the registrar of micro and small entrepreneurs in the country is recognized for government tendering and the country has very progressive policies in this regard that will support the micro and small entrepreneurs to play a crucial role in the government tendering process given that the registrar's office will be registering associations, I cannot over emphasize the need for cooperatives to play their role in ensuring that micro and small enterprises are registered. The second is a call for strong linkages between cooperatives, the financial services sector, the banks and the micro finance institutions and especially in the industrial sector so that cooperatives can be used as vehicles for delivery of the solutions that the micro small and medium entrepreneurs are looking for and be used as the vehicles for learning and be used for the vehicles of intermediation and especially as vehicles for linkages with the formal industries. Most cooperatives in Kenya are adding value by coming up with serious value added products that are finding their space in the East African community, the regional market and as we move towards the African continental free trade area we must build the capacity of cooperatives as industrial

production vehicles. That will ensure that value addition happens at the village level it will unlock cottage level industries and that is how we shall put these micro small and medium enterprises in a prime position to push Kenya's industrialization agenda. Allow me to end there by appreciating the serious role that the department of Economic and Social Affairs and other partners are playing towards this agenda and also thank the department for the strong support extended to the Micro and Small Enterprises Authority in coming up with a very progressive 2020/2024 strategic plan among other interventions that are supporting this sector. Thank you very much and I wish all the participants an enriching interaction this afternoon. Thank you.