



PROMOTING MSMES FORMALIZATION THROUGH THE CO-OPERATIVE ENTERPRISE MODEL

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An overview of MSMEs in Kenya



- A 2016 MSME Basic Report by the Kenya National Bureau of Statistics estimated MSME's output at Ksh3.3 trillion against a national output of Ksh9.9 trillion, representing a contribution of 33.8 per cent of GDP in 2015.
- In terms of gross value added, the MSME are estimated to have contributed KSh 1.7 trillion compared to Ksh5.6 trillion for the whole economy.
- The sizes of MSMEs are categorized into micro (1-9 employees), small (10-49 employees) and medium (50-99 employees) sized establishment.
- The survey established that there were about 1.56 million MSMEs licensed by the county governments while the unlicensed businesses identified from the households were 5.85 million.

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- In all counties with exception of Nairobi, micro sized establishments constituted more than 90 per cent of all licensed establishments.
- The annual 2020 Economic Survey (Kenya) indicates that the informal sector continues to provide the majority of additional jobs, making the sector critical to the economy.
- The three main reasons cited for starting a business were better income, preference for self employment and having the requisite skills.

MSME Financing

Business people face challenges in raising finances to support their entrepreneurial pursuits. Unlike large corporates, MSMEs are disadvantaged in accessing finance since financial institutions perceive them as high risk and costly to serve.

Over the years, traditional sources of financing for MSMEs have revolved around personal savings, loans from friends and family, and other informal sources.

MSME Formalization

- Available data indicates that informality in micro and small enterprises constitutes a major obstacle in advancing their social and economic development, which is why it is crucial to find solutions.

MSME Constraints

- The major constraints emanate from a regulatory environment characterized by the requirement of multiple licenses for businesses.
- Licenses are also expensive and cumbersome to get. There is also interference from authorities; taxes are high and crippling; multiple procedures in applying for business registration that are hectic and restrictive.
- Other constraints include lack of capital, expensive loans, lack of markets, stiff local competition, poor infrastructure (roads, power and water supply) and insecurity.

The opportunity

- Due to the constraints mentioned above, there is an opportunity to formalize MSMEs into co-operatives since the registration procedures are more friendly.
- The aspect of pooling resources together will enable the co-operative grow faster as opposed to the capitalist model of 'go it alone'



Pros of MSME formalization

- Access to finance
- Access to technical support
- National and international representation (advocacy)
- Reduced promotional costs
- Spread risk
- Reduced logistical costs
- Access to training
- Regulation

Co-operative enterprise model



- The co-operative enterprise model emphasizes the benefits of synergy, which outweigh non-synergy in the sense that two are better than one, or there is power in unity.
- The aim of the Society is to benefit the member more than the co-operative entity formed. For example, 'Kinyozi' (barber) business owners coming together to form an alliance geared towards promoting their business for improved financial gains, among other benefits.
- MSMEs can unite under a common bond for economic gain and self-help.

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- The Co-op model utilizes the seven principles for business operation according to the Rochdale Pioneers. They include;
 - I. Voluntary and open membership
 - II. Democratic member control
 - III. Member economic participation
 - IV. Autonomy and independence
 - V. Education training and information
 - VI. Co-operation among co-operatives
 - VII. Concern for the community

Why the co-operative movement

- ❑ The Cooperative movement is a key avenue that can be used to enhance investment in the MSME industry due to the following reasons:
 - ❖ Full sense of ownership by members (shareholders)
 - ❖ Able to reach the grass-roots
 - ❖ Trust in the management Committee and Board of management (selected by members)
 - ❖ Loans are affordable since the fund is a pool of members savings.
 - ❖ It is easy to disseminate education to members through their education days and other fora.

SACCOs in the informal sector: Transport MSMEs

‘Boda Boda’ SACCOs

- The ‘boda boda’ (motorcycle) business provides informal self-employment and is a source of income for many unemployed youths, offering a basic mode of transportation in both rural and urban areas.
- Various ‘boda boda’ business have formed SACCOs, which have become a source of inspiration after transforming the lives of members.
- One such Society is Khwisero Boda Boda SACCO, in Kakamega County which was formed in 2019 and has 355 members.
- The members save at least Sh40 daily which enables them access soft loans in line with their by-laws



MSMEs accessing housing- NABOSA SACCO

- From an initial daily savings of Ksh50 each, boda-boda operators in Nanyuki town, Laikipia County, have become home owners in a gated community in Nanyuki.
- The motorcycle taxi operators came together in 2011 and formed a 'chama' (small group) from which members could borrow money to buy spare parts or bail themselves out in case they were arrested by traffic police.
- Gradually, the scope of the 'chama' widened and the Nanyuki Boda Boda SACCO (NABOSA) was registered with the aim of helping members buy new motorcycles.
- In 2015, the idea of a housing project was mooted and a housing co-operative – Nabosa Housing Co-operative Society Ltd – was registered.
- In 2018, 60 members were able to get affordable houses.
- The SACCO is an instrument used to mobilise youth into co-operatives and mentor them into entrepreneurial thinking.
- The Housing Co-operative was also able to lobby the County Government to improve internal roads and water supply.



MSMEs accessing loans

Biashara SACCO

- The SACCO started operations in 1991 and began with Back Office Service Activities (BOSA). It expanded in 2006 to offer Front Office Service Activities (FOSA).
- The SACCO now has about 139,200 members with an asset base of about Sh2 billion and has 10 branches in the country.
- The SACCO caters to business people in all types of MSMEs including farming, transport, hawkers, barbers, carpenters, 'Jua Kali' sector etc
- The SACCO does not run a check-off system to recover loans
- Some of the challenges faced include lack of collateral by members to secure loans. To address this, the SACCO has an asset financing product where members save 30% and get the rest as a loan to acquire assets
- The most popular loan product in the SACCO is the development loan which is mainly used to improve members business, increase working capital and open new businesses.

Faidisha Wanabiashara SACCO

- **The SACCO started in 2012 with only 18 members drawn from small businesses in Gikomba area in Nairobi.**
- **Currently the SACCO has over 2400 members and is rapidly changing the phase of small and medium sized enterprises in Nairobi.**
- **The SACCO aims to provide reliable and efficient financial services so as to uplift the social and economic status of members.**
- **The SACCO offers business loans among other types of loans to members, to improve their livelihood**

Tower SACCO:

Mkopo Mashinani Loan

- The SACCO was started in 1976 and comprises of members from Government ministries, parastatals, hospitals, businesses, farmers among others.
- Through the 'Mkopo Mashinani loan' (loan in the rural areas) the SACCO reaches MSMEs which are organized into duly registered groups.
- The features of the loan are:
 - Loan is disbursed 5 times a member's deposits
 - Competitive interest rates
 - Repayment period of 18 months
 - Secured by guarantors and chattel mortgage



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Agriculture MSMEs:

KUSCCO Kilimo Loan

- KUSCCO is implementing an agri-business product dubbed 'Kilimo loan' aimed at disbursing agriculture loans to SACCOs with farmer groups. The Union piloted with Siraji SACCO, Fortune SACCO, Qwetu and Capital SACCO.
- Additionally, the Union also offers 'Smart Water for Agriculture Scheme' aimed at financing solar driven irrigation systems and storage.
- KUSCCO also offers crop insurance to ease post-harvest losses by ensuring policy holders reduce risks and increase financial resilience of farmers
- The Union disbursed loans of USD 135,852 which were lent to 20 farming groups to plant Frenchbeans, Potato, Onion, Peas, Vegetables and Sorghum.

Case Study: Kirimara Potato Growers

- Kirimara potato growers was on the verge of collapsing after experiencing a number of challenges including financing, poor access to markets and lack of proper extension services.
- Through a project dubbed Co-operative Development Program (CDP) which had a mandate to support farming groups access financing, structured produce markets and extension services at minimal risk, the group was identified through Siraji SACCO.
- The group consisting of 120 members was engaged in 2017 and received the following services;
 - Potato growing agronomic practices from both KUSCCO and Siraji SACCO agronomists
 - Financial literacy training from Siraji/KUSCCO/WOCCU agricultural finance experts.
 - Crop insurance training from ACRE Africa in collaboration with KUSCCO & Siraji SACCO
 - Pest, disease and seed selection management training
 - Soil testing aspects training
 - Market linkages
- At the end of the season, the group doubled the production of the crop and were able to repay the loans at Siraji SACCO

Case Study: Kanoto Farmers

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- Kanoto Horticultural Farmers' Society in Makueni County, which is affiliated to Universal Traders SACCO was identified to receive support from World Council of Credit Unions (WOCCU)-KUSCCO partnership in establishment of a demonstration farm.
- Makueni faces the problem of water scarcity and this stifles the group's ability to produce continuously
- KUSCCO therefore assisted the community drill a borehole to provide irrigation to group members and improve production.
- The group specializes in horticultural farming and produces crops such as French beans, kales, spinach, indigenous vegetables and fruits.
- The group launched the Kanoto Savings and Credit Society in 2019





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