

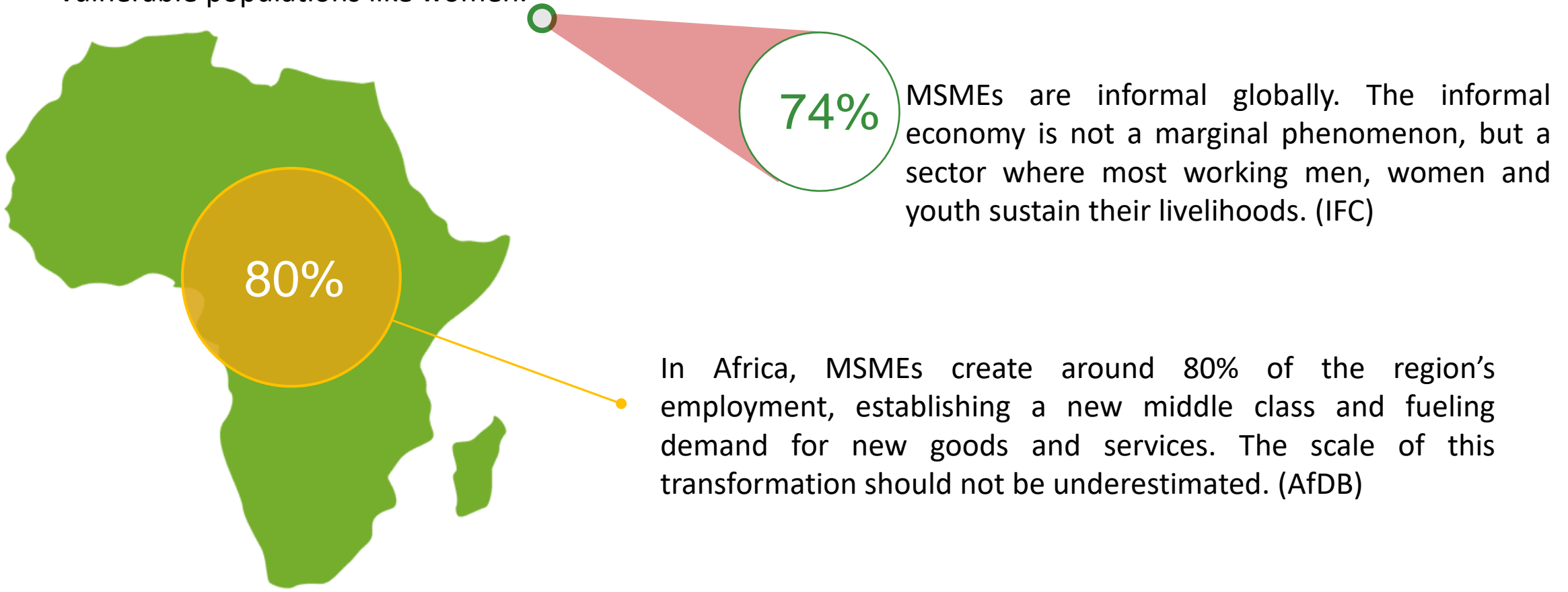
**Good practices of formalization of MSMEs  
and How coops have promoted same in  
Africa, Kenya included.**

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# Introduction

The critical contribution of MSMEs to broader socio-economic objectives makes them a key priority area for achieving the Sustainable Development Goals. MSMEs account for the majority of businesses worldwide and have the potential to become significant drivers of international trade, they also drive job creation, especially for vulnerable populations like women.

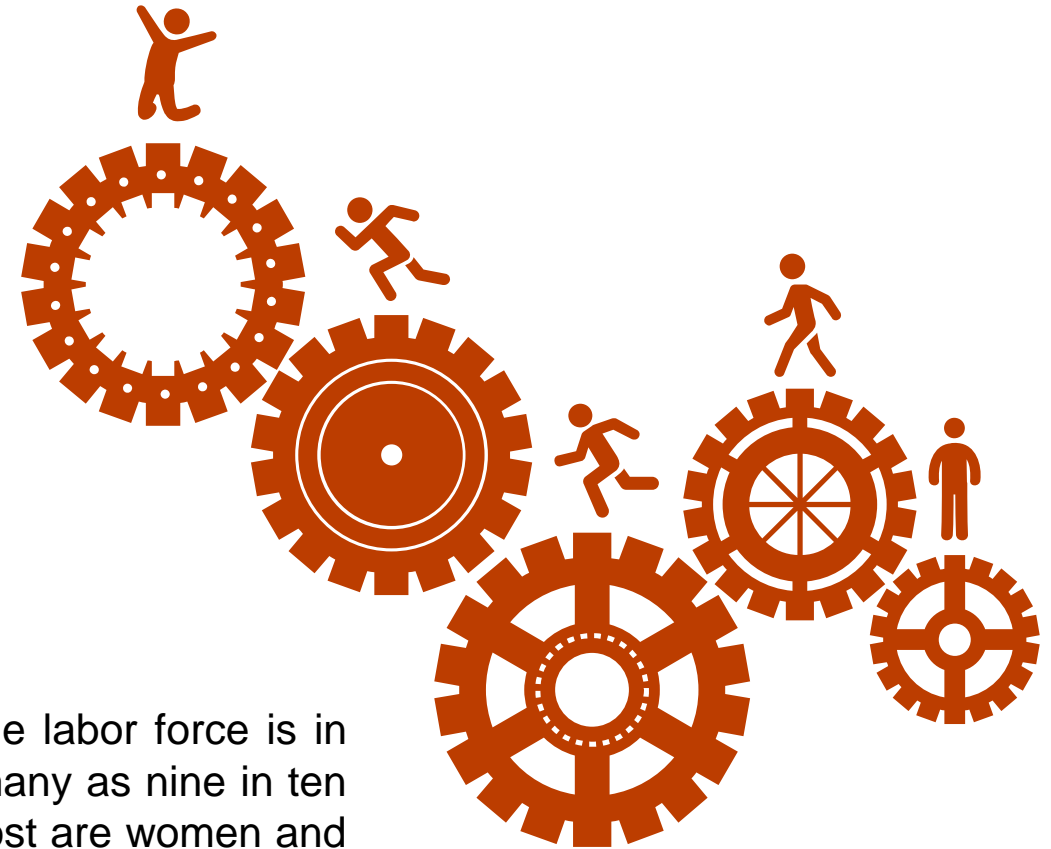


## Potential in Africa towards Formalization:

### *a) Young Continent: Labor Intensiveness*



According to ILO - In Africa, the majority of the labor force is in the informal economy. It is estimated that as many as nine in ten rural and urban workers have informal jobs. Most are women and young people who have no other choice than the informal economy for their survival and livelihood



## *b) Resource Intensive; the need for diversification*

Growth is strong in non-resource intensive countries. This means these countries have found other anchors for growth beyond mineral resources.

To achieve maximum growth there is need for diversification, fostering linkages between enterprises of different sizes in value chains and clusters to improve market access hence flourishing trade in the resources available.

Africa's future is dependent on minds and not on mines.



### *c) Creativity and Innovation*



➡ African enterprise starts largely with MSMEs as well as privatized state-owned enterprises (SOEs). Development in Africa was most strongly tied to small-scale industry or industrialization itself. Most of the large African enterprises in existence today were at one point SOEs.

➡ According to Deloitte report Innovation has multiplier effects and can open up new opportunities for entrepreneurs and create new jobs for the continent's growing youth populations.

➡ A good example is how M-Pesa and similar innovations are enabling ecommerce across the continent today. About 15 years ago ecommerce in Africa was a near unthinkable idea because internet payments traditionally needed credit cards and not enough consumers across the continent owned these.

#### *d) African Continental Free Trade Area (AfCFTA)*



**Creating One African Market**

➡ On 1 January 2021, trading formally began in the AfCFTA. The AfCFTA aims to create a continental market for goods and services, with free movement of people and investments intended to help deepen the economic integration of the African continent and promote development.

➡ For the benefits to be fully harnessed, both the formal & informal forms of trade, and their relevant stakeholders should be considered. The informal economy are not necessarily organized and can therefore not be easily represented in these discussions, but their perspectives should also be considered.

➡ Studies have noted that Informal trade is a large part of most African markets and in Eastern Africa alone, informal cross-border trade (ICBT) could be worth as much as 80% of the value of formal trade, according to the Afreximbank Africa Trade Report 2020 published in December.



# The Role of Cooperatives:



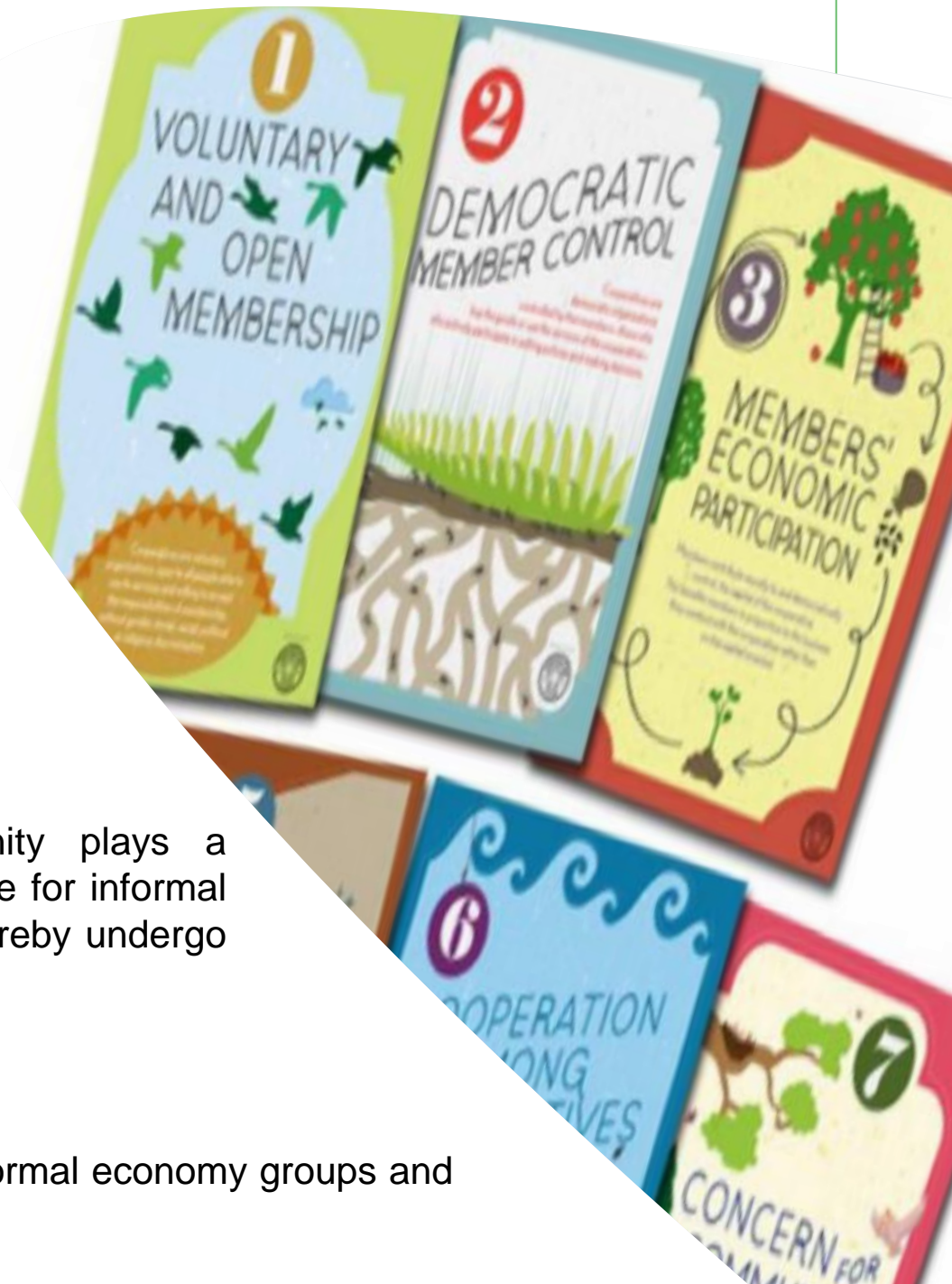
- ✓ Cooperatives are **people-centered enterprises** owned, controlled and run by and for their members to realize their common economic, social, and cultural needs and aspirations.
- ✓ The cooperative movement is significant, **at least 12% of humanity** is a cooperator of any of the 3 million cooperatives on earth.
- ✓ A cooperative is a business model that can be emulated for the formalization of MSMEs. Being people-centered businesses, value and principle driven; whose focus is at the local communities, cooperatives are a catalyst to stimulate and decimate the many flaws that have been witnessed towards formalization.
- ✓ Cooperative principles – Formalization can be achieved if the cooperative principles and values are observed and put into practice.
- ✓ The impact of cooperatives on the transition to the formal economy is the result of the implementation of cooperatives' key mission as expressed by their very international definition included in Promotion of Cooperatives Recommendation n°193 (2002), which states that a cooperative is “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”

✓ 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.

✓ The purpose of a cooperative model for its members is to benefit from economies of scale, reduce costs, and achieve a common goal that would otherwise be unreachable individually. Members cooperate to solve the problems they share, such as low incomes, lack of negotiating power and vulnerable working conditions

✓ This close relation between cooperatives and their community plays a fundamental role in the transition, in as much as it makes it possible for informal economy workers and producers to become their members and thereby undergo the transition together.

✓ The cooperative enterprise is one of the most natural options for informal economy groups and workers.





According to the survey, some of the innovative practices by cooperatives that can be taken up by MSMEs towards formalization is summarized into five points as shown in the table below:



Access to financial resources: pooling of resources and access to credit



Enabling environment: support mechanisms for the simplification and the cost reduction of business registrations. Supportive legislation to encourage business development.

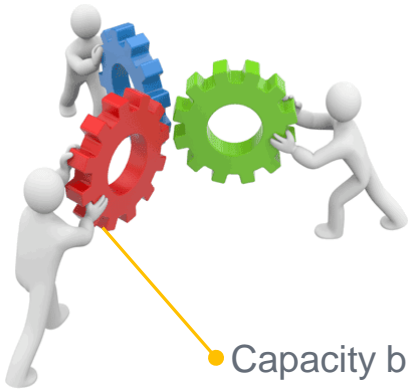


Access to markets: value addition on raw materials, selling end-products & by-products direct to consumers, trade ideas under the national/apex bodies



DIGITIZATION

Digitalization/Innovation: online marketing, e-commerce, use of Management Information System in cooperative mamnagement, other IT softawre and technologies.



Capacity building: education & training on relevant areas leading to formalization.

## Some Barriers & Challenges to Formalization of MSMEs through Cooperatives



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graph LR; A[Some Barriers & Challenges to Formalization of MSMEs through Cooperatives] --- B[Lack of information & negative perception on formalization]; A --- C[Policy framework]; A --- D[Cooperative laws & governance]; A --- E[High taxes]; A --- F[Finance]; A --- G[Political instability & support from government]; A --- H[Several layers of licensing body]; A --- I[Lack of national representative body of the informal economy];
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Lack of information & negative perception on formalization

Policy framework

Cooperative laws & governance

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Finance

Political instability & support from government

Several layers of licensing body

Lack of national representative body of the informal economy

## Best Practices from Africa: Namibia

- ➡ In Namibia, Eudafano Women's Cooperative (EWC) is breaking this cycle of generational poverty by harvesting Marula fruits. Women in this industry formed the EWC in order to create the necessary infrastructure to sell their harvest to the international market. Currently, the cooperative represents four associations of producers totaling 1,300 employees as well as a factory that processes their products prior to international export in order to command higher prices and ensure that members are paid a living wage.
- ➡ Cooperatives achieve formalization by associating with other individual producers in making their production and commercialization/ marketing of their goods or services more predictable and economically sustainable;



## Best Practices from Africa: KUSCCO



- ➔ KUSCCO supports agri-business product for small scale farmers in SACCOs to provide credit to farmers, to purchase irrigation equipment, farm inputs and also insure their crops against adverse weather conditions.
- ➔ SACCOs also finance Small and Medium Enterprises (SMEs) in different sectors including Environmental Conservation and Climate Mitigation initiatives.



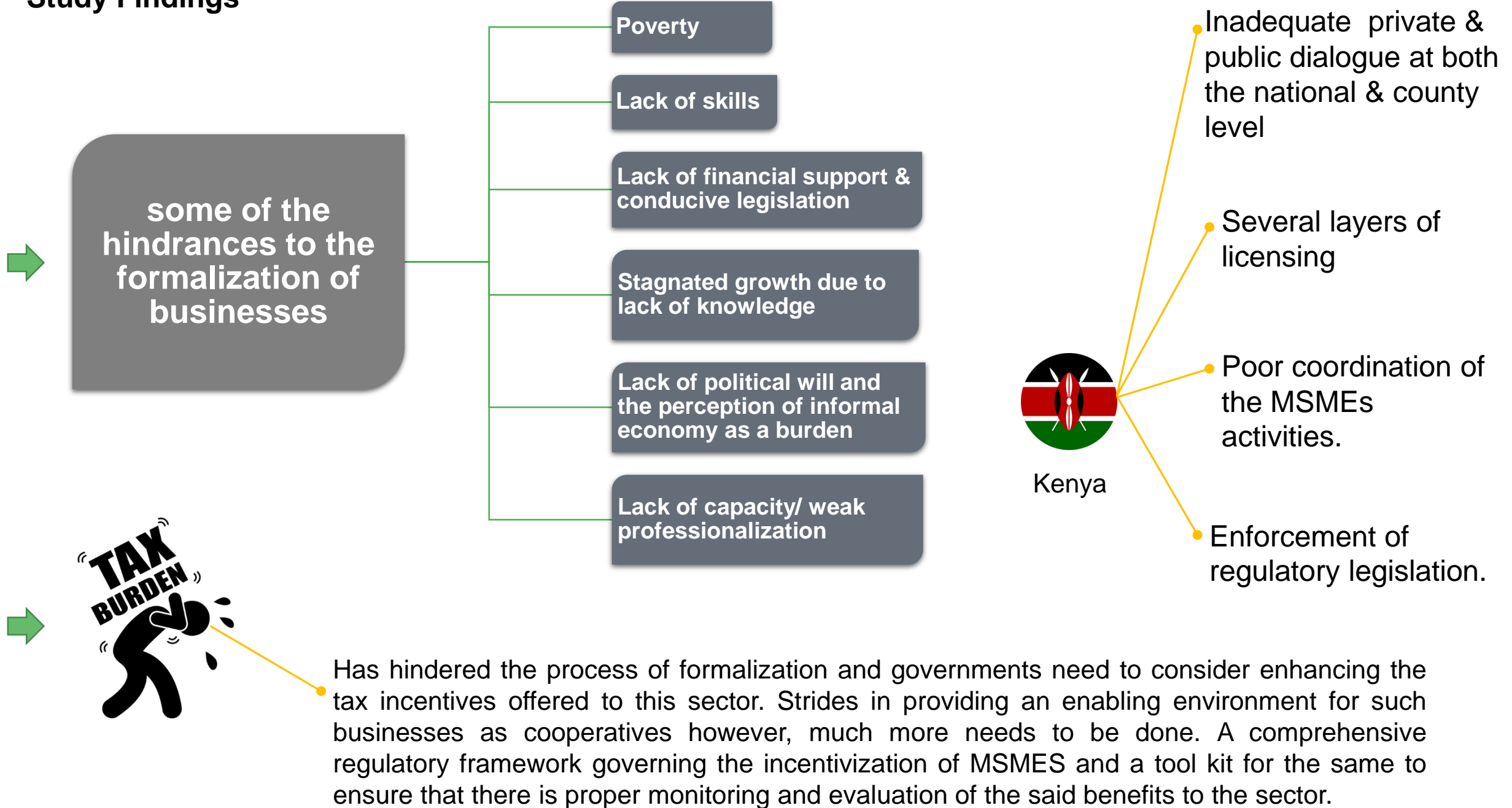
## Best Practices from Africa: Uganda Shoe-shiners Industrial Cooperative Society

- ➔ The Uganda Shoe-shiners Industrial Cooperative Society was initiated in 1975 by homeless street boys and girls who had, for a long time, bore the wrath of the city authorities for operating without license. After organizing themselves into a cooperative and having attained legal status, they proceeded with a request to the city authority for the allocation of working areas in the city. Success followed, and in a couple of years they started manufacturing shoe brushes and using environment-friendly materials. In 2007, the cooperative had more than 600 members and had created branches in other cities of Uganda.
- ➔ Thanks to their affiliation to the Uganda Cooperative Alliance, they benefitted from training courses. The Cooperative Savings and Credit Union of Uganda provided loans to their members, who have clearly moved to the formal economy and enjoyed higher and more stable incomes since working within the framework of the cooperative.





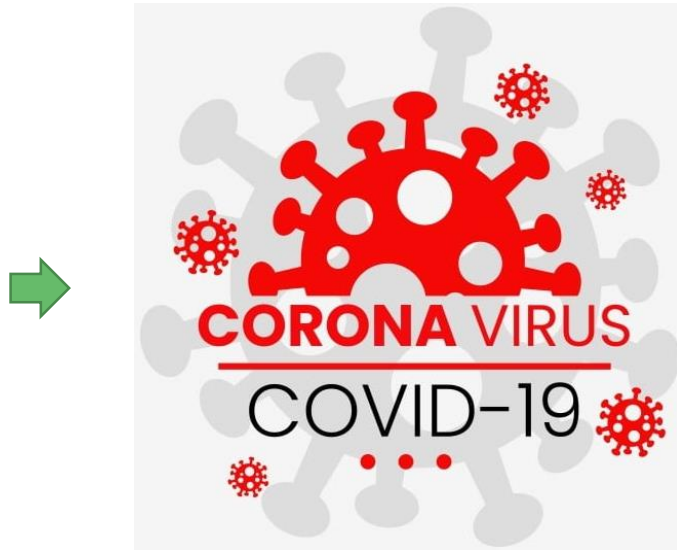
## Study Findings



## Study Findings



Inequalities permeate the informal sector making the groups more vulnerable to issues retarding development. Lack of business incubators to support the marginalized to the MSMEs sector is prevalent and the levels of inequalities are manifested according to sectors of activities and the location of establishment. From the respondents it was also crystal clear that there are even policy inequalities whereby large businesses are favored by some policies as opposed to the micro small and medium enterprises.



The outbreak of the COVID-19 pandemic has exacerbated the challenges faced by Micro, Small and Medium-sized Enterprises (MSMEs), especially in African countries. Particularly, enterprises are facing a variety of problems such as a decrease in demand, supply chain disruptions, cancelation of export orders, raw material shortage, and transportation disruptions, among others. Other factors making MSMEs highly vulnerable to the impact of COVID-19 include but not limited to: they are more labor-intensive than other companies and therefore more exposed to disruption especially, when workforces are in quarantine; they have a thinner liquidity reserve, which denotes that they have limited financial alternatives, and in majority cases they lack assets that can be disposed of, or that can be used as collateral for new credit lines.

## Way Forward and Recommendations



There is an urgent need to address the issue of formalization and growth of MSMEs in Kenya by leveraging policies governing cooperatives as one of the means to foster development of a resilient Kenyan economy; by supporting MSME development, nurturing entrepreneurial culture and expanding opportunities for wealth and employment creation.



Formalization is a multi-faceted and multi-stakeholder approach and governments should establish policies fostering establishment of MSMEs as associations whose values and principles may be defined by government or any other entity that might be tasked by the government to do so. In addition, governments may create distinct and regulatory bodies for MSMEs whose complementarities may come from the already existing entities regulating cooperatives.

## Way Forward and Recommendations

- ➡ Through formalization and employing such approaches as the cooperative business model; there will be potential for rapid economic growth, employment creation, wealth and repository of knowledge created; entrepreneurial spirit will be calculated and indoctrinated amongst the groups and thus reducing the inequalities.
- ➡ Respondents shared that there MSME's need to be organized into cooperatives to be able to enjoy the large market available courtesy of the African Continental Free Trade Area. With the African Continental Free Trade Area, barriers on export and import activities are expected to be eliminated or at least mitigated. This brings new opportunities for local business in terms of access to inputs (from internationally) and also tapping to lucrative export markets locally, regionally and then internationally.
- ➡ With this, Cooperatives and MSMEs must be capacitated to understand the AfCFTA protocols on goods and services as well as the regulatory framework and requirements of the markets. Cooperatives and MSMEs must survey the productive potentialities, services, technology and the need for partnerships and business for each member and disseminate it to create partnerships and opportunities
- ➡ Formalization will provide avenues for coordinated approaches to development.



