# Promoting Micro-, Small and Medium-sized Enterprise Formalization through the Cooperative Enterprise Model


United Nations | Department of Economic and Social Affairs

# Promoting Micro-, Small and Medium-sized Enterprise (MSME) Formalization through the Cooperative Enterprise Model

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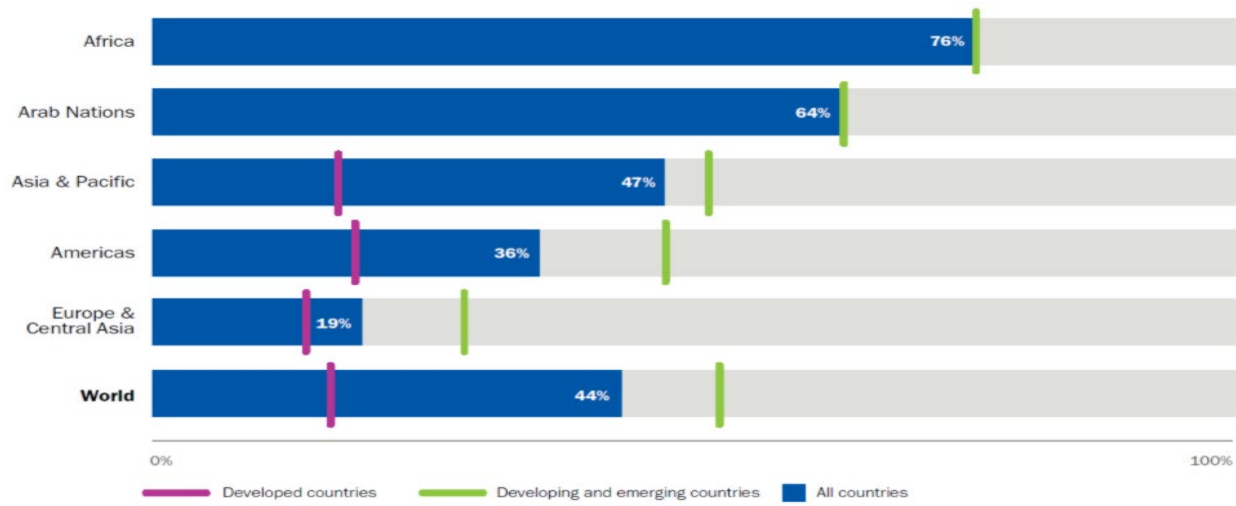
# 1. Introduction

## 1.1 Country context

Micro-, small and medium-sized enterprises (MSMEs) are the backbone of many developing economies in sub-Saharan Africa. Emerging and developing economies' informal sector, to which many MSMEs belong accounts for 25-40 per cent of gross domestic product (GDP) and often more than 60 per cent of employment (World Bank, 2020). Despite the prevalence of informality and the informal sector in sub-Saharan Africa, it varies in intensity from country to country, contributing, for example, 20-25 per cent of formal sector output in Mauritius, South Africa and Namibia and 50-65 per cent in Benin, the United Republic of Tanzania and Nigeria (World Bank, 2009; Medina, Jonelis and Cangul, 2017). Further statistics reveal that half or more of all employment in the global South is informal, with the highest rates found in Africa (and South Asia), as shown in the figure.

*Source:* International Labour Organization (2018).[1]



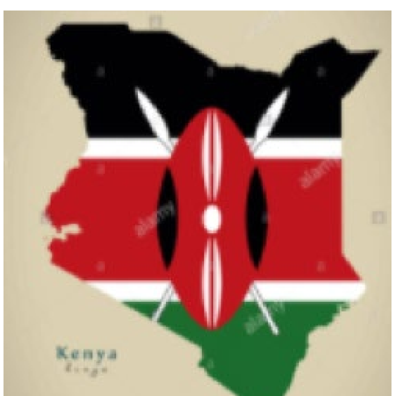

*Notes:* South Asia has a higher rate of informal employment than Africa: 78 percent. Because South Asia is grouped with more developed countries in Asia and the Pacific Islands in the chart, this fact is not visible.
*Source:* ILO, 2018.

Informal sector employment dominates in Central Africa with a 78.8 per cent share, in Eastern Africa with a 76.6 per cent and in Western Africa with an 87.0 per cent share. (Southern Africa comes in last, as the only subregion with less than half of the population (40.2 per cent) employed in the informal sector.) This informal employment situation varies among regions. This proportion is high compared with that for Asia and the Pacific (68.2 per cent), Arab States (68.6 per cent), the Americas (40 per cent) and Central Asia and Europe (25.1 per cent) (ILO, 2018). On average in sub-Saharan Africa between 2010 and 2016, the informal sector economy contributed 36-40 per cent of total GDP. Over the last few decades, the level of informality in sub-Saharan African countries has been declining, despite the fact that it remains the highest in the world. Countries such as Botswana, Ghana, Malawi, Ethiopia, the United Republic of Tanzania and Rwanda have made significant progress. This has largely been attributed to policies that have reduced the regulatory burdens, strengthened the governance system and improved informal sector resource access (World Bank, 2019).

[1] See www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf.

There is therefore an urgent need to address the issue of formalization and growth of MSMESs in Kenya by leveraging policies that enable the application, for example, of international principles for the governance of cooperatives as one means of fostering development of a resilient Kenyan economy. This would entail support for MSME development, nurturing of an entrepreneurial culture and concern for the environment, and expanding opportunities for wealth and employment creation, which is included in the Kenya Private Sector Alliance (KEPSA) MSME agenda and builds on the Kenya Rising Star and Scale-Up programme (KRISP). The MSME sector has been prioritized as a key growth wheel for achievement of the development blueprint under Kenya's Vision 2030. In the effort to ensure that the country achieves a restructuring of key local industries that lack the competitive edge needed to take advantage of opportunities and practise value addition, development and creation of at least five industrial parks for small and medium-sized enterprises is envisioned.


The informal sector in Kenya occupies a large space within the country’s economy. MSMEs in Kenya (of which a majority are informal) contributed a 33.8 per cent share to economic output in 2015 (Kenya, National Bureau of Statistics, 2016: MSME Survey Basic Report). This means that the sector employs about 80 per cent of Kenya’s working population.  Its contribution in 2017 to the creation of new jobs was 83.4 per cent ((Kenya, Bureau of Statistics, 2018). The role of the informal sector in the economy is unrivalled and it is clearly a dominant player in the labour market, although informality has been associated with adverse outcomes both for establishments and entrepreneurs.



Source: Alamy Stock Photo

This has been the trend in previous years where, cumulatively, the informal sector accounted for over 70 per cent of the total working population in Kenya (World Bank, 2016).  Different development agendas have incorporated the sector in their plans in an effort to improve the livelihoods of those that depend on it. On the global platform, the sector is reflected in different development agendas (as attested by Sustainable Development Goal (SDG) target 8.3 and Agenda 2063 (African Union): 1) whose incentive is to develop and promote frameworks that provide decent jobs, improve standards of living, enhance technology adoption and productivity and promote inclusive economic growth, entrepreneurship and formalization of MSMEs (Africa Union Commission, 2015; United Nations, 2015). Kenya has not been left behind in this endeavour as the Kenya Vision 2030 targets creation of jobs, improvement of productivity and promotion of conducive working conditions for Kenyans in the labour and employment sector. The anchoring of the informal sector in development plans signifies the importance of the sector.

The categorization of MSMEs under Kenya's Micro and Small Enterprises Act 2012[2] is illustrated directly below.

| *MSE category* | *Employees* | *Assets (K Sh)* | *Turnover (K Sh.)* |
|---|---|---|---|
| Micro | Less than 10 | Less than 10,000,000 | Less than 500,000 |
| Small | Between 10 and 50 | Capital investment: 10 million-50 million. Farming: 10 million-20 million | Between 500,000 and 5 million |
| Medium | Not defined in the Act 2012 | | |

Kenya's micro and small enterprises (MSEs) are further subdivided into four categories: agriculture, trade, manufacturing and provision of services. This division confirms that Kenya's MSEs are engaged in all of the sectors of the economy despite the fact that there are disproportionate numbers found in agriculture and the provision of services. Based on the defining criteria provided above and the diversity of the business activities in which MSEs in Kenya are involved, it may be presumed that these enterprises make a substantial economic contribution and support a large number of livelihoods. These enterprises are a key driver towards the achievement of Kenya's Vision 2030. This notwithstanding, while statistics show that MSMEs provide close to 85 per cent of employment in the country, they contribute only about 20 per cent of total GDP which signals the lack of an appropriate policy for MSME development in Kenya. This points to the urgency of rethinking approaches to formalization. The right mechanisms are needed to provide a framework for realization of the Government's many worthwhile aspirations.

Such an effort becomes even more relevant in the current context of the COVID-19 pandemic, where many formal businesses worldwide, hit hard by the pandemic's economic effects, are likely to be forced to pursue unregistered economic activities as income sources , thereby increasing the scale of the informal sector. Furthermore, MSMEs that fall into informality and businesses that are already informal have limited access to government support, increasing their instability and the risk of their closing down. COVID-related growth in the informal sector underscores the need for appropriate and strategic policy responses.

## 1.2 Approach to formalization

The Government of Kenya has acknowledged the challenge presented by the persistence of the informal sector and has worked to develop policies, regulations and institutional frameworks to mitigate the consequences of growing informality. One notable government policy is set out in sessional paper No. 2 of 2005 on development of micro and small enterprises for wealth and employment creation for poverty reduction.[3] Regulations include the Micro and Small Enterprise Act of 2012 which established the Micro and Small Enterprises Authority for coordination and

[2] See www.industrialization.go.ke/images/downloads/policies/Micro-and-Small-Enterprises-No-55-of-2012.PDF.

[3] See http://repository.kippra.or.ke/bitstream/handle/123456789/1360/Sessional%20Paper%20no%202%20of%202005%20Development%20of%20Micro%20and%20Small%20Enterprises%20for%20Wealth%20and%20Employment%20Creation%20for%20Poverty%20reduction%281%29.pdf?sequence=3&isAllowed=y.

harmonizing of micro- and small enterprises, and the Licensing Laws (Repeals and Amendment) Act, or Trade Licensing Act, of 2006[4] that provided for the registration of businesses and trade regulation.

The enactment of the Micro and Small Enterprises Act in December 2012 aimed at guiding the development and formalization of micro- and small enterprises (MSEs) in Kenya was a large policy achievement. It is clear, however, that the requirements under that law have not been fully implemented by the Government of Kenya. The interventions by the Government notwithstanding, the informal sector continues to be a major player in employment creation and as a source of livelihoods, albeit within a context of poor living standards and low productivity. Leveraging policies underpinned by the cooperative enterprise model to promote the formalization of MSMEs might be a working solution to the problem posed by the persistence of the informal sector and might lead to an improvement of the sector's performance and contribution.

The MSME sector has been prioritized as a key growth wheel for realization of the development blueprint of Kenya's Vision 2030. As noted above, in the effort to ensure that the country achieves a restructuring of key local industries that lack the competitive edge needed to take advantage of opportunities and practise value addition, development and creation of at least five industrial parks for small and medium-sized enterprises are envisioned.


## 1.3 Methodology

There is an urgent need to address the issue of formalization and growth of MSMESs in Kenya by leveraging policies governing cooperatives as one means of fostering development of a resilient Kenyan economy through support to MSME development, nurturing of an entrepreneurial culture and expansion of opportunities for wealth and employment creation.

On 20 June 2002, the General Conference of the International Labour Organization (ILO) adopted an instrument focused specifically on cooperatives, namely, the Promotion of Cooperatives Recommendation, 2002, (No. 193), in which the Conference, inter alia, noted that cooperatives have an important role to play in transforming - across all countries and relevant enterprise sectors - the often marginal survival activities (often referred to as the informal economy) into legally protected work, fully integrated into mainstream economic life. Cooperatives are also a main component of the social and solidarity economy, which has become an integral item under the United Nations agenda through the establishment in 2013 of the United Nations Inter-Agency Task Force on Social and Solidarity Economy, bringing together United Nations organizations including ILO and other international organizations such as OECD, as well as representative organizations including the International Cooperative Alliance.

In an ILO paper (Schwettmann, 2014)) which focused on the relationship between cooperatives and the Sustainable Development Goals (SDGs), the issue of the transition towards the formal economy was addressed under SDG 8, Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Target 8.3 under SDG 8 is worded as follows: "promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization

[4] See http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/LicensingLawsRepealsandAmendmentAct2006.pdf.

and growth of micro-, small and medium-sized enterprises including through access to financial services". The author's corresponding comment - on cooperative specificity in this regard - is 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 and to building bridges between informality and formality, as well as to access to finance".

## 2. Impact of the COVID-19 pandemic on MSMEs

The outbreak of the COVID-19 pandemic has exacerbated the challenges faced by micro, small and medium-sized enterprises (MSMEs), especially in African countries. According to the *Sustainable Development Goals Report 2020* (United Nations, 2020), the COVID-19 pandemic has been deemed the world's worst economic recession since the Great Depression, with real GDP per capita having declined by 4.2 per cent in 2020. Also, it has been estimated that approximately 1.6 billion workers in the informal economy risked losing their livelihoods as they were the most affected by lockdowns, travel restrictions and other measures taken by Governments to contain the spread of COVID-19, particularly given their limited savings.

Enterprises are, in particular, facing a variety of problems such as a decrease in demand, supply chain disruptions, cancellation of export orders, raw material shortage, and transportation disruptions, among others. Nevertheless, it is quite clear that MSMEs are experiencing a significant impact of the COVID-19 outbreak on their businesses because MSMEs, in comparison with large enterprises, usually do not possess sufficient resources, especially financial and managerial, and are not prepared for dealing with the fact that such disruptions are likely to go on longer than expected. Additionally, these firms are highly dependent on their routine business transactions and a small number of customers. Hence, many MSMEs are already running out of stock, some hardly continue to operate, and some will be running out of stock soon.

A rapid survey of the impact of COVID-19 on businesses conducted by the Economic Policy Research Centre (EPRC) in Uganda in April 2020 (as discussed in an article on the Brookings website) found that micro- and small businesses experienced a larger decline in business activity compared with medium-sized and large firms. Responses to the survey question, "If the pandemic persists and the current restrictions are maintained, how long will it take for your businesses to close or go out of business?" were tabulated as follows:

| | 1-3 months | 3-6 months | More than 6 months | More than a year | Do not foresee closure | N |
|---|---|---|---|---|---|---|
| **Sector** | | | | | | |
| Agriculture | 12 | 31 | 7.2 | 19 | 30.7 | 20 |
| Manufacturing | 9.9 | 25.7 | 15 | 12.1 | 37.2 | 32 |
| Services | 23.9 | 18.7 | 7.4 | 10.8 | 39.2 | 95 |
| **Size** | | | | | | |
| Micro | 58 | 24.9 | 0 | 16 | 1.1 | 16 |
| Small | 27.7 | 25.1 | 13.9 | 9.8 | 23.5 | 59 |
| Medium | 8.3 | 19.1 | 5.3 | 10.4 | 56.8 | 44 |
| Large | 0 | 1.2 | 8.3 | 13 | 77.5 | 28 |

*Source*: Rapid Business Climate Index (BCI) survey, April 2020.[5]
Note: *N* stands for "number of business surveyed".

[5] Corti Paul Lakuma and Nathan Sunday, "Impact of COVID-19 on micro, small, and medium businesses in Uganda" (Brookings Institution, 19 May 2020). Available at www.brookings.edu/blog/africa-in-focus/2020/05/19/impact-of-COVID-19-on-micro-small-and-medium-businesses-in-uganda/.

There are other factors that render MSMES highly vulnerable to the impact of COVID-19. Some of these factors may be described as follows: They are more labour-intensive than other companies and therefore more susceptible to disruption especially when workforces are in quarantine. Moreover, they have a thinner liquidity reserve, which signifies that they have limited financial alternatives at their disposal, and rely mostly on support from local banks. In the majority of cases, they lack collateral for opening new credit lines. These factors make them more vulnerable and poised for exposure to a liquidity squeeze, resulting from the fact that SMEs experience a low rate of production which restricts their ability to sell products and services in their niche market owing to the current pandemic. However, they still have to pay all of their fixed costs, such as rent, salaries, taxes and what is owed to their suppliers

Despite the impact of COVID-19 on businesses, cooperatives, compared with singly owned MSMEs, as may be in a better position to build back better owing to their inherent resiliency.

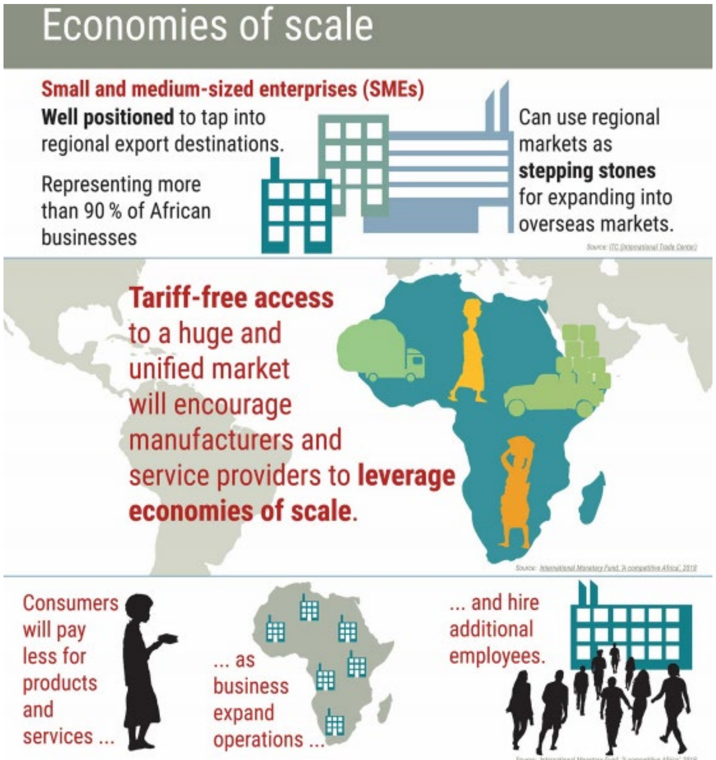
## 3. African Continental Free Trade Area (AfCFTA)

On 1 January 2021, trading formally began within the African Continental Free Trade Area (AfCFTA). The goal driving the AfCFTA is 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. There is an urgent need to expedite the ratification process of the African Union Continental Free Movement Protocol,[6] based on the conviction that the full potential of free movement of goods can be achieved only if there is a freer movement of people as well as labour mobility. For example, Rwanda, Kenya and Uganda have highlighted the positive effect of movement of people on cross-border trade. By revising the administrative procedures for work permits and entry visas, these countries increased cross-border trade with each other by 50 per cent.

In a 2021 report of the European Centre for Development Policy Management (ECDPM) (Mayer and Bisong, 2021), it is noted that as a first step towards ensuring that the benefits of the AfCFTA are fully harnessed, African policymakers need to be more explicit regarding the socioeconomic benefits of free movement of persons. Furthermore, representatives from different fields (immigration agencies, the police, trade ministries, civil society organizations, non-governmental organizations, international organizations and business associations) need to be included in the discourse so as to eliminate the need for the holding of isolated parallel discussions. As small-scale cross-border traders are not necessarily organized, it may not be possible for them to be easily represented in these discussions; nonetheless, their perspectives should be considered.

Other studies have noted that informal trade is a large contributor to most African markets and in Eastern Africa alone, informal cross-border trade (ICBT) could be worth as much as 80 per cent of the value of formal trade, according to the African Export-Import Bank (Afreximbank) *Africa Trade Report 2020* published in December. According to the report, the volume of informal trade in the continent in commodities such as grains, petroleum, coffee and edible oils is high and the trade is lucrative. In the report, Afreximbank points to research showing that informal traders can make a profit that is between 4 and 10 times the local minimum wage.

[6] Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment, as adopted by the Assembly of Heads of State and Government of the African Union at the thirtieth ordinary session of the Assembly held on 29 January 2018. Available at https://au.int/sites/default/files/treaties/36403-treaty-protocol_on_free_movement_of_persons_in_africa_e.pdf.




For the AfCFTA to be inclusive and to ensure shared growth across the continent, women, young Africans and SMEs have to be placed at the heart of its implementation.[7]

In the Economic Commission for Africa (ECA) *Economic Report on Africa 2020*, it is estimated that there will be large gains for Eastern Africa, including an increase in intra-African exports of over US$ 1 billion and the creation of over 2 million new jobs. Kenya is well placed to take advantage of the new opportunities. If Kenya is to maximize the benefits it derives from the implementation of the AFCFTA Agreement, greater attention must be directed towards improving the competitiveness of service sectors such as transport, information and communications technologies (ICT), tourism, finance and business.

Respondents to the questionnaire shared their conviction that MSMEs need to be organized into cooperatives so as to be able to enjoy the large market available through the African Continental Free Trade Area. With the implementation of the African Continental Free Trade Area, barriers imposed on export and import activities are expected to be eliminated or at least mitigated. This brings new opportunities for local businesses in terms of accessing inputs (internationally) and tapping into lucrative export markets locally, regionally and internationally. In this context, cooperatives must acquire the capacity to develop an understanding of the AfCFTA protocols on goods and services as well as the regulatory framework and market requirements. Cooperatives must survey productive potentialities, services and technology and recognize the need for partnerships and business relationships among members. Cooperatives must disseminate their understanding to foster creation of those partnerships and the opportunities for strengthening their members in accordance with the sixth universal cooperative principle, entitled “Cooperation among cooperatives”.

## 4. Existing policy frameworks supporting MSME formalization

According to a survey report of the African Financial Inclusion Policy Initiative (AfPI) Expert Group and SME Finance Working Group (SMEFWG), entitled “Scoping and assessment report: MSME access to finance ecosystem in Africa” (p. 3),[8]

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[7] See statement of the Secretary-General of the AfCFTA secretariat,Wamkele Mene, at the AfCFTA Start of Trading Ceremony webinar on 1 January 2021. Available at https://au.int/en/speeches/20210101/statement-he-wamkele-mene-afcfta-start-trading.

[8] Kuala Lumpur, Alliance for Financial Inclusion, October 2020. Available at www.afi-global.org/sites/default/files/publications/2020-10/AFI_AfPI_SMEFWG_survey%20report_AW_digital.pdf.

SMEs are generally accepted as the most important engines of innovation, growth, job creation and social cohesion in most emerging economies. In these economies, MSMEs contribute on average more than 50 per cent of employment and 40 per cent of GDP and contribute significantly to poverty reduction as well. However, MSMEs can reach their full potential only if they operate in an environment where they have access to the finance necessary to start, sustain and grow their businesses. Hence, there is a need to establish policies that promote the development and growth of MSMEs.


## 4.1 National micro-, small and medium-sized (MSME) policy and strategy

Development of appropriate policies has recently become a priority for countries' economies worldwide. This prioritization has given rise to a significant number of projects and programmes at national, regional and global levels designed to address the above-mentioned concerns. In Kenya, the Micro and Small Enterprises Act (No. 55) of 2012 provides for new rules and institutions to support the country's micro- and small businesses so as to enable them to succeed; and provides legal and institutional frameworks for the promotion, development and regulation of MSMEs. These include the Office of the Registrar of Micro and Small Enterprises, responsible for formalization and registration of MSEs; the Micro and Small Enterprises Tribunal for conflict resolution; and the Micro and Small Enterprises Development Fund set up to address financing issues. The Act also provides for the establishment of the MSME Authority to provide an enabling environment; facilitate formalization and upgrading of informal MSEs; promote a culture of entrepreneurship; and promote representative associations.

In 2003, Kenya's then Minister of Finance, David Mwriraria, noted that "SME activities form a breeding ground for businesses and employees, and provide one of the most prolific sources of employment" and "that "[t]heir operations are more labour-intensive than the larger manufacturers".[9] This being the case, policy provisions would entail boosting not only the operations of these enterprises but the country's economy at large.

Wanjohi (2010) states that in some countries, "the rise of medium-sized enterprises with a considerable swing in the middle class has been hindered by political instability or overdependence on raw materials as the main engine of economic advancement". Hence, there is a need for a sound policy provision to drive the sector towards achieving an efficient performance.

According to the 2018 report of ILO on women and men in the informal sector, women make up nearly half of all small and medium-sized enterprise owners and 40 per cent of smallholder farm managers, yet they hold less than 10 per cent of available credit and less than 1 per cent of agricultural credit. Despite the fact that some provisions have been enacted for gender mainstreaming, much more could be done to achieve this goal.

Wanjohi contends that in the case of Kenya, key organs of government such as the Cabinet Office, Parliament and local authorities concerned with policymaking must grasp the significance of the role of government in MSME advancement and must be made aware of the impact that new policies and laws exert on the operations of small enterprises. If this is achieved, then the Government will be able to establish an institutional framework that favours business; and by setting the rules of the game it will ensure that promising enterprises receive appropriate incentives to facilitate efficient enterprise performance.

[9] See www.kenpro.org/sme-policy-in-kenya-issues-and-efforts-in-progress/#:~:text=This%20was%20well%20recognized%20by,most%20prolific%20sources%20of%20employment.

According to various studies,[10] if the different barriers to financial access are to be removed for the advantage of SMEs, such an initiative would require that microcredit institutions, microfinance institutions, commercial banks, community groups and even business development services (BDS) join forces and work closely. This would result in accessibility of funds for MSMEs and could also facilitate the creation of an advocacy force to push for agreements between financial bodies and providers of business development services.

Clearly defined policy initiatives aimed at revitalizing the micro-, small and medium-sized enterprises sector should not only be government-engineered, but should also receive continuous inputs from all stakeholders in different development sectors. Efforts on the part of both the private and public sectors towards reinforcing the existing MSMEs policy provisions is highly recommended, based on the fact that all are in agreement that MSMEs are major instruments in economic development of national economies.

On 10 December 2019, the Kenya Private Sector Alliance (KEPSA) launched the Micro, Small and Medium Enterprises (MSME) Policy Index to provide policymakers and market players with a tool for monitoring and evaluating progress achieved in implementing policies intended to support MSMEs. According to KEPSA, the index is drawn from a total of 75 indicators which are relied upon in measuring the extent to which each policy dimension is either supportive or not supportive of the MSMEs. The eight policy dimensions are:

1. Enabling governance and business regulatory environment
2. Reliable infrastructure and access to inputs
3. Human capital and entrepreneurial skills development
4. Access to MSMEs financing
5. Effectiveness of MSME representation
6. Supportiveness of framework for business development
7. Market linkages and expansion initiatives
8. Innovation, ICT adoption and technology transfer

According to the Gambia National Policy for MSMEs (2019-2024),[11] countries have lately been reinforcing the points set out below:

- MSMEs are essential to economic growth, wealth and employment creation as well as technology transfer in economies both large and small
- The more vibrant the MSME sector, the healthier the national economy
- The impacts of the MSME sector go beyond wage creation: MSMEs generate employment for poor, low-skilled workers; increase skill development; and have broader social impacts, encompassing, inter alia, access to health care, improved housing, access to education and other social safety nets
- It is not possible to say whether MSME vitality is a cause or an effect of healthy economic growth

In the case of The Gambia, where, being a significant part of the economy, MSMEs contribute about 20-23 per cent to GDP and make up about 60 per cent of the urban labour force, it has been asserted that development of an appropriate national MSME policy necessitates addressing the following constraints, among others.

There is inadequate access to appropriate finance, with limited access to medium- and long-term finance. Some dimensions of the legal and regulatory framework for doing business are less than supportive of the MSME sector. Technical, business management and governance skills are limited. There is inadequate promotional and marketing

[10] See www.kenyachamber.or.ke/wp-content/uploads/2019/09/working_policy_framework_spreads_final.pdf.

[11] See https://en.unesco.org/creativity/sites/creativity/files/qpr/msme_policy_2019_-_2024.pdf.

support for MSMEs business development services available to support MSMEs are insufficient and uncoordinated. There are inadequate linkages and collaboration within the sector and between MSMEs and large business operations.

If well-coordinated and integrated policies are put in place for MSMEs that operate in different economic activity sectors, with funding in both urban and rural areas, this can result in poverty alleviation, wealth accumulation and income distribution. If the private sector is to be seen as the engine of sustainable growth, it cannot fulfil its role without a responsive MSME sector. Hence, there is a need to take advantage of the potential for partnerships and linkages between MSMEs and large companies from which both groups benefit.

From a public perspective, formalization helps broaden the tax base and allows the government to make better-informed public policy and investment decisions based on greater knowledge of the private sector. In The Gambia, the objectives of the established policy are to ease the regulatory and legal environment to make it more business-friendly for all enterprises; and enhance access to finance for MSMEs through alternative finance including guarantees, seed and venture capital and insurance, as well as debt and equity lending.

In view of the above factors, The Gambia has established a strategy that promotes the lending of funds to MSMEs to enable them to access sufficient resources for their efficient operation. It has been observed that in The Gambia, lending at the micro level seems to be active, with microfinance institutions (MFIs), non-governmental organizations (NGOs), village savings and credit associations (VISACAs), credit unions and various community-based organizations all involved in microcredit, with the Social Development Fund (SDF) acting as the wholesale source in most cases. Some of this lending is moving into the small enterprise category where some lenders have had bad experiences because of larger clients' lack of understanding (Gambia National Policy 2019-2024). Although major banks are hesitant to provide loans and other services to micro-, small and medium-sized enterprises, the Gambia Central Bank is encouraging banks to allocate part of their portfolio to MSME sector lending.

## 4.2 National entrepreneurship policy and strategy

In its resolution 71/221 of 21 December 2016, entitled "Entrepreneurship for sustainable development", the General Assembly recognized the important contribution made by entrepreneurship to sustainable development by creating jobs and driving economic growth and innovation, improving social conditions and addressing social and environmental challenges in the context of the 2030 Agenda for Sustainable Development. This resolution encouraged several countries in making efforts to design and implement entrepreneurship policies as a part of their national economic development strategies.

According to the United Nations Conference on Trade and Development (UNCTAD) document entitled "The UNCTAD Entrepreneurship Policy Framework and its implementation" (UNCTAD, Trade and Development Board, 2013), national entrepreneurship strategies need to be tailored to each country's specific conditions (p. 13). It is therefore important to clarify how entrepreneurship is expected to contribute to overall national development objectives and where policies should intervene to achieve those objectives. Before or a country's national entrepreneurship strategy is designed or established, the policy has to take into account the country's specific challenges and the country's specific goals and priorities; ensure the coherence of the entrepreneurship strategy with other national policies; and strengthen the institutional framework and measure results.

## 4.3 Single-window registration

Kenya's digital economy vision, as set out in *Digital Economy Blueprint: Powering Kenya's Transformation,*[12] encompasses" a digitally empowered citizenry, living in a digitally enabled society". The Government's effort towards digitizing public and private institutions is no longer subject to doubt.

According to KenTrade,[13] through the years, the Kenya business sector has faced challenges related to documentation and bureaucracy. These burdens have exerted impacts on Kenya's business climate; hence, given these challenges, global competitiveness has remained a key factor in the Government's transformative agenda. This type of effort is even more pronounced in the area of international and cross-border trade where Kenya is undertaking robust reforms at ports and border points through ongoing digitization and automation of trade transaction processes. Some business sectors have already been supplied with a single-window system, while others are yet to participate in that process which aims towards facilitating business procedures.

In accordance with the Kenyan Micro and Small Enterprises Act of 2012, MSEs are registered solely through the Office of the Registrar of Micro and Small Enterprises which functions in accordance with the provisions for registration of such businesses under the 2012 Act. Every association or umbrella organization which intends to be registered under this Act shall, within 28 days after its formation, make an application to the Registrar for registration.

The Ministry of Trade and Industry guide to business operations in The Gambia, the Single Window Business Registration Act, 2013,[14] was put in place in 2013 for the purpose of providing for the establishment of a single-window registering mechanism for business services, and for streamlining business registration processes and facilitating business start-ups. The Registrar of Companies is the Registrar and administrator of the single-window registry. The single-window registry provides registration services; maintains company and non-commercial registers; provides company incorporation and other services specified under the Companies Act. Under these established conditions, a person cannot carry on a business in The Gambia under a business name unless the name has been reserved and registered through the Registrar of Companies. The single-window registry processes applications for taxpayer registration, employer registration and trade licences as well as social security and housing finance.

The advantages of having such a structure in place are, inter alia, reduction in the average number of processes involved in carrying out operations; reduction in the quantity of paper used, inasmuch as the process is electronic; and the observed reduction in the average number of documents required in order to proceed with registration.

## 4.4 National trade policy

The Kenyan national trade policy journey started in the 1990s as the country embarked on structural and macroeconomic reforms including in the area of trade, with the aim of establishing a more growth-conducive economic environment. When the country adopted its first trade policy, in 1993, the rate of inflation was at 46 per

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[12] See www.ict.go.ke/wp-content/uploads/2019/05/Kenya-Digital-Economy-2019.pdf.
[13] See www.kentrade.go.ke/single-window-system.
[14] See https://mofea.gm/downloads-file/business-registration-and-company-law.

cent, decreasing to 6 per cent in 1998. The country has since then been focusing on quantitative import restrictions, and price controls for goods and services and major products, using tariffing as the main trade policy instrument through which to channel the country's economic vision.

On 19 January 2000, the World Trade Organization issued a press release regarding Kenyan trade policy at that time.[15] The document states that policy objectives include moving towards a more open trade regime, strengthening and increasing overseas market access for Kenyan products, especially processed goods, and further integration into the world economy. These policy objectives have been pursued through unilateral liberalization, and regional and bilateral trade negotiations, in particular within the African region, as well as through the country's participation in the multilateral trading system. Trade policy formulation is the responsibility of several ministries, which constitute the Cabinet's Economic Subcommittee, and the Central Bank. However, recommendations can be made by two inter-ministerial and consultative committees, which include the private sector. No independent bodies review and assess trade policies in Kenya. Trade policy is implemented mainly by the Ministry of Tourism, Trade and Industry.

# 5 Current programmes and initiatives supporting MSMEs in Africa

## 5.1 Eastern Africa

| ***Country*** | ***Who is supporting*** | ***In partnership with*** | ***About the initiative*** |
|---|---|---|---|
| Kenya | Cooperative Bank of Kenya | International Finance Corporation (IFC) | Created solutions like MSME account packages (bronze, silver and gold), mobile loans, unsecured and secured loans/overdrafts, Supply chain financing, insurance solutions, payment solutions and non-financial services such as training, networking and international exposures. The Bank secured US$ 75 million from IFC to support MSMES in better coping with the disruptions produced by COVID-19 |
| | Government of Kenya | Micro and Small Enterprises Authority (under the Ministry of Industrialization, Trade and Enterprise Development) | Mandated to formulate and coordinate policies that facilitate the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of MSMEs with a view to their becoming key industries of tomorrow. |
| | Government of Kenya | Youth Enterprise Development Fund (under the Ministry of Public Service, Gender and Youth) | State corporation that seeks to create employment opportunities for young people through entrepreneurship and encouraging them to become job creators and not job seekers. This is achieved by providing easy and affordable financial and business development support services to youth who are keen on starting or expanding businesses |

[15] Press/TPRB/124. Available at www.wto.org/english/tratop_e/tpr_e/tp124_e.htm.

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| | Government of Kenya | Access to Government Procurement Opportunities (AGPO) programme | Facilitates the accessibility of 30 per cent of government procurement opportunities which are legally set aside for youth, women and persons with disabilities. The programme aims at empowering the above-mentioned groups by providing their members with more opportunities to do business with the government |
| | Government of Kenya | Women Enterprise Fund (WEF) (under the Ministry of Public Service, Youth and Gender) | Provides accessible and affordable credit to support women in starting and/or expanding business for wealth and employment creation, all in the context of realization of SDG 5. In 2016, the Fund's Advisory Board approved lending channels with the key focus on women-led SACCOs and SACCOs with a good credit history with the Fund, to support the SACCOs meet the demand for loans from members |
| | Stawi initiative | Coop Bank, Diamond Trust Bank, Kenya Commercial Bank and NCBA | A mobile-based solution which targets MSME entrepreneurs with a view to improving access to credit aimed at enabling growth or improvement of their business. Provides digital accounts for business operations, access to easy credit in the form of business loans to assist in implementing their plans for growth |
| | Kenya Private Sector Alliance (KEPSA) | Mastercard Foundation | Launched MSME Policy Index – a tool that policymakers and market players use to monitor and evaluate progress achieved in implementing policies intended to support MSMEs. KEPSA-Mastercard Foundation - MSME COVID-19 Recovery and Resilience Programme to support women/youth-led or -owned (at least 400 MSMEs) with loans of US$ 1,000-US$ 15,000 without any collateral, and payable within six months |
| Rwanda | Rwanda Development Board (RDB) | Business Development Fund | Mandated to support MSMEs through facilitation of standards certification, promoting market linkages, facilitating access to finance and promoting skills development and technology transfer |
| | Rwanda Development Board (RDB) | African Management Institute (AMI) and Mastercard Foundation | Agreed to provide 2,500 MSMEs with business recovery and growth tools to help them to bounce back from the impact of COVID-19 |
| | Private Sector Federation | Access to Finance Rwanda | MSMEs Response Clinic initiative - supporting entrepreneurs to adjust to economic realities of COVID-19 by addressing information asymmetry between policymakers, financial services providers and MSMEs |

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| | Rwanda Development Bank | | Provides direct financing to MSMEs and cooperatives, refinancing to microfinance institutions, equity financing and equipment leasing through agricultural and other loan funds |
| | USAID | Bank of Kigali | Have set up a MSMEs guarantee fund |
| | World Bank | Deutsche Gesellschaft für Technische Zusammenarbeit (GIZ) | Involvement in skills training and entrepreneurship development |
| | International Fund for Agricultural Development (IFAD) | | Involvement in projects like Umutara Community Resource and Infrastructure Development Project (PDRCIU), Smallholder Cash and Export Crops Development Project (PDCRE) and Rural Small and Microenterprise Promotion Project (PPPMER), which have been operational for a long time and have directly contributed to the development of agricultural and non-agricultural rural MSMEs |
| United Republic of Tanzania | Government of United Republic of Tanzania | Small Industries Development Organization (SIDO) (Ministry of Industry and Trade)<br>Swedish International Development Cooperation Agency (SIDA), World Bank and Governments of the Netherlands, India and Hungary | Promotes and supports MSMEs by providing them with business development services and financial services on demand |
| | Tanzanian Chamber of Commerce Industry and Agriculture (TTCIA) | | Strengthens the private sector in the United Republic of Tanzania by providing its members with business information services, business promotional events, training and counselling |
| | MSMEs Information System | Tanzania Private Sector Foundation (TPSF) and Financial Sector Deepening Trust (FSDT) | A one-stop centre supporting entrepreneurs in accessing important tools for business management and sources of finance, in building knowledge and understanding of markets and in accessing business networks. Above all, provides support through self-training material for those who would like to start |

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| | | | business ventures for the first time and for those already doing business who wish to acquire more skills and experience |
| | Financial Sector Deepening Trust (FSDT) | Promotion of Rural Initiative and Development Enterprises Limited (PRIDE) | Came up with financial instruments – loans, guarantees and grants - to spur innovation among financial service providers and the development of the financial ecosystem. Help in provision of credit to MSMEs to promote small-scale improvements through the provision of non-collateralized credit to individuals |
| | GroFin | | Provides business loans and business support (expert advice and continuous guidance) to enable them grow their businesses |
| | Insight2 Impact | | Bizfundi initiative - improve credit access and provide business advice to MSMEs owned by women and youth through an online platform. Assist in networking with financial institutions, so that credit-seeking businesses can be steered towards financial institutions that are best positioned to grant them a loan |
| | Government of United Republic of Tanzania | Agriculture Markets Development Trust (AMDT) | Coordination between value chain development initiatives, enhance and improve the understanding of agricultural market systems, improve productivity and market access for MSMEs |
| | Federation of Women Entrepreneur Associations | | Promotes entrepreneurship development among women through support, advice and training. The organization boasts over 250,000 members. Aims at creating awareness of issues and addressing concerns of businesswomen. |
| | Small Entrepreneurs Loan Facility (SELF) | Government of United Republic of Tanzania, African Development Bank Group (AfDB) | Is a microfinance project for microfinance institutions, SACCOS and community banks to enable lending to rural and urban portions of underserved entrepreneurs. It also provides capacity-building and institutional support to microfinance institutions |

## 5.2 Western Africa

| *Country* | *Who is supporting* | *In partnership with* | *About the initiative* |
|---|---|---|---|
| Nigeria | Central Bank of Nigeria | | MSMEs Development Fund - channelling low interest funds to MSMEs so as to enhance access by MSMEs to financial services; increase productivity and output of microenterprises; increase employment and create wealth; and engender inclusive growth. The Government also approved $39 million for the COVID-19 MSMEs Survival Fund |
| | Micro, Small and Medium Enterprises Advocacy and Support Initiative (MSME-ASI) | | Is advocating for the adoption of a set of principles that will guide the conception and implementation of policies for MSMEs in Nigeria, at both federal and State levels. Create a level playing field for MSMEs and improve the legal and administrative environment throughout Nigeria for MSMEs |
| | Federal Government of Nigeria | World Bank | Growth and employment (GEM) equity window, a $165 million (€151 million) grant scheme to support MSMEs. The grant was made available to venture capital and private equity firms and other equity providers to incentivize them to provide equity finance to MSMEs |
| | Federal Government of Nigeria | National MSME clinics (partnering agencies) | One-top shop to provide convenient and efficient services for MSMEs at State level. The representative officers of partnering agencies are available daily to provide caretaker services to MSMEs in dire need of solutions to challenges facing their businesses |
| | Federal Government of Nigeria | National Enterprise Development Programme | An initiative designed to provide subsidized loans to MSMEs at single digits (9 per cent per annum) to cater for applications received from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) under the National Enterprise Development Programme (NEDEP) scheme |
| | Bank of Industry | | Provides financial assistance for the establishment of start-ups, both medium and large projects, as well as the expansion, diversification and modernization of existing enterprises and rehabilitation of existing ones. BOI facilitates the entire process, starting from the pre-loan application |

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| | National Association of Small and Medium Enterprises (NASME) | | Apex organization that coordinates MSME activities and interacts with local and foreign organizations whose services are vital to the development of MSMEs. A forum for interaction, and adoption of a concerted approach to issues of strategic importance to the development of MSMEs |
| | National Association of Small-Scale Industrialists (NASSI) | | Maintains an association for the exchange of ideas and techniques on issues relevant to the development of small-scale industries, and establishing contact with the government, its institutions and other non-governmental organizations |
| | Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) | | Work with other institutions in both the public and private sectors to create a good enabling environment for business in general, and MSME activities in particular |
| Côte d'Ivoire | Mutuelle de Crédit et Financement des PME (MCF–PME) | World Bank, Afriland Bank, Cauris, Adenia, Chamber of Commerce and Industry in Côte d'Ivoire (CCI-CI) | Has been offering training, mentorship and microfinance services to MSMEs mostly in the construction and ICT sectors and providing commercial financial bookkeeping services |
| | ADCI (Agence pour le Développement de la Compétitivité des Industries de Côte d'Ivoire) | | Assisting MSMEs through technical support in accessing funds from financial institutions, mainly through guiding the MSMEs in handling the loaning processes |
| | African Foundation for Entrepreneurship and Economic Development (AFEED) | Ministry of High Education, Africa Development Bank, Ivorian Youth Employment Agency | Offers human, technical and financial support to entrepreneurial activities underpinned by the Entrepreneurs with Zero Francs (EZF) concept - implementing the entrepreneur's business idea organically, making no use of external financial support but using just the entrepreneur's own means. Now carries out a programme entitled "Agripreneur Zero Francs". So far, 400 young Ivoirians have taken part in the programme |

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| | Government of Côte d'Ivoire | INIE (Institute Ivoirien de l'Entreprise) | Overseeing a project on agricultural products for which there is a strong national demand (tomatoes, fish, and rice) where importation is needed to cover demand. Under this programme, five business models are chosen based on the type of agricultural products One enterprise takes a model, the successes are afterward copied to new enterprises which are created under the programme. Entrepreneurs who promote the programme are chosen through a four-step assessment process which includes technical competence, financial knowledge and managerial skills |
| | Government of Côte d'Ivoire | National Commission for MSMEs | Mandated to promote and strengthen the MSME sector by defining and aligning policies to improve MSMEs competitiveness and efficiency, coordinate the MSME development initiative, define the regulatory framework for entrepreneurial and self-employment activities, develop entrepreneurial culture and mindset particularly for youth, create incubators and training centres to enhance and strengthen entrepreneurship |
| | Confédération Générale des Entreprises de Côte d'Ivoire (CGECI | | Operates as a link between the business sector, finance sector and MSMEs sector. Provides coaching, training, MSME structuring and professionalization through different programmes |
| | Investment Promotion Centre of Côte d'Ivoire (CEPICI) | | Online one-stop shop for access to national and international investments in the industrial sector. CEPICI informs the public – and mainly the MSMEs - of business plan competitions for identifying relevant entrepreneurial projects and providing technical assistance support to winners |

## 5.3 Southern Africa

| ***Country*** | ***Who is supporting*** | ***In partnership with*** | ***About the initiative*** |
|---|---|---|---|
| Eswatini | Government of Eswatini | Small Scale Enterprise Loan Guarantee Scheme (SSELGS) | Encourage financial institutions to increase lending to MSMEs by lowering the risk of lending to these entities (through an 85 per cent guarantee for existing businesses and a 95 per cent guarantee for |

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| | | | start-ups). The participating banks evaluate the projects that seek to benefit under the scheme |
| | Government of Eswatini | Small Enterprises Development Company (SEDCO) (under Ministry of Commerce, Industry and Trade) | Established to create, develop and promote MSMEs in Eswatini |
| | Eswatini Development Finance Corporation (FINCORP) | | Provides accessible financial services to start up new businesses and expand existing ones in agriculture, trucking and haulage, forestry, and general business, covering trade, retail, manufacturing, construction and services sectors |
| | Inhlanyelo Fund | | Promotes and supports entrepreneurial talent at grass-roots level by providing loan capital, utilizing the existing administrative and community leadership structures as its key regional intermediaries and substructures from which to spread its microloan operations so as to penetrate the community of individual beneficiaries |
| | Federation of Eswatini Business Community (FESBC) | | Protect the interests of indigenous businesses, ensuring their beneficiation in the local economy. FESBC represents local small and medium enterprises |
| | Government of Eswatini | Eswatini Youth Enterprise Revolving Fund (YERF) (under Ministry of Sports Culture and Youth Affairs) | Controls and monitors the Fund to promote youth employment and alleviate poverty among young people |
| South Africa | Government of South Africa | Department of Small Business Development | Mandated to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, small businesses and cooperatives and ensure an enabling legislative and policy environment to support their growth and sustainability |
| | Government of South Africa | | Debt Relief Fund - providing relief for existing debts and repayments, to assist SMEs during the period of the COVID-19 state of disaster. Help in acquiring |

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| | | | raw materials and paying labour and other operational costs |
| | Sappi Southern Africa | Small Enterprise Development Agency (SEDA) | Enterprise and supplier development (ESD) to support small, medium-sized and microenterprises (SMMEs) where they operate and also in South Africa which they call home to accelerate the country's transformation into a more just and equitable society |
| | iTorho | | Marketplace bookings platform for SMMEs and a subsidiary of Torho Technologies. It is a free online marketing platform for SMMEs which is challenging the traditional classified market model by facilitating discoverability, bookings, payments and complete business process management |
| | Green Outcomes Fund (GOF) | | Increasing investment in green businesses. GOF provides outcomes-based matched (concessional) funding to local investment funds to support investments in SMMEs |
| | Technology and Innovation Agency (TIA) | | Focus is on technology development, from proof of concept to pre- commercialization. To achieve this, TIA established a Seed Fund, a Technology Development Fund and a Commercialization Support Fund |
| | National Youth Development Agency (NYDA) | | Designs and implements programmes aimed at improving the lives of young people and providing opportunities to youth |
| | National Empowerment Fund (NEF) | | Promoting and facilitating black economic participation by providing financial and non-financial support to black-owned and -managed businesses, and by promoting a culture of savings and investment among black people |
| | Small Enterprise Development Agency | Department of Small Business Development | Mandated to implement the Government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government |

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| | Small Enterprise Finance Agency (SEFA) | | Provides financial products and services to qualifying SMMEs and cooperatives through a hybrid of wholesale and direct lending channels within the services, manufacturing, agriculture, construction, mining and green industries sectors. The agency is a wholly owned subsidiary of the Industrial Development Corporation Limited (IDC) |
| Botswana | Citizen Entrepreneurial Development Agency (CEDA) | | Provides subsidized credit, along with monitoring, mentoring, business advisory services and training to selected citizen entrepreneurs |
| | Local Enterprise Authority (LEA) | | Provides development and support services for the local industry needs of MSMEs, encompassing training, mentoring, business plan finalization, market access facilitation and facilitation of technology adaptation and adoption. |
| | Government of Botswana | Youth Development Fund | It caters for out-of-school youth, marginalized youth, unemployed youth and underemployed youth (working youth earning less than 600 pula (P) monthly). The Fund is 50 per cent grant and 50 per cent interest-free loan for the total approved amount |
| | Government of Botswana | Young Farmers Fund (Ministry of Finance and Development Planning) | Provides funding to all young people with companies who wish to start or expand agricultural projects |
| | Botswana Textile and Small Business Owners Association | | Develops business linkages among small, medium and large-scale entrepreneurs to further entrepreneurial development and growth |

## 5.4 Northern Africa

| ***Country*** | ***Who is supporting*** | ***In partnership with*** | ***About the initiative*** |
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| Morocco | European Investment Bank (EIB) | Government of Morocco, Caisse | 300 million euros to support a guarantee scheme for new loans to MSMEs. Enabling provision of guarantees to financial intermediaries contributing to the |

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| | | Centrale de Garantie (CCG) | mitigation of the negative economic effects of COVID-19 on MSMEs. |
| | Universal Postal Union (UPU) | | Easy export programme to help Morocco implement solutions to facilitate boosting of their MSMEs' participation in the export market. Through access to export opportunities, MSMEs will access new markets for their products and increase their return on investment |
| | General Confederation of Moroccan Enterprises (CGEM) | Union for the Mediterranean (Barcelona), the European Association of Craft, Small and Medium-sized Enterprises (UEAPME) | Increase the exchanges and partnerships between European and Moroccan MSMEs in the fields of industry, infrastructure and the green economy, among others |
| | Bank Al-Maghrib | Central Guarantee Fund (CCG) | Set up a fund to provide financial assistance to MSMEs, to be managed by the CCG; co-finance, with banks, operations for the recovery and sustainability of the financial equilibrium of MSMEs that are considered viable, but that are facing economic difficulties |
| | German-Moroccan cooperation | | Emphasis on vocational training, particularly for young people in rural areas. On the supply side, cooperation activities are concerned mainly with access to finance and with improving business services for MSMEs and for the self-employed |
| Egypt | World Bank Group | IFC, Netherlands, United Kingdom of Great Britain and Northern Ireland, Sweden and Switzerland | Improve MSMEs' access to finance, promote sustainable job creation, and boost private sector-led economic growth across the Middle East and Northern Africa |
| | Central Bank of Egypt (CBE) | | Launched an initiative to finance MSMEs, with a reduced interest rate of 5 per cent. The size of the increase in the portfolio of facilitated loans granted to MSMEs has already reached 181 billion Egyptian pounds (LE), while the number of beneficiaries from the initiative has reached over 1.4 million. CBE also launched an initiative to cancel until the end of June |

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| | | | 2021all fees borne by MSMEs from the private sector to activate electronic collection services via the Internet (e-commerce) |
| | | Government of Japan | Supporting national and subnational capacities for planning, coordination and crisis management in addition to addressing the socioeconomic impact of COVID-19, particularly on MSMEs and vulnerable groups |
| | African Development Bank | | The Bank's investments in financial inclusion and support for MSMEs have resulted in the creation of over 183,000 jobs and increased access to finance for over 135,000 people. The Bank has invested US$ 87.15 million through the Social Fund for Development and its partners, resulting in more than 52,000 sub-loans, of which 17,451 were channelled to women, and 97,658 new direct jobs |
| | USAID | | Increasing MSME income and employment and supporting entrepreneurs by integrating them into progressive value chains to facilitate development |
| | Ministry of Finance | | New tax incentives included in the MSME development law - includes a simplified tax system for MSMEs which will help their owners assess the taxes due on their own and file their tax returns on an annual basis without submitting any documents or invoices |
| | European Bank for Reconstruction and Development (EBRD) | Bank's Women in Business (WiB) programme, Tanmeyah Microenterprise Services | 5-billion-dollar loan to Egypt in support of women-led MSMEs. This is EBRD's first engagement within the Egyptian microfinance segment |
| | Micro, Small and Medium Enterprise Development Agency (MSMEDA) | | Provides small one-year loans of up to LE 1 million amid the spread of coronavirus disease (COVID-19). The initiative aims at funding the costs of operation and production to ensure the continuity of small projects |

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| | PROPARCO (subsidiary of Agence Française de Développement) | Arab Tunisian Lease (ATL) | Agreed on a 15-million-euro loan to support Tunisian MSMEs, especially those in a difficult situation exacerbated by the health crisis |
| | European Union | MED MSMEs Programme | Aims towards convening stakeholders and supporting dialogue at regional level to foster policy development and regulatory reforms for MSMEs, in particular on the internationalization of access to dimensions of finance |
| | European Bank for Reconstruction and Development (EBRD) | Arab Tunisian Lease (ATL) | A 5-million-euro loan - to increase access of MSMEs to finance for acquisition of equipment, light commercial vehicles, trucks, trailers and real estate. The loan will provide finance and know-how to boost development and create jobs |
| | Office de Développement du Sud | European Union | To support MSMEs. This initiative is in line with the consolidation of the State's efforts to mitigate the economic impact on Tunisia of the general lockdown necessitated by the pandemic |

# 6. Recommendations for supporting the formalization process through cooperatives

## 6.1 Implementing policies for the formalization and growth of MSMEs

One major means of reducing the size of the informal economy is to stimulate the formalization of informal enterprises, including MSMEs. The General Conference of the International Labour Organization, at its ninetieth session in 2002, adopted the resolution concerning decent work and the informal economy. . In conclusion 25 contained in that resolution, it is stressed that the main policy objective in addressing the informal economy should be to bring "marginalized workers and economic units into the economic and social mainstream, thereby reducing their vulnerability and exclusion".

There are a wide range of varying economic, social and political factors that affect the size and nature of the informal economy; the heterogeneity of those factors makes the development and implementation of a policy for the formalization of MSMEs a difficult undertaking. MSMEs in Kenya are characterized mainly by the cash-based, small-scale nature of their activities, as well as by self-employment, use of labour-intensive technology, limited access to formal credit and amenities, and a limited focus on value addition.

According to the survey conducted, some of the hindrances dogging the formalization of businesses include poverty, lack of skills, lack of financial support and conducive legislation, stagnant growth due to lack of knowledge, lack of capacity and weak professionalization, lack of political will and the perception of the informal economy as a burden. Other formalization barriers and challenges faced by Kenya include inadequate private and public dialogue at both the national and county levels, several layers of licensing; poor coordination of MSME activities, and enforcement of regulatory legislation.

In 2015, the General Conference of ILO adopted the Transition from the Informal to the Formal Economy Recommendation, 2015 (204), to guide members in their efforts to facilitate the transition of workers and economic units from the informal to the formal economy; promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy; and prevent the "informalization" of formal economy jobs.

Under the recommendation's guiding principles (sect. II), members were urged to take into account:

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| a. Diversity of characteristics, circumstances and needs of workers and economic units in the informal economy, and the necessity to address such diversity with tailored approaches | g. Up-to-date international labour standards that provide guidance in specific policy areas |
| b. Specific national circumstances, legislation, policies, practices and priorities for the transition to the formal economy | h. Promotion of gender equality and non-discrimination |
| c. The fact that different and multiple strategies can be applied to facilitate the transition to the formal economy | i. Need to pay special attention to those who are especially vulnerable to the most serious decent work deficits in the informal economy, including but not limited to women, young people, migrants, older people, indigenous and tribal peoples, persons living with HIV or affected by HIV or AIDS, persons with disabilities, domestic workers and subsistence farmers |
| d. Need for coherence and coordination across a broad range of policy areas in facilitating the transition to the formal economy | j. Preservation and expansion, during the transition to the formal economy, of the entrepreneurial potential, creativity, dynamism, skills and innovative capacities of workers and economic units in the informal economy |
| e. Effective promotion and protection of the human rights of all those operating in the informal economy | k. Need for a balanced approach combining incentives with compliance measures |

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| f. Fulfilment of decent work for all through respect for the fundamental principles and rights at work, in law and practice | l. Need to prevent and sanction deliberate avoidance of, or exit from, the formal economy for the purpose of evading taxation and the application of social and labour laws and regulations |

In order to enable advancement towards MSME formalization, integrated and long-term strategies are required which simultaneously address the multiple causes of informality, tax and labour regulations, incorporating issues related to the policy framework, business registration and bureaucracies, governance, access to finance, access to social security and private sector development strategies. Policies focused on promotion of the formalization of MSMEs should include strategies designed to increase productivity and digitization, improve bureaucracies and regulations, capacity- building and training, generate incentives for formalization and enhance government's capacity to enforce compliance.

Formalization should endeavour to encourage MSME competitiveness and sustainability and contribute to achieving full and productive employment and decent work for all. In Kenya, the MSEA, which is an apex authority, manages the tackling of issues of MSME support. In 2020, the Department of Economic and Social Affairs supported the formulation of the MSEA Strategic Plan 2020-2024, under which MSME formalization was included as a strategic priority. Formalization would expand access of MSMEs to business development services, financial resources, innovative technologies and linkages with markets of higher value. As a result, it would improve capital and technical accumulation among MSMEs, improving their productivity and contributions to inclusive economic growth and sustainable development.

### 6.1.1 MSME Formalization through cooperatives

As already noted, in 2002, ILO approved a specific instrument for cooperatives, the Promotion of Cooperatives Recommendation, 2002 (No. 193), in which it is stated, inter alia, that cooperatives have an important role to play in the transition from the informal to the formal economy. Cooperatives are also a main component of the social and solidarity economy, which has become an integral item under the United Nations agenda through the establishment in 2013 of the United Nations Inter-Agency Task Force on Social and Solidarity Economy, bringing together United Nations organizations including ILO and other international organizations such as OECD, as well as representative organizations including the International Cooperative Alliance.

Efforts in this direction have been undertaken by African Governments as well as other development partners such as the Kenya Micro and Small Enterprises Authority (MSEA), the African Development Bank, ITC, UNCTAD and UNDP.

In the Promotion of Cooperatives Recommendation, 2002 (No. 193), Governments are urged to promote the important role of cooperatives in transforming what are often marginal survival activities into legally protected work (para. 9). For instance, the Uganda Shoeshiners Industrial Cooperative Society was initiated in 1975 by homeless street boys and girls, who, for a long time, had borne the wrath of city authorities for operating without a licence. After having organized themselves into a cooperative and 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 benefited from training courses. The Cooperative Savings and Credit Union of Uganda provided loans to the members of the shoeshiners cooperative, who have made a clear-cut move to the formal economy and have been enjoying higher and more stable incomes since their decision to work within the cooperative framework (Mshiu, 2003).

Cooperatives play a critical role in addressing the challenges of unemployment noted above. For example, a report from the National Cooperative Housing Union of Kenya describes how, starting from initial daily savings of K Sh 50 each, *boda boda* (motorcycle taxi) operators in Nanyuki town, Laikipia County, have become proud homeowners in a gated community in Nanyuki, now called the City between Mountains. Those operators came together in 2011 and formed a *chama*, or an informal cooperative society, from which members could borrow money to buy spare parts or bail themselves out in case they were arrested by traffic police. The fact that these cooperatives in Kenya have been contracted to mobilize people to develop their entrepreneurial skills attests to the cooperatives' success. For their part, housing cooperatives are able to lobby the county government for improvements in internal roads and water supply.

Despite the potential benefits of MSME formalization through cooperatives, there are existing obstacles that include:

- Training-capacity gaps
- Informality of operations
- Lack of incentives and finance
- Law and regulations
- Political interference
- Access to resources
- Lack of interest from marginalized groups

Areas where there are existing capacity issues in MSME formalization through cooperatives include clarity of the mandate of cooperatives, understanding of registration and the formalization process, lack of incubating hubs and an enabling policy environment, and gender gaps.

In order to overcome some of the obstacles to formalization of MSMEs through cooperatives, policies and strategies encompassing the following components could be adopted: grants and development support, enhanced capacity, merging of the ministry responsible for cooperatives with the ministry responsible for MSMEs, an adaptive policy framework, good governance, incentives, digitization, a streamlined registration process and mass campaigns designed to mobilize MSMEs to undertake formalization.

There should be a means of ensuring that the formulation and implementation of policies are centralized through digitization and involve social partners and the intended beneficiaries in the informal economy. This will help alleviate the unnecessarily burdensome and costly administrative procedures that govern the registration and start-up processes for businesses. These procedures are perceived to be a major obstacle to the inclusion of businesses in the formal economy. The hurdles faced by micro and small units of production mainly in accessing resources and services, as well as the undermining of the operation of established enterprises, call for a conducive regulatory environment where businesses should be able to formalize quickly, easily and at minimal cost, where contract enforcement and access to the courts are straightforward, and where taxation is realistic.

Cooperatives should be open to all potential members, who should not be subjected to any type of discrimination. Cooperatives should be committed to helping the entire community and other cooperatives. The close relationship between cooperatives and the surrounding community plays a fundamental role in facilitating the transition, since it enables workers and producers in the informal economy to become members of - and thereby undergo the transition together with – the cooperative. Through their interconnectedness, cooperatives' operational principles serve as the basis for a business model which provides the learning space, economies of scale and organizational practice necessary to enable individuals to work together and carry out their transition towards the formal economy, while at the same time becoming inculcated with the cooperative's underlying values. This makes the cooperative enterprise one of the most natural options for groups and workers in the informal economy who seek to improve their situation and prospects.

According to the survey, there are innovative practices utilized by cooperatives which could be adopted by MSMEs in their progress towards formalization. Those practices are divided into five categories in the table directly below.

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| 1. Financial | - Pooling of resources and providing credit<br>- Enable them to join together, as do the members of cooperatives, to start generating profit |
| 2. Markets | - Value addition for raw materials and selling end products and by-products directly to the consumer<br>- Linkages between the different cooperatives for sharing of trade ideas under the national/apex bodies |
| 3. Digitization | - Online marketing<br>- Online commerce<br>- Digitizing their activities by using different types of information technology (IT) software and technologies<br>- Use of cooperatives information system management |
| 4. Enabling environment | - The government should support MSMEs through provision of facilities needed for registering their businesses. Formulating and developing the laws needed to simplify the procedures for registration and costs reduction |
| 5. Capacity- building | - Training in relevant areas, e.g., finance, management, job skills, regulations<br>- Education and training of members on investment and saving using modern technology |

## 6.2 Improving the legal and regulatory business environment

The inadequate legal and regulatory business environment has been a recurring theme in the context of the obstacles and hindrances dealt with by enterprises. Cooperatives, too, must operate in enabling environments which foster their growth if they are to play their role effectively. The enabling environment is usually created by national laws which set out regulatory frameworks and other structures related to establishment and operation of cooperatives.

In an attempt to address these challenges from the legal point of view, the Pan-African Parliament resolved to adopt a model law on cooperative societies in Africa during its meeting in Nairobi in 2019 after a proposal to develop the law was presented by the Director of the International Cooperative Alliance (ICA) – Africa. This model law would be developed to provide normative guidance to States when adopting new legislation or reviewing existing pieces of legislation. The purpose of the model law is to provide a framework for enabling cooperatives-related legislation, with a view to ensuring that cooperatives function as truly member-based organizations which meet members' needs and aspirations, optimally contribute to national development, and play a meaningful role in achieving African and global social and development goals

Further, ICA-Africa within its framework partnership with the European Commission, is undertaking legal framework analysis of member countries in the region. The legal framework analysis seeks to enhance knowledge of cooperative legislation and the ability to evaluate it, with the aim of ensuring that regulations acknowledge the specificities of the cooperative model and ensure a level playing field with other businesses.

The ICA legal framework analysis at the time of the writing of the present report has been conducted in 14 African countries. The overall findings of the study show that there are patterns of enabling and disabling legal provisions across countries. Generally, the cooperative legislation in those 14 countries provides for a favourable procedure for establishment of cooperatives. On the question of management and regulatory frameworks, there is a need to strengthen provisions on self-regulation of cooperatives, to ensure that accountability of members and leaders is firmly established and to also ensure that regulatory frameworks are balanced and designed in a manner that allows cooperatives to operate as free private business organizations and not as "quasi-public bodies". From a positive perspective, there are good practices scattered throughout the legislation of those countries and the model law could therefore benefit from putting all of these best practices under one roof. Lawmakers could find most of what they need in the model law and thereby avoid the tedious task of surveying many laws to extract the best standards or progressive provisions.

### 6.2.1 Business registration services

Different countries in Africa have different business registration procedures ranging from registration entailing physical paperwork to online registration services. According to the International Finance Corporation (IFC) under its Ease of Doing Business initiative, there are different benchmarks and business environments. With respect to indicators such as starting a business, hiring and firing workers, registering property and obtaining credit, countries that perform better have simpler procedures, shorter waits and lower costs, and smaller informal economies. In different business reports, including ongoing Doing Business surveys in several countries, it was noted that no single indicator is a key factor with respect to promoting formalization.

For instance, in Kenya, business registration starts with a name search which costs about K Sh 150, filling out of the CR1 form, providing a statement of capital, memorandum and article of association, indicating the type of business (sole or partnership), shareholders details and physical residence, and paying a registration fee of about K Sh 11,000. From the enumeration of these elements, it can be seen that the administrative process and financial requirement for registration are cumbersome. There is a wait for a period of up to one month for the business to be registered.

Owing to the burdensome nature of the process, there has been a rise in the number of online businesses, through which one markets products and meets with customers through social media platforms. The transaction is carried out without the registrant's being subject to any registry or regulatory requirements.[16]

Approaches to business registration reforms are most often "neutral" in that they aim at improving the functioning of the registries without differentiating between enterprises conducting large-scale business activities and much smaller business entities. Evidence suggests, however, that when business registries are structured and function in accordance with certain features, they are likely to facilitate the registration of MSMEs, as well as operate more efficiently for businesses of all sizes. These features are set out in the recommendations contained in the *UNCITRAL Legislative Guide on Key Principles of a Business Registry* (United Nations Commission on International Trade Law, 2019). At its forty-sixth session, in 2013, the Commission had agreed that work on such a publication should be added to its work programme.

The Legislative Guide has been prepared on the understanding that, in order to create a sound business environment, it is in the interests of States and micro-, small and medium-sized enterprises (MSMEs) to ensure that such businesses operate in the formal economy. The Guide is also underpinned by the expectation that entrepreneurs that have not yet commenced a business may be persuaded to do so within the formal economy if the requirements for formally starting their business are not considered overly burdensome, and if the advantages for doing so outweigh the perceived benefits of operating in the informal economy.

Business registries are systems established by law that facilitate the interaction of new and existing businesses that are operating under the registry's jurisdiction of with the State, other businesses and the public, both when those businesses are established and throughout the course of their lifespan. The business registry not only enables such businesses to comply with their obligations under the domestic law applicable to them, but empowers them to participate fully in the formal economy when registration is required for that purpose, and otherwise enables them to benefit from legal, financial and policy support services that are more readily available to registered businesses.

The Guide supports the view that transitioning to an electronic or mixed registry (i.e., one that is electronic and paper-based) contributes greatly to promoting the registration of MSMEs. The Guide recognizes that adoption of modern technology has not progressed equally among or within States, and it recommends that any reform gravitating towards electronic business registration should be tailored to the State's technological and socioeconomic capacity.

Other features that encourage the registration of MSMEs include provision of registration and post-registration services at no cost or at low cost, and collection and maintaining of good-quality and reliable information on registered businesses. Importantly, establishing a one-stop shop for business registration and registration with other relevant authorities that are associated with the establishment of a business, such as taxation and social security authorities, greatly facilitates such registration, particularly in the case of MSMEs. A one-stop shop adopts a user-centric approach which is driven by the needs of the businesses, thus providing services that respond to their expectations in terms of cost efficiency, delivery time and engagement of the service providers. For this reason, the Guide supports the view that one-stop shops are a key means of improving institutional interoperability among relevant public authorities and that States should use one-stop shops to establish integrated registration procedures for the establishment of a business.

[16] See www.kra.go.ke/en/.

### 6.2.2 Taxation

According to the International Finance Corporation (2007), besides wage earners, who generally are subject only to income tax and withholding, MSMEs form the bulk of taxpayers in the tax net. At the same time, however, small businesses are the major contributors to the informal economy operating outside the tax net. This is not, however, a contradiction in terms. In many developing and transition countries, micro- and small enterprises (MSEs) are the most rapidly growing business segments. Their characteristics and also their tax compliance attitude vary significantly. On the one hand, a large number of MSEs register with the tax authority voluntarily or as a result of enforcement actions. On the other hand, high costs, difficult formalization procedures, or the expectation of gaining a comparative advantage from not complying with tax obligations drives many small businesses towards operating in the informal economy.

According to KPMG in its 2017 report entitled *Investing in Africa: A Guide to Tax/Incentives in Africa* and the World Bank *Doing Business Report 2017*, Africa, has seen great improvements; for example: the average number of days needed to start a business dropped from 37 to 27 in five years. Africa is also the second-highest adopter of reforms, behind Europe and Central Asia. Some of the said reforms include the introducing and improving of data portals, in Nigeria, Rwanda and South Africa; Kenya has been ranked among the top improvers in that regard.

Tax compliance encompasses the preparation, submission and payment of taxes due within the specified time periods. In order for the objectives to be achieved, it is necessary that the tax systems for small businesses be efficient and simplified in order to meet the needs of the sector. According to survey respondents - for instance, in Kenya - the types of taxes include income tax, rental, value added, excise duties, capital gains and agency revenue taxes. As long as they are registered and operate in the country, all of these taxes apply to all businesses which must comply with the tax regulations.

From the literature analysed, it is evident that tax burdens have hindered the process of formalization and Governments need to consider enhancing the tax incentives offered to this sector. There have been strides in providing an enabling environment for such businesses as cooperatives; however, much more needs to be done. In addition, tax incentives vary across countries and across the types of businesses engaged in. For instance, Ghana cooperatives do not pay tax on profits gained from businesses but all cooperatives are required to register and acquire licences. In Côte d’Ivoire, while registration for cooperatives is free, they are required to pay the stamp duty. In the United Republic of Tanzania, the National Economic Empowerment Council was created to oversee the development of businesses in the country. There is a desire for a comprehensive regulatory framework governing the incentivization of MSMES and a corresponding toolkit to ensure that there is proper monitoring and evaluation of the benefits to the sector.

## 6.3 Challenges related to access to finance in the MSMEs sector

It was clear from the questionnaire and previous studies that access to finance remains one of the key constraints on the development of MSMEs. Some of the challenges identified include lack of a regulatory framework supporting and protecting MSMEs in respect of accessibility of financial resources, and an inadequate capital base for most MSMEs to enable them to meet the collateral requirements for credit imposed by banks, as well as the procedure to be followed in obtaining such credit. The situation is further exacerbated by financial challenges and crises such as the COVID-19 pandemic. It is worth noting that the COVID-19 pandemic led to reduced cash flows and difficulties in repayment of loans, lack of financial reserves to serve as a cushion and an inability to service credit due to layoffs and retrenchments. Financial service providers experienced a low uptake of loans offered and workers feared the possibility of defaulting.

According to a study conducted in Zambia,[17] there is usually the problem of a mismatch between the needs of MSMEs and the supply of financial services. For instance, on the demand side, lack of loan requirements, financial records, business plans, traceable credit history and inadequate corporate governance restricts MSMEs from accessing credit. On the supply side, financial service providers (FSPs) do not understand the unique financial needs and business models of MSMEs. They subject these businesses to the same assessment criteria as large corporate entities. Other issues include lingering deficiencies in the legal and regulatory framework and poor financial infrastructure of financial institutions, related to, e.g., branch networks, accounting and auditing standards, credit reporting systems, collateral and insolvency regimes which are not pro-MSMEs. There is also the crowding out effect of government borrowing being a much more attractive option than delving into riskier MSME lending.

The situation in Africa is particularly challenging, in that the MSME finance gap (i.e., the percentage of formal MSMEs that cannot - or can only partially - access credit) for sub-Saharan Africa is the highest in the developing world (51 per cent in 2017).[18] The informal sector contributes an estimated 38 per cent of sub-Saharan Africa's GDP (see footnote 18), with the implication being that the overall finance gap is probably higher. There are some specific concerns related to women-owned MSMEs, which already have limited access to formal credit and other financial services, and are at greater risk of being marginalized and further left behind.

According to the scoping and assessment report on MSME access to the finance ecosystem in Africa (2020),[19] the credit infrastructure in countries is developing and creating a more enabling environment for sustainable access to credit and increasing the market reach of credit providers. Credit information sharing through credit bureaux, risk-sharing for credit providers through credit guarantee schemes and the extension of collateral through movable asset registries and accompanying legal frameworks are used by the majority of countries.

Based on MSMEs' importance to the growth agenda, and given the consensus in the literature on their need for finance and their centrality to development policy in Kenya, it would be expected that MSMEs would find it easy to access credit. However, this is not the case. The Central Bank of Kenya and the 2016Kenya FSD (Financial Sector Deepening) report estimate that only 8 per cent of MSMEs have access to both formal and informal credit. Formal moneylenders such as commercial banks, microfinance institutions and savings and credit cooperatives (SACCOs) refrain from lending to MSMEs on the basis of information asymmetry and lack of collateral (Kenya, National Bureau of Statistics, 2016). Further, for those with access to credit, the interest rates are high, thereby making borrowing a costly affair. The 2016 national *Micro, Small and Medium Establishment (MSME) Survey: Basic Report* established that the inaccessibility is more pronounced with respect to commercial banks compared with small financial institutions. The situation is dire: 29.6 per cent of MSMEs closed down between 2012 and 2016 owing to inadequate financing (ibid.).

### 6.3.1 Enhancing MSMEs' access to credit

According to the World Bank,[20] opportunities exist through improving credit reporting systems, secured lending and insolvency practices. One way to reduce financing obstacles for SMEs is to strengthen the infrastructure that supports financial transactions, including laws, regulations and institutions, so as to create, register and enforce collateral and insolvency regimes and credit reporting tools. In economies with adequate creditor protections, the bank credit financing gap between large and small firms decreases; and credit granted in a supportive legal

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[17]See www.zambiagreenjobs.org/images/zambia/articoli/pdf/ZambiaGreenJobsInfoPack.pdf.
[18] See www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CVID=m5SwAQA.
[19] See https://issuu.com/afi-global/docs/afi_afpi_smefwg_survey_report_aw_digital.
[20] See www.worldbank.org/en/topic/smefinance.

environment is provided on more favourable terms. However, there are few practical guidelines on how to implement improvements to the financial infrastructure.

To enhance finance access for MSMEs through cooperatives, the respondents recommended the following mechanisms for consideration:

- Have long-term resources and, especially, guarantee funds
- Encourage linkages between the MSMEs and other formal and large enterprises to provide a market and build capacity of operators
- Implement mechanisms to reduce financial and social charges.
- Develop discipline among members in respect of maintaining emergency savings; cooperatives should have enough liquidity to resist or cushion such a crisis.
- There is a need for cooperatives to have in place a business continuity plan (BCP) which incorporates liquidity management for beyond one year as a priority.
- There is a need for a swift response from both the private and public sectors to support MSMEs, given their limited liquidity pools and limited access to affordable finance.
- The solution is to be centred on the above-mentioned sixth cooperative principle. Cooperatives must have an international, accessible and flexible line of financing, and sustainable partnerships are required for security against financial, material and technological limitations. Cooperatives must have international partners in the form of cooperatives which buy products from other cooperatives. The sixth principle should be promoted so as to strengthen weaker cooperatives.
- Promoting local decentralized economies, access to enabling financial mechanisms and enabling a policy environment crafted to promote ease of doing business.

## 6.4 Cross-cutting issues

### 6.4.1 Gender considerations, education and skills development

African women experience a range of barriers to their full participation in the socioeconomic development of African nations. Under patriarchal traditions, women experience lower status and have less access to economic resources and decision-making power. According to the African Development Bank report 2017,[21] women make up more than half of all agricultural workers and 70 per cent of the labour on smallholdings. However, as farmers, they face such constraints as poor infrastructure and limited access to markets, credit and inputs. Women also experience gender-specific barriers to landownership, inheritance rights and access to finance. Further challenges are created based on the amount of the time they must devote to their household tasks, such as collecting water and firewood. These factors limit women's productivity in business, even expanding to formal engagements.

In order to ensure that women's voices and concerns are heard, particularly in work environments where they face discrimination and violence, MSMEs may confederate into workers' organizations to promote workers' rights in the informal sector; and informal sector workers could group themselves into federations with an established representation and participation of women, youth and persons living with disabilities in leadership positions or in senior-level roles in areas such as coordination, creation of specific gender-focused training programmes, and setting up gender forums or committees within the informal economy. Some specific success stories include the Self Employed Women's Association (SEWA) which supports members in negotiations with employers to improve

[21] See www.afdb.org/fileadmin/uploads/afdb/Documents/Development_Effectiveness_Review_2017/ADER_2017__En__Ch._6.pdf .

working conditions, including ending violence against workers who face many risks working as street vendors, market sellers and home-based workers. The global network of Women in Informal Employment: Globalizing and Organizing (WIEGO) has helped raise awareness of occupational safety and health risks among market traders and among women workers in markets, including in Accra (Ghana). In Namibia, the Eudafano Women's Cooperative (EWC) promotes the economic and social interests of its member groups by providing effective services through training and according to sound business principles and market requirements. Rural women are fairly represented on the EWC board which oversees the operations of the cooperative.

### 6.4.2 Information and communications Technologies

Technology can create opportunities in the informal sector economy. New industries, particularly in urban and peri-urban areas, produce jobs for, e.g., shared-ride drivers and homestay hosts and in the area of e-commerce/business logistics. Markets in the informal economy are expanded to small enterprises and customers are provided with a greater range of products and services to choose from. Technology offers scale and has the potential to accelerate regional and international informal trade. Innovative solutions offer potential new opportunities, even in rural areas. Digital technologies may enable informal businesses to access wider markets, information and finance, allowing for innovations that could eventually raise the productivity of low-performing sectors. Or, digital technologies may simply blur the line between formal and informality with the rise, for example, of the gig economy.

One may ask whether digital technologies can change the informal sector, the answer seems to be no. According to the 2020 World Bank survey of informal businesses, informal firms hardly use basic technologies such as computers or even the Internet for their business activities. The report shows that only about 1 per cent of informal businesses in the Lao People's Democratic Republic use computers for their operations. Only 1 in 200 businesses in Mozambique use the Internet. The figure is slightly higher for Zimbabwe, where 2 per cent of businesses use the Internet.

Organizing the informal economy into cooperatives may support the pooling of resources and reduce the costs of operation of such technologies. Applying technologies in production and processing stages such as value addition on raw materials and selling by-products to end users via online platforms may accelerate an increase in incomes for the sector. The application of mobile money in financial transactions may reduce the time wasted in attempting to access financial institutions, allowing that time to be used for productive activities. The government should support MSMEs through providing them with facilities needed to register their businesses online. Formulating and developing the laws needed to simplify online services and the procedures for registration, and reducing the costs required for hiring employees and for conducting transaction on such digital platforms, should be facilitated.

## 7. Conclusions

MSME growth and development in Kenya continues to be a huge challenge, and the COVID-19 pandemic has exacerbated the challenge. Different stakeholders - mainly Governments and private sector and development organizations - have programmes and grants already in place to support the development of MSMEs in Africa. The support ranges from target grants and loans, stimulus packages and special vehicles for supporting MSMEs, such as development of infrastructure, improvement of markets and access to credit, streamlining of tax laws and special funds in support of marginalized groups, such as the Youth and Women's Fund in Kenya. Through the country's partial credit guarantee scheme, the Government has provided the initial capital needed and partnered with banks to facilitate access to finance of MSMEs that have been negatively impacted by the COVID-19 crisis.

MSME formalization is a multifaceted and multi-stakeholder approach and to support formalization, Governments should establish policies that foster the establishment of MSMEs as associations whose values and principles may be clearly defined by government or any other entity that might be tasked by the government to provide such a definition. In addition, Governments could create distinct regulatory bodies for MSMEs whose complementarities may be derived from the already existing entities charged with regulating cooperatives. Through creation of linkages – such as knowledge and excellence hubs - Governments could enable already formalized entities to coach and mentor start-ups so as to prepare them for the transition to formalization. Continuation and scaling up of incentives targeted towards the MSME sector will catalyse the growth of these enterprises.

The cooperative business model can be emulated within the context of the formalization of MSMEs. Cooperatives are people-centred businesses that are value- and principle- driven and whose focus is local communities. As such, cooperatives can serve both as a stimulus and a catalyst for engagement in the formalization process, and as a means of eliminating the many existing barriers to the successful completion of that process.

Through formalization and deployment of vehicles such as the cooperative business model, there will be a potential for rapid economic growth and employment creation, and societies will become repositories of knowledge and wealth. Through the inculculation of the entrepreneurial spirit among groups, benefits will accrue from economies of scale and scope through the pooling together of resources of individual players, thus reducing inequalities and improving market and financial access. . Formalization of MSMEs through a cooperatives-based process will provide space for coordinated approaches to development and growth of individual people-centred businesses--businesses with a soul!--anchored on values and principles consonant with the goals of such businesses.

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