Discussion Paper Series

The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Assessment of Institutional Structures Governing the Informal Sector in Kenya

Mary Mwami and Mercy Matwere

DP/227/2019

THE KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS (KIPPRA)

YOUNG PROFESSIONALS (YPs) TRAINING PROGRAMME

Assessment of Institutional Structures Governing the Informal Sector in Kenya

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Kenya Institute for Public Policy
Research and Analysis

KIPPRA Discussion Paper No. 227
2019

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Published 2019

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ISBN 9966 817 30 3

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Abbreviations and Acronyms

IAD	Institutional Analysis and Development
PFM	Public Finance Management
ILO	International Labour Organization
KIE	Kenya Industrial Estates
KAM	Kenya Association of Manufacturers
MSEA	Micro and Small Enterprise Authority
NGAAF	National government Affirmative Action Fund
KEPSA	Kenya Private Sector Alliance
KNBS	Kenya National Bureau of Statistics
MSEs	Micro and Small Enterprises
CBEM	County Business Environment for MSEs
MTP	Medium Term Plan
KIPPRA	Kenya Institute for Public Policy Research and Analysis
SAGA	Semi-Autonomous Government Agency
YEDF	Youth Enterprise Development Fund
WEF	Women Enterprise Fund
AGPO	Access to Government Procurement Opportunities
CEDOs	County Enterprise Development Officers
KENIA	Kenya National Innovations Agency
KYEOP	Kenya Youth Employment Opportunities Project
NITA	National Industrial Training Authority
NRF	National Research Fund
KIRDI	Kenya Industrial Research and Development Institute
NACOSTI	National Commission for Science, Technology and Innovation
KIPI	Kenya Industrial Property Institute
TVETA	Technical and Vocational Education and Training Authority
CBET	Competence Based Education Training
NRF	National Research Fund
MDAs	Ministries, Departments and Agencies
BMO	Business Member Organizations
KYEP	Kenya Youth Empowerment Project
SEZ	Special Economic Zones
IPR	Intellectual Property Rights
PWDs	Persons with Disabilities
SACCOs	Savings and Credit Cooperatives
GDP	Gross Domestic Product

Abstract

Institutions play a role in determining the economic growth and development of a country. Like many developing countries, Kenya focuses on policy, legal frameworks and development strategies for MSEs due to their ability to improve the competitiveness of a country in the global economy. There have been concerted efforts by the Kenyan government to formalize the informal sector which continues to grow tremendously, constituting 83.4 per cent of total employment. To address these challenges, the government and private sector has come up with institutions, policies, regulations and laws to coordinate, harmonize, manage and promote the development of the informal sector. The institutional framework used in this paper is a modification of the Institutional Analysis and Development (IAD) framework by Ostrom. The study involved a desk review of legal frameworks, policies, and regulations and institutions relevant to the informal sector and analysis of County Business Environment for MSEs (CBEM) Survey 2019. The findings include: Poor coordination, harmonization and management of the MSEs sector; Weak collaboration between National and County Governments in delivery of MSEA functions and development agenda for MSEs; overlapping and duplication of policy mandates such as those of KENIA, KIRDI and KIE; Lack of policies in some critical areas such as incubation, common manufacturing; Low level of training and capacity building; Low uptake of government funding initiatives such as the Youth Enterprise Development fund and Uwezo Fund; Inability to access financial assistance majorly due to lack of financial records and lack of collateral. The findings calls for collaboration between the national government, county government and other stakeholders in coordination, harmonization, management and development of the MSE sector to create an enabling environment for the sector to thrive; lobbying for financing; providing necessary infrastructure and social amenities; encouraging the MSEs in the informal sector to join MSE associations; developing a capacity building strategy; and developing and implementing an M&E framework for MSEs.1.

1. Introduction

1.1 Background

Institutions play a big role in determining the economic growth and development of a country. According to Antelme (2016), institutions are important in maintaining the rule of law, promoting development programs and activities, protecting property rights for individuals and businesses and operating sound macroeconomic policies. The redistributive role of institutions in the economy cannot be ignored. They are imperative in ensuring that the available resources are equally allocated to all as well as providing policing and effective justice systems which adhere to the set rules and regulations. Properly functioning institutions are a sign of a well-managed economy hence creating an enabling environment for businesses, and the reverse is also true, where infective institutions will compromise trust and raise the cost of doing business.

Institutional structures refer to established laws, customs, practices and relationship to govern a society or a community and are acknowledged as a fundamental part of culture, business or organization. North (1994) defines institutions as the humanly devised constraints that shape human interactions "the rules of the game in the society" which provide a framework that shape political, social and economic organizations. The formal institutions are governed by constitutions, laws and rules whereas the operations of informal institutions are guided by norms, codes of conduct and conventions. The enforcement of the rules is carried out by first party through self-imposed codes of conduct, or by second parties through retaliation or third parties through law enforcement (Kirsten, 2009).

The informal sector refers to activities that are unregulated, unrecorded, and in some cases unprotected through formal structures (ILO, 2002). The characteristics of the informal sector include small scale operations, labour intensive, low productivity, acquire skills outside formal sector, easy entry and exit caused by few regulations, unprotected workers, nonpayment or underpayment of taxes, evasion of the rule of law, and unpaid family workers (Williams & Shahid, 2014; Del Cid, 2007). Most of the informal sector enterprises are categorized as Micro and Small Enterprises (MSEs) and consists of both agricultural and non-agricultural firms with 1-50 employees. Notably, most of the policy papers interchangeably use different terminologies such as informal, small enterprise and MSEs to refer to the sector. The Kenya National Trade Policy (2016) recognizes that the informal sector is the entry point for majority of starting businesses in form of Micro and Small Enterprises (MSEs) comprising of small-scale enterprises that are involved in production, distribution and retail of goods and services. Therefore, much reference will be based on the institutional structures governing the MSEs and their role in improving productivity in the informal sector.

The development of the Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth emphasized the need to focus on the informal sector entrepreneurs in the transport, manufacturing, construction, housing and the firms with the potential to transition to large enterprises. A major policy landmark for the informal sector was formulation of the Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali Development. Through the sessional paper, the government addressed the legal and regulatory frameworks that impacted negatively on the growth and development of the sector and called for a review and analysis of the tight controls and laws pertaining to the sector to create an enabling business environment.

Right from the beginning, deviation from the national development plan, which among other agendas promotes expansion of tax base to enhance government revenue by reducing the informal sector,has received little encouragement and assistance from the government (Bangasser, 2000). Since the 1950s and 1960s the informal sector has bulged due to new job opportunities which fell short of the demand as well as increased urban migration. Moreover, there was need for sources of income to supplement the low income earned in civil service. Despite taking several measures towards formalization, the informal sector continues to grow over the years. For instance, in 2017, the informal sector was ranked the highest contributor of new jobs, creating 787,800 new jobs out of the total 897,800 new jobs created in the year (Economic Survey, 2018). The policy makers have therefore deviated from the stringent laws, rules and regulations focused on formalization and are looking into strategies for increasing productivity of the businesses in the sector as an incentive to formalization in the long run. For instance, the *Medium Term Plan (MTP) III 2018-2022* envisions transforming lives through development and implementation of a robust SME development and support programme that would support formalization of a large number of informal MSEs and support their growth to from MSEs to large firms that would contribute to tax revenues and support the national agenda of creating one million jobs.

Just like in many countries around the world, Kenya's informal sector continues to create more jobs than the formal sector, even though the jobs created may not be decent enough to improve the living standards of the working poor in the country. Strong institutions would play a key role in managing this informal sector. Countries such as Japan, Malaysia, South Africa and India have committees, councils and boards of relevant stakeholders who are conversant with matters of the informal sector. Further, Japan has Mirasapo online portal and physical centres established across the country, Malaysia has Malaysia's MSE Corp, a referral centre and Singapore has one-stop shops through enterprise Singapore and India has District Industry Centres. These centres enhance the harmonization of the MSE services as well as facilitate efficient information sharing and advisory services to the MSE sector.

Like many developing countries, Kenya focuses on policy, legal frameworks and development strategies for MSEs due to their ability in improving the competitiveness of a country in the global economy. The enterprises are a rich platform for development of the main sectors of the economy, and are also important as sources of income and employment. They facilitate growth and development in rural areas and complement industrial transformation in large enterprises (Moyi & Njiraini, 2005). Whereas Government policy expects MSMEs to play important roles in economic and industrial transformation,they apply techniques that are insufficiently productive, which cannot produce goods that can enable them break into more dynamic markets (Moyi & Njiraini, 2005).

The low income of those employed in the informal sector calls for urgent measures to improve the sector and provide decent jobs. The fundamental rights at work apply to the informal sector as they do in the formal sector and aim at not only providing jobs but quality jobs. The policies play a role in creating platforms for access to credit, training, technology, markets, cooperative structures, innovation, business incubation and decent employment. Nevertheless, countries with large informal sectors are indicative of existence of cumbersome legal and administrative requirements for registration and licensing that expose the businesses to high transaction costs which are detrimental to the small businesses (Del Cid, 2007).

1.2 Problem Statement

There have been concerted efforts by the government to regulate and develop the informal sector through formulation of policies, laws, and regulations for proper coordination, harmonization and management of the sector. Despite these efforts, the sector continues to grow tremendously constituting 83.6% of total employment (Kenya National Bureau of Statistics, 2018). Some of the key policies that have been put in place include The Constitution of Kenya, 2010, Micro and Small Enterprise Act of 2012, National Trade policy of 2016, Physical Planning Bill of 2017 and Trade Licensing Act of 2006 among others. These policies have been structured to shape the informal sector with the aim of creating an enabling environment for businesses to thrive. Other key institutional structures set up include Micro and Small Enterprise Authority (MSEA) and the Kenya Private Sector Alliance (KEPSA).

Notably, most institutions have placed a lot of attention on the formal sector and most of the policies are geared towards formalization and upgrading of informal micro and small enterprises (MSE Act, 2012). Therefore, the informal sector has resulted in heavy reliance on informal institutions to govern their business interactions,some of which include trust, loyalty, respect, values, and '*chamas*'. These institutions facilitate interaction with the society, the market, local authority and the state in pursuit of social and economic actions (Kinyanjui, 2010). However, the capacity of the informal institutions is limited hence do not adequately support expansion of businesses in the informal sector. The level of discrepancy between the formal and informal institutions determines the likelihood of operating in formal or informal entrepreneurship (Williams & Shahid, 2016).

The government of Kenya,through MSEA,aims to reduce the institutional gap by tapping into the collective action of informal institutions. The intervention involves creating secondary associations and umbrella organizations from the existing primary associations to meet the requirements of the MSE Act, 2012 as well as enable the MSEs to benefit from the social capital relationship. Therefore, the study aims to provide a critical assessment of the institutional structures governing the operations of the informal sector as well as identify gaps and opportunities to create an enabling environment for productive employment in the informal sector.

1.3 Objectives

The main objective of the study is to review the institutional structures in governing the operations of the informal sector in Kenya. The specific objectives of the study are:

i. To review laws, policies and regulations that govern the informal sector

ii. To assess the organizations involved in managing the informal sector

iii. To draw policy recommendations

1.4 Research Questions

i. What are the various laws, policies and regulations that govern the informal sector?

ii. What organizations are involved in managing the informal sector?

iii. What are the gaps and opportunities in the institutional structures governing the informal sector?

1.5 Justification

Examining the institutional structures governing the informal sector is key, given the contribution of the sector to employment and economic growth of the country. A review of the policies, laws, regulations,and assessment of institutions governing the sector will inform all actors involved in MSEs operations on areas of improvement to create an enabling environment for increased productivity. Institutional structures, which are inclusive of both formal and informal institutional arrangements,will ensure all actors work in harmony. The results of the study will help policy makers in formulating policies that are more effective for productive employment that ultimately create decent jobs.

1.6 Organization of the Paper

The paper will be organized in the following sections: Introduction; Theoretical Review; Methodology; Review of policy and Legal Framework and Institutional Analysis; SWOT Analysis; and Conclusion and Policy Recommendations.

Specifically, this paper will focus on the following areas: Coordination, harmonization and management of MSEs; MSE associations and umbrella organizations; Technology, invention and innovation; Training; Financing; work sites and infrastructure; and manufacturing. Manufacturing was selected among the four sectors due to its uniqueness in value addition hence some of the regulations and development initiatives are sector specific unlike the trade and services. Moreover, manufacturing accounts for 11.8 per cent of MSMEs with about 95 per cent of the enterprises being MSEs. Agribusiness is also left out as it constitutes 3.3 per cent of the MSMEs. It is worth noting that unlicensed enterprises that largely engage in manufacturing activities generated revenue worth Ksh 6.6 billion in a month prior to the MSME survey 2016 (Musamali, Njenga and Ngugi, 2019).

2. Theoretical Review

2.1 Social Capital Theory

Social capital refers to features of social life which include networks, norms and trust that unites participants in a more effective way to pursue shared objectives (High Pelling and Nemes, 2005). A fundamental dimension of social capital is trust. It is through trust that an individual willingly permits the decisions of others to influence their welfare (Sobel, 2002). The interpersonal relationships in social capital are an outcome of reciprocity and can be categorized into bonding and bridging capital. Bonding capital is shared between individuals with similar socioeconomic characteristics, and in most cases typifies the relationships within class, ethnic, social, or religious groups. The closeness among individuals in bonding social capital stifles innovation and adaptation, generates monopolies, cartels and collusion. Bridging capital results in less dense social networks since the relationship typifies individuals with shared goals or interests but have contrasting social backgrounds (High et al., 2005). The bond is generally weaker and common in larger networks.

The multifaceted functions of social capital can be interpreted in different dimensions in economics and society. In understanding institutions and leadership that shape the structure of social relations, the structural,bonding and bridging spheres of social capital are important (Patuelli and Savioli, 1920). The relationship aspect of social capital relates to identity, norms and trust and stresses that relational ties that exist are unique, while cognitive domain forms another dimension of social capital which involves mental concepts, processes and ideas. Therefore, social groups have shared mental processes embedded in their language, stories and culture.

In this regard, weaker ties that result in larger networks are more effective in sharing information than stronger ties that characterize denser networks and have a higher chance of overlapping information. To develop a well-functioning firm, it is advisable for entrepreneurs to maintain a dual network of both strong and weak ties. With a right balance of ties, employees and other actors share common goals and maximize diffusion of information.

2.2 Theory of Collective Action

Collective action theory seeks to understand how groups of individuals can cooperate to overcome social dilemmas. Collective action arises when people collaborate on joint action and decisions to accomplish an outcome that involves their interests or well-being (Sandler, 1992). Collective-action problems are typically characterized by interdependency among the participants, so that the contributions or efforts of one individual influences the contributions or efforts of others, no wider benefits are produced, and all are worse off if they each act to maximize their own narrow self-interests. The economic theory of collective action is concerned with the provision of public goods through the collaboration of two or more individuals and with the impact of externalities on group behaviour (Kirsten, Dorward, Colin and Vink, 2009).

In the informal sector, collective action is key because they are assumed to work under the government's radar hence lack the negotiating rights and access to formal dispute resolution mechanisms. Through collective action, the informal operators are able to raise their voice for their grievances to be addressed. In addition, when the informal sector operators succeed in negotiation, they must reinforce the negotiations and ensure that they are implemented or do a follow up of any failed negotiations through collective action. However, informal sector operators are at a risk when they take such actions. Unlike their counterparts in the formal sector, whose strikes carry some level of protection under the labour law, informal operators do not normally have a guarantee of this protection (Bonner, n.d.).

Although, when informal sector operators engage in collective action strategically and have good publicity, they are in a position to force for concessions from those in authority and from their employer. Through this collective action, the informal operators are able to garner public support, and demonstrate their power and importance that the informal sector plays in the economy. For collective action to be effective and achieve the targeted results, all members need to be aware and informed.

3. Methodology

This section provides details on how various tasks were carried out to inform the objectives and research questions of the study.

3.1 Research Approach

The research approach utilized in this study is policy review and institutional analysis of the informal sector. The institutions include laws, policies and regulations which are very important in providing a comprehensive understanding of institutional environment and institutional arrangements when several actors are involved in different but related activities. This approach is relevant in understanding how actors in MSE sector and the available institutions favour or hinder effective implementation of the MSE operations. Institutional analysis is a participatory approach that is used to assess the capacity, behaviour, interactions and outcomes of actors or organizations that carry out development activities (Mburu, 2017). It also helps in identifying constraints that may undermine policy implementation within and across organizations. Such constraints may exist at the level of internal processes, relationships among organizations or system wide.

3.2 Conceptual Framework

Robust institutional underpinnings are required to achieve a balance that favours sustainable development (Leach et al., 1999). Institutional framework by Ostrom constitutes of both the formal and informal institutions and it is flexible to fit into the context of analysis crafted by the author. A study by Yeboah-Assiamah, Muller, & Domfeh (2017) designed an analytical framework from the IAD framework to illustrate the role of institutions in structuring natural resource governance. The paper puts forward that the kind of outcomes realized from any form of governance is not based only on the institutions per se but on the way in which the institutions interact together with the enforcement mechanisms.

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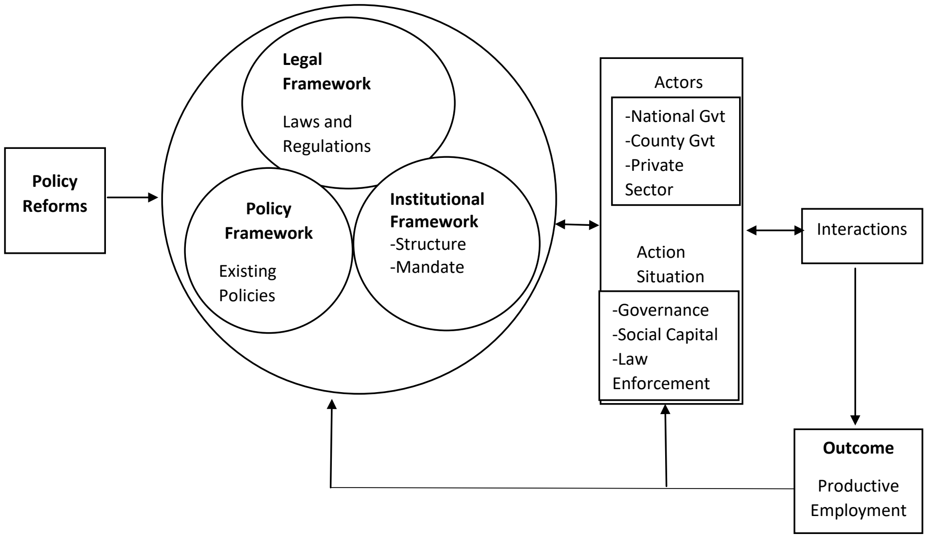
The institutional framework used in this paper is a modification of the Institutional Analysis and Development (IAD) framework by Ostrom. The IAD framework consists of the exogenous variables such as physical conditions and rules in use; actors and action situations; feedback of outcomes to action arena; characteristics of actors and their influence on the outcomes (Ostrom, n.d.); (Kirsten, Doward, Colin & Vick, 2009). The IAD framework recognizes the role of the environment to influence the actor's behaviour and institutions in the action arena resulting to an outcome which in turn feed back to the environment and eventually to the action arena. The framework in use is three-phased whereby it analyses the government laws and policies, the institutions established to implement the established legal and policy frameworks and the action arena where actors and various action situations interact in a way that yields an outcome.

The sequence in the institutional analysis is not necessarily in a neat linear approach, but is interactive and cumulative, since the consideration of one element impacts on another attribute either directly or indirectly (Kirsten, Dorward, Colin and Vink, 2009). The interactions involve economic, social or natural relations that the actors are involved in during exchange of goods and services in locations that are subject of analysis.

Figure 3.1 below shows the interactions between the legal, policy and organization frameworks and action arena in influencing the informal sector. In accordance with Davis and North (1971) higher-level institutions are larger and resistant to change and include policy governance and socioeconomic environment. The high-level institutional environment herein includes the laws, policies, and regulations. The action situation consists of activities such as governance, social capital and law enforcement. The actors influencing operations of the informal sector include the state actors (National and County Governments) and non-state actors (Private Sector).

Figure 3.1: Institutional framework



Source: Author, with ideas from E. Ostrom Framework

3.3 Sources of Data

The study involved a desk review of policies, legal frameworks and relevant institutions to the informal sector as well as analysis of secondary data. The desk review majorly involved analysis of relevant legal frameworks, policies, and regulations that guide the operations of Ministries, Departments and Agencies (MDAs) and the private sector. The literature materials for the desk review were obtained from the websites of various institutions, internet and libraries. The secondary data used in the study was collected by Kenya Institute for Public Policy Research and Analysis (KIPPRA) in the County Business Environment for MSEs (CBEM) Survey 2019. The survey targeted the MSE associations as the respondents. The data covered four critical areas that influence smooth operations of MSEs which include governance and regulatory framework, work sites and adequate infrastructure, financial and technical capacity, and market environment.

According to Musamali, Njenga and Ngugi (2019) there are about 489 associations in various areas in the country with about 50,595 MSEs members, mainly drawn from the trade, service, manufacturing and agribusiness sectors. A structured questionnaire was administered to officials of the MSE associations who are also entrepreneurs and therefore understand the business environment in which the MSEs operate.

Whereas the survey targeted to interview all the 489 MSE associations in the country, due to logistical challenges and unavailability of some respondents, the survey reached 369 associations, or 76 per cent response rate. This was achievable through the support of the County Enterprise Development Officers (CEDOs) who provided assistance to reach the association officials.

The data was collected from 42 counties, namely: Nairobi, Nyandarua, Nyeri, Murang'a, Kiambu, Mombasa, Kwale, Taita Taveta, Marsabit, Meru, Machakos, Makueni, Garisa, Kisumu, Kisii, Laikipia, Nakuru, Kakamega, Bungoma, Busia, Nandi, Mandera, Siaya, Kilifi, Tharaka Nithi, Homa Bay, Migori, Embu, Vihiga, Uasin Gishu, Baringo, Kajiado, Trans Nzoia, Kirinyaga, Kericho, Bomet, Wajir, Elgeyo Marakwet, Kitui, West Pokot, Narok, and Isiolo.

This study utilized the CBEM survey data to provide evidence on the extent of provision of the various infrastructure, amenities, services, resources, markets to the MSEs as stipulated in the existing governance, regulatory and development frameworks.

3.4 Data Analysis

Data analysis majorly involved qualitative analysis through desk reviews with support from the quantitative data collected in the execution of County Business Environment for MSEs (CBEM) Survey 2019, analysed using SPSS software. The desk reviews include an analysis of various legal frameworks, policies as well as institutions that govern the operations of the informal sector.

4. Review of Policy and Legal Framework and Institutional Analysis

There are many organizations involved in implementing the informal sector activities in Kenya. Therefore, this paper majorly discusses the main institutions whose mandate largely influences the management, development, operations and performance of this sector.

4.1 Legal Frameworks, Policies and Institutions involved in Coordination, Harmonization, and Management of MSEs

A major policy landmark for the informal sector was formulation of the *Sessional Paper No. 2 of 1992 on Small Enterprises and Jua Kali Development*, through which the government addressed the legal and regulatory frameworks that impacted negatively on the growth and development of the sector and called for a review and analysis of the tight controls and laws pertaining to the sector to create an enabling business environment. Some of the issues addressed in the policy were non-financial promotion programmes, access to credit, gender specific issues and agenda for action. Studies, taskforces and policy responses led to the transfer of MSEs to the Ministry of Labour and Human Resource Development which commissioned a task force that recommended the establishment of Jua Kali Authority and Jua Kali Council. The Task force advocated for enhanced technological advancement, coordination and management of the sector in order to improve productivity and create sustainable employment opportunities for the fast growing labour force. Although the measures put in place by the policy were expected to positively impact on the sector, the intended purpose was not met due to inappropriate design and weak implementation.

The Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction commissioned the legislation of the MSE Act to provide a legal and institutional framework that would support growth and development of the sector. The policy further promoted the improvement of the legal and regulatory environment by advocating for consolidation and harmonization of trade licensing, decentralization of business registration, local government reforms, enhancement of workspace and security of tenure, capacity building, monitoring and evaluation, compliance to labour laws and promotion of access to justice for the MSEs by establishment of an MSE court. This was then followed by formation of taskforces and eventually the establishment of Acts and Organizations to address matters relating to MSEs in Kenya. Much efforts have been geared towards the established laws and regulations which are mostly cumbersome and not in line with current realities in the MSE sector.

The Micro and Small Enterprises Act No. 55 of 2012 is the first law that comprehensively addressed MSEs in Kenya. The law established the Micro and small Enterprises Authority (MSEA) which is responsible for formulation and review of MSE policies and programs; monitoring and evaluation of existing policies and programs and advising the government on matters concerning MSEs; coordinating and harmonizing MSE activities, programs and development; Formulating capacity building programs; and disaggregating SME data to facilitate in planning. Further, the act established MSE registrar which registers and regulates all MSE associations; MSE tribunal to handle disputes; MSE development fund to offer affordable financing SMEs; and developed structures such as work sites for MSEs. This far the appointment of registrar of MSEs, establishment of the tribunal and MSE fund have not been achieved. The delay in establishment of these institutions violates the law and is an impediment to growth and development of the MSE sector. The MSEA Strategic plan 2013-2017 forecast their establishment by 2017 but there is no allocation of funding by parliament as required by law.

Weak coordination of the MSEs sector has been identified as a persistent policy challenge. The Sessional Paper No. 2 of 2005 was the most recent policy that called for institutional reforms to address the coordination challenge which has greatly contributed to fragmentation of the sector. The MSE Act 2012 resolved this through the establishment of the MSEA. However, MSEA has been ineffective in achieving this mandate due to lack of effective evidence-based coordination mechanisms. Proper coordination of the MSEs has seen some of the countries bearing desired outcomes in employment and economic growth. For example, the MSE sector in Thailand contributed 36% of GDP in 2018 and contributed over 80% of SME employment (Bank of Thailand, 2019).

Access to Government Procurement Opportunities (AGPO) initiative is one of the strategic objectives stipulated in the MSEA Strategic plan 2013-2017 to ensure that the Women, Youth, and PWDs are given an opportunity to participate in public procurement. Despite its implementation in 2013 the CBEM survey of 2019 indicates that only 28 per cent of the respondents were aware of AGPO.

Working in collaboration with the County government plays an essential role in delivery of the MSEA functions. Nevertheless, the weak link between the government and MSEs is evidenced in the CBEM survey 2019 which indicates that only 22 per cent of MSE associations received support from the County government. The impediment \emerged from the formulation of MSE Act of 2012 which did not recognize the role of devolution, hence leaving out the role of County Government in regulation and development of the MSE sector.

Promoting and facilitating research and Development (R&D), patenting and product development in MSEs sector is a major role of MSEA. Kenya has created a number of institutions to support R&D but a major policy gap exists in the integration of data and knowledge that the institutions generate. Development and implementation of a well-coordinated M&E framework for MSEs will therefore play an imperative role in continuous collection and collation of data, creation of MSEs database and preparation of annual reports to inform design, planning, implementation and evaluation of MSE policies, programmes and milestones. Lessons can be learnt from Malaysia whose central coordination agency, SME Corporation Malaysia, conducts quarterly surveys to gauge business performance and seek feedback on current issues facing the SME sector. MSEA is working with KIPPRA in implementation of this role and they have so far carried out several surveys and preparation of a coordination framework is currently underway. More has to be done to achieve capable and resilient MSEs that are competitive in the global market.

Table 4.1: Policies governing the coordination, harmonization, and management of MSEs

Policy	Provisions
Sessional Paper No. 2 of 1992 on Small Enterprises and *Jua Kali* Development in Kenya	-Government addressed the legal and regulatory frameworks that impacted negatively on the growth and development of the sector and called for a review and analysis of the tight controls and laws pertaining to the sector to create an enabling business environment -Addressed issues on non-financial promotion programmes, access to credit, gender specific issues and agenda for action
Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction	The policy promoted the improvement of the legal and regulatory environment by advocating for consolidation and harmonization of trade licensing, decentralization of business registration, local government reforms, enhancement of workspace and security of tenure, capacity building, monitoring and evaluation, compliance to labour laws and promotion of access to justice for the MSEs by establishment of an MSE court
The National Trade policy, 2017	Develop a business-friendly legal and regulatory framework geared towards the growth and development of the MSEs while at the same time safeguarding security, environment and other economic and social and economic activities.

Table 4.2: Policy frameworks governing the coordination, harmonization, and management of MSEs

	Strategies	**Activity**
MSEA Strategic plan 2013-2017	-Enhance collaborations with County Government -Facilitate MSE participation in exhibitions and trade fairs -Ensure implementation of Public Procurement Policy (AGPO) of 30% for Women, Youth, and PWDs -Develop and implement MSE sector communication strategy -Develop and upgrade work sites and industrial parks to provide decent working environment -Establish County MSE centres of excellence -Operationalize MSE fund -Operationalize MSE Tribunal -Operationalize office of registrar of MSE Associations -Establish comprehensive MSE data -Develop coordination and collaboration mechanisms -Develop regulations for implementation of MSE Act 2012 -Identify entrepreneurial, technical and management training needs in the sector -Working with education, training and research institutions to develop and implement a curriculum in technical and entrepreneurship skills -Setting up incubation centres in MSE work sites -Support value addition -Support acquisition, adoption and adaptation of technology -Protect intellectual property rights -Promote quality standards and standardization of MSE products and services -Mainstream gender, youth, PWDs -Register MSE associations and umbrella organizations -Support improved productivity in MSE sector -Review the Sessional Paper No. 2 of 2005 to incorporate the stipulations of the vision 2030 and the Constitution of Kenya, 2010	-Develop guidelines for collaboration with County Government -Conduct MSE market survey and analysis -Sensitize MSEs and other stakeholders on AGPO -Create public awareness on MSE -Develop coordination and collaboration guidelines -Collaborate and sensitize with County Governments funding MSEs -Conducting training needs assessment -Developing a curricular to train MSEs -Develop and operationalize incubation centres -Build capacity and provide equipment for value addition -Identify, transfer, commercialize and sensitize MSEs on appropriate technologies for adoption and adaptation -Collaborating with KEBS and other stakeholders in standardization of MSE products -Develop and implement MSEA Gender policy, disability mainstreaming policy manuals and youth mainstreaming policy manuals -Develop a database for MSE associations and umbrella associations as well as register rules and regulations and sensitize members on the same -Work in collaboration Productivity Centre of Kenya (PCK) to develop programmes for productivity improvement

Table 4.3: Organizations that coordinate, harmonize, and manage MSEs

Organization	Legal Status	Mandate	Achievements
Micro and Small Enterprise Authority (MSEA)	-State corporation established under the MSE Act No. 55 of 2012 -It is domiciled in the Ministry of Industrialization, Trade and Cooperative	-Formulation and review of MSE policies and programs -Monitoring and Evaluation of existing policies and programs related to MSEs and advising the government on matters concerning MSEs -Implementing, coordinating, harmonizing and facilitating MSE activities, programs and development plans to fulfil the national agenda of creating at least 80% of the one million jobs promised annually by the government -Promoting and facilitating Research and Development, patenting and product development in MSEs sector -Promoting mainstreaming of gender, youth and PWDs in MSE programs and activities -Formulating capacity building programs -Promoting access to markets -Promoting innovation in development of products by MSEs to improve competitiveness -Facilitating technology development, acquisition and transfer by MSEs -Disaggregating MSE data to facilitate in planning. -Development of infrastructure like work sites, social amenities, model centres of excellence, business information centres and common usage facilities)	-Implementation of the second component of KYEOP on support for job creation. It aims at helping in launching new businesses, improving productivity and job creation potential of micro enterprises and among youth in self-employment as well as supporting innovative approaches of improving job and earning opportunities for the youths that are hard-to-reach. Its purpose is to address key challenges and market failures limiting demand for youth employment as well as affecting their productivity in employment. They also give business grants to randomized beneficiaries. -Presence at county spearheaded by County Enterprise Development Officers (CEDOs)

MSE Associations and umbrella organizations	-Established under the MSE Act No. 55 of 2012 -It is under Micro and Small Enterprise Authority	-Mobilize members and sensitize them, offer good services to members, -Efficiently settle disputes -Offer capacity building, observe organization's constitution -Provision of business development services -Lobby the government for change, mobilize resources, collect and disseminate information to the members efficiently and timely on issues pertaining to legal requirements, taxation and licensing as well provision of support services (MSEA, 2013)	-489 associations operating countrywide -Membership of 50,595 MSEs countrywide

Kenya Private Sector Alliance (KEPSA)	A limited liability membership organization that was registered in 2003	-Represent the private sector in formulation of policies and laws together with the government -Advocacy to make Kenya competitive in doing business and promote economic growth -Coordinating the private sector -Development and capacity building of Business Membership Organizations (BMOs) to strengthen and grow their representation capacity -Provide a platform for private sector public policy dialogue (Public-private dialogues for business reforms) -Inputting the private sector priorities to the development of National budget -Acts as entry and National Focal Point on regional integration through East Africa Business Council	-Implementation of the Ajira Digital Project which provide tools, training and mentorship to young people on online work opportunities -Developed the training curriculum for the online workers -Successful implementation of Kenya Youth Empowerment Project (KYEP) which was aimed at improving employability of the youths through training and internship in formal and informal sectors of employment. -Implements the sustainable inclusive Business Africa project that supports businesses to be sustainable, inclusive and improve their business practice by taking responsibility of their business impact. -Working with GoK in development of master plans in the target towns -Participating in the amendment of the Land Value Index Laws (Amendment) Act, 2018 to standardize and harmonize the value of land across the country hence making payment of Land Rates, Rent, and compensation of expropriated land and stamp duty on land conveyance rational, predictable and prone to subjective variations. -Working with GoK to harmonize regulatory frameworks to improve ease of doing business -Strengthening and providing linkages to MSMEs for accessibility of international and domestic markets -Working in collaboration with GoK to set up innovation centres to provide research and development, training, coaching, mentorship, business incubation, peer to peer learning and apprenticeship.

Ministry of Industry Trade and cooperatives	Government ministry	-Industrialization and Cooperative Policy formulation and implementation; -Implementation of the Industrial Property Rights regime; -Private Sector Development Policy and Strategy; -Quality Control including Industrial Standards development; -Cooperative Savings, Credit and other Financial Services Policy and regulation; -Development of Micro, Small and Medium Enterprises and Buy Kenya policy.	-Launched the Buy Kenya Build Kenya Strategy which requires the government agencies to embed local content and reserve 40% of their procurement budget on purchase of locally produced goods and services -Launch of National Trade Policy 2017 -In the process of establishing Biashara Bank by merging the SME funds (UWEZO, Youth funds etc) -Establishment of Special Economic Zones (SEZs) which promote expansion and diversification of goods and services produced, local entrepreneurship, value addition, rural and regional industrialization, as well as technology development and innovation.
Ministry of Public Service, Youth and Gender Affairs	Government Ministry	-Youth and Women socioeconomic empowerment -Promoting gender equity and equality to improve quality of life	-Implementation of KYEOP in partnership with NITA, MSEA and World Bank. The project aims at improving youth employability, supporting them for job creation, improving labour market information on labour supply and demand and finally strengthening youth project management, monitoring and evaluation, and policy development. The program targets to train 280,000 youths in a 5-year period between 2016-2021. It will utilize Ksh.15 billion from the World Bank after the 5-year period.

4.2 Legal Frameworks, Policies and Institutions involved in Technology, Invention and Innovation in the MSEs Sector

The Kenya's Vision 2030 identifies science, technology and innovation as one of the drivers of socioeconomic development on the Country. It envisions technology to be key for knowledge-driven economic growth. Some elements that the vision puts forth encourages exploitation of knowledge through utilization of innovative information and communication infrastructure to process, store communicate knowledge. It also envisions formation of an innovative ecosystem with high level knowledge innovators such as universities, research institutions, centres of excellence and think tanks. One of the priority areas in science technology and innovation include use of Intellectual Property Rights (IPR). Following the vision 2030, significant strides were made to fulfil the requirements of the vision. They include the *Science, Technology and Innovation Act No. 28* of *2013* which repealed the *Science and Technology Act (250) of 1979. The STI Act 2013 further established institutions such as* National Commission for Science, Technology and Innovation (NACOSTI), Kenya National Innovation Agency (KENIA) and National Research Fund (NRF) and re-instituted Kenya Industrial Research and Development Institute (KIRDI).

Low level of technology and innovation uptake in the country has resulted in low value addition with limited product range and slow investment in the industrial sector. Despite the formation of institutions to govern invention and industrialization, the sector experiences fragmentation of policy framework leading to overlapping policy mandates. For example, the STI Act of 2013 gives powers to apply for grant and revocation of patents to both NACOSTI and KENIA while the role of guiding entrepreneurs who innovate on patenting and protection is executed by KIRDI

The CBEM Survey 2019 shows that only 5% of MSE associations have access to incubation services within the country. The reasons given for not accessing incubation services include not within reach (55%), lack of awareness (17%), expensive (13%), no need (7%), too many procedures (5%) and no County support (3%). Kenya has few incubation centres to promote entrepreneurial development among innovators with majority being located in Nairobi despite the target to have at least one incubation centre in every county by 2025 (MoEST, n.d.). There is overlap and duplication of roles in the incubation services with KENIA, KIRDI and KIE executing the same role.

KIRDI strategic plan 2016-2021 recognizes that the STI Act, 2013 established the Kenya National Innovation Agency (KENIA) whose mandates largely overlaps with those of KIRDI. This hampers effective and efficient execution of its mandate due to institutional conflicts and lack of clarity which in-turn affects resource allocation. The Institute proposed enactment of the KIRDI Act which would aid in addressing the existing legal hindrances and create an enabling environment. This far, KIRDI Act has not been enacted and the challenges emanating from overlapping mandates affect service delivery of the two institutions. Other challenges affecting the implementation of KIRDI's mandate include lack of modern equipment in some research disciplines, some equipment are dilapidated and outdated, low adoption of ICT in the institutes operations, weak monitoring and evaluation. Moreover, there is lack of policies in some critical areas such as incubation, common manufacturing, and commercialization of inventions and innovation policy.

Installing Intellectual Property rights is paramount to protect MSEs from counterfeiting. The MSEA strategic plan 2013-2017 stipulates that MSEA will collaborate with KIPI, and MSE associations to sensitize MSEs on intellectual property rights, ensure MSEs inventions and innovations are patented, provide incentive programmes to encourage invention and innovation, and facilitate training of MSEs on use World Intellectual Property Institute (WIPO) IP database. Nevertheless, the CBEM survey shows that only 7% of MSEs associations have members that register their innovations with relevant authorities such Kenya Industrial Property Institute (KIPI) and Kenya Copyright Board. The reasons given for not protecting innovations include lack of information (70%), inaccessibility of relevant offices (18%), high cost of registering (6%) and cumbersome procedures (6%). The high cost of registering patents also contributes to lack of protection of inventions and innovations. For example, the cost of registering a trademark is Ksh 17,000 while the cost of registering a patent is Ksh 15,000 with an annual payable fee ranging from Ksh 2,000 in second year and Ksh 50,000 for twentieth year.

Table 4.4: Policies governing on technology, invention and innovation by MSEs

	Strategies
Sessional Paper No. 2 of 1992 on Small enterprises and *Jua Kali* Development in Kenya	-Prioritized modification and adoption of foreign technologies through re-orientation of KIRDI -Identify technology research needs of MSEs through collaborative research -Promoting technology use in private sector -Budgetary support for institutions that support jua kali technologies
Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Employment Creation for Poverty Reduction	-Enhancing budgetary support to institutions that are promote invention, innovation and technology -Adapting and adopting new technology -Promotes research and development to provide technology information -Building technological skills
National Trade Policy, 2017	Development and implementation of a legal system that safeguards the traders from counterfeit products

Table 4.5: Acts governing on technology, invention and innovation by MSEs

Acts	**Provisions**
The Industrial Property Act, 2001	-Established the Kenya Industrial Property Institute -Established Industrial Property Tribunal under section 113 to handle the infringement cases (It repealed the Industrial Property Act Cap. 509 of 1989) -It stipulates that there should be payment of fees -Commissioned the publishing of industrial property Journal to advertise industrial property applications (trademarks, Patents, Industrial designs and Utility models) and any other matters that should be published under the Act.
Science, Technology and Innovation Act, 2013	-Established National Commission for Science and Technology and Innovation (NACOSTI) -Established the Kenya National Innovation Agency to manage the Kenya National Innovation System - Part VII of section 32 established the National Research Fund to be funded by 2% of GDP provided by treasury each financial year, financed from donations, grants, endowments, gifts and money levied for licenses for research.

Table 4.6: Organizations involved in technology, invention and innovation by MSEs

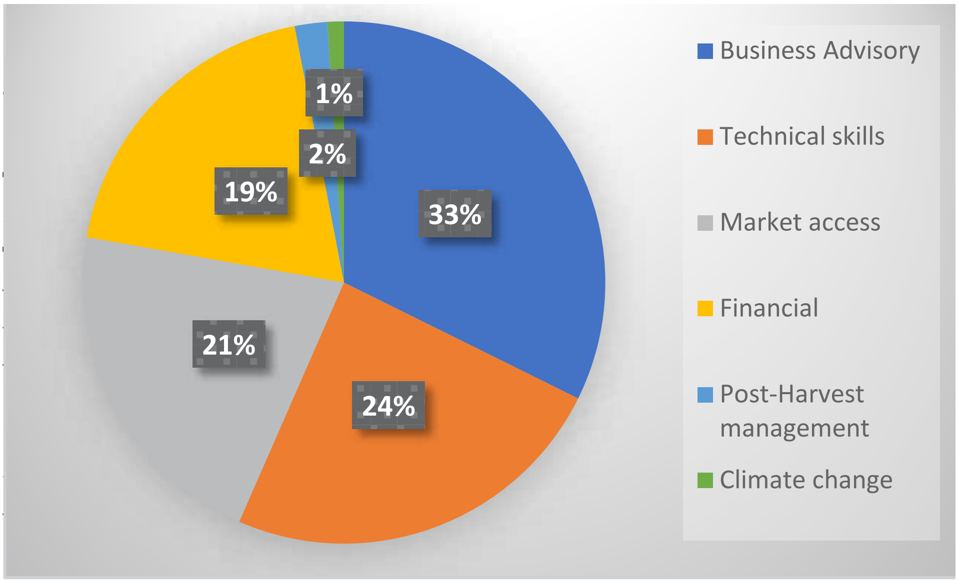
	Legal status	Mandate	Achievement
Kenya Industrial Property Institute (KIPI)	-Established through the Industrial Property Act No. 3 of 2001 -A parastatal under Ministry of Industry, Trade and Cooperatives	-Administering Industrial Property rights -Screening Technological transfer licenses and agreements -Provide Information on industrial property to Public for economic and technological development -Promoting innovation and invention in Kenya -Providing training on Industrial Property -Facilitate MSEs to access registration of intellectual property -Partnership with MSE associations	-Developed the IP PANORAMA project to help MSEs to utilize and manage Intellectual Property (IP) in their business strategy by creating IP awareness among business enterprise and university students especially through 'storytelling'. -Currently offering to publish technologies supporting the "Big 4 Agenda" free of charge -Established the Traditional Knowledge (TK) and Generic Resources (GR) Unit to protect traditional knowledge and generic resources in Kenya from piracy and create a database for the same.

Kenya Industrial Research and Development Institute (KIRDI)	- Established through science and Technology Act which was repealed and replaced by ST&I Act, 2013 -State Corporation under Ministry of Industry Trade and Cooperatives	-Undertake research and development in industrial and allied technologies and transfer them to MSEs and large industries to enhance their productivity and competitiveness -Providing common manufacturing Facilities -Business Incubation Services -Product Development -Guiding entrepreneurs on requirements for getting KEBS standardization and quality marks -Guiding entrepreneurs who innovate on patenting and protection by KIRDI	-Supplying arc welding machines to be used by Constituency Industrial Development Centres (CIDCs) -Honey processing plant in West Pokot County -Kisumu Leather processing plants -Mini-tanneries for leather processing -Establishing Kenya Climate Innovation Centre -Establishment of Cook-stoves Research and Knowledge Management Centre -Operationalization of banana processing plant in Kisii County -Registration with NITA as a training institution -Presence of Climate change Act 2016 that helps secure funds for industrial research -Availability of “green funds” to support environment friendly industrial processes

National Commission for Science Technology and Innovation (NACOSTI)	-Established through Act of Parliament ST&I Act 2013 -Domiciled in Ministry of Education Science and Technology (MoEST)	-To regulate and assure quality in science, technology and innovation (STI) -Develop priorities in STI activities -Implementing policies and budgets on STI -Provide advice to government -Accredit research institutes and approve all scientific research in Kenya -Assure relevance and quality of STI programmes in research institutes -Advise on science education and innovation -Promote awareness, knowledge and information of research system -Promote and encourage private sector to be involved in scientific research, innovation and development -Have the powers to apply for grant or revocation of patents	-Making ST&I regulations 2014 to guide on standards, registration and accreditation of research institutions, research licensing, relevance and quality assurance in research, provide guidelines for intellectual property management policy, inspection, monitoring and evaluation of research institutions, required by the ST&I Act 2013. -Spearheading the formation and operationalization of the National Research Fund (NRF) on behalf of MoEST

Kenya National Innovation Agency (Kenia)	-Established by the STI Act no. 28 of 2013 -It is under MoEST	-Create linkages between actors in the government, research institutions, universities and private sector -Creation of science and innovation parks -Scout for and nurture innovative ideas from private sector, individuals, training institutions, and other institutions -Creating awareness on intellectual property rights -Ensure STI is included in country's programs and policies at all levels -Implement the national innovation and commercialization policy -Disseminating scientific knowledge or technology -Recommend provision of financial and any other assistance to facilitate innovation -Provide incubators for innovative ideas -Establish offices in counties to perform its functions	

Figure 4.1: Areas of training offered to MSEs



Source: CBEM Survey 2019

Despite having institutions in the country mandated to offer training, the informal sector is still lacking the requisite skills that would spur their enterprise growth. For instance, the Kenya Institute for Business Training (KIBT) that is charged with the responsibility of business management and services to the MSMEs has not been able to discharge its mandate fully due to lack of funds, leading to the closure of some of its training centres in the country. Also, the National Industrial Training Authority which was to establish, manage and promote industrial training centres in the counties has only managed to set up centres in Nairobi, Mombasa and Kisumu. This means that a larger population of MSE operators in the country has not been reached hence their training needs remain unmet.

Worth noting is that the Technical and Vocational Education and Training Act, 2013 provided for the establishment of a technical and vocational education and training system. Through this act the Technical and Vocational Education and Training Authority (TVETA) was formed where one of its functions is to ensure that the training system fits the purpose for both the formal and informal sector. Despite this evolutionary phase in the TVET sector there are still a myriad of challenges since there are no clear guidelines in integration of informal sector traders to fully benefit from trainings.

Considering the MSEs are in diversified sectors of the economy, adopting a multi-agency approach in training and capacity building will help MSEA to work in partnership with other established stakeholders to provide quality demand-based trainings and capacity building programs which are otherwise impossible due to the financial, infrastructural and technical requirement. Therefore, developing a capacity building strategy will create a platform for collaboration with the other stakeholders since due diligence will be followed hence establishing long-term relationships.

In the recent past, we have witnessed some of these institutions mandated to provide training doing commendable work in terms of bringing on board more training centres, developing curricular and conducting trainings. For instance the Kenya Institute of Business Training (KIBT) has facilitated the reopening of the training centres that had shut down due to lack of funds. The ministry of Public Service, Youth and Gender Affairs has partnered with the National Industrial Training Authority (NITA) to implement the Kenya Youth Employment Opportunities Project (KYEOP) whose aim is to improve youth employability in Kenya. Further, the Ministry of Education Science and Technology has waived fees for national examinations, increase in the number of TVETs in counties and the introduction of the Competence Based Education Training (CBET) that aims to provide demand driven workforce.

Table 4.7: Policies governing on training of MSEs

Policy	Strategies	Gap/Challenges	Stakeholders
TVET Policy	-Integrate the informal sector with the aim of providing them with skills, knowledge and innovation to improve their enterprise performance -Offer short courses to informal sector operators to boost their productivity and innovativeness	- No courses that have been developed that specifically target the informal sector - The courses are currently costly for informal sector operators to afford - Lack of proper channels of communication to raise awareness of TVET in the country	TVETA
National Trade Policy 2017	-Redesigning and strengthening skills development programmes in technical institutes and universities -Capacity building of MSE trader associations -Collation and dissemination of trade data	-Lack of adequate skills that affects expansion, management, marketing, legal requirements and procedures - Low linkages between training and market demand	-National government -County government

Table 4.8: Organizations involved in Training MSEs

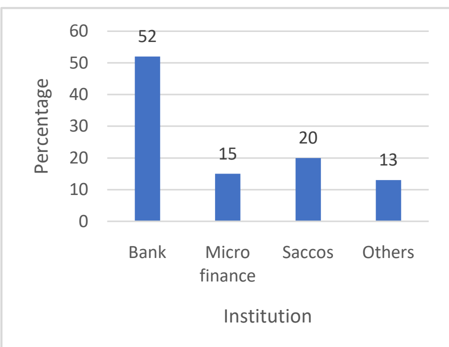
Organization	Legal status	Mandate	Achievement
Kenya Institute of Business Training (KIBT)	Under the Ministry of Industry, Trade and Cooperatives	-To provide business and management development Services to MSMEs and other interest groups - Conduct business-based research and consultancy for MSMEs	Development and launch of various training courses Reopening of the training centres which were closed due to lack of funds
The National Industrial Training Authority (NITA)	The Industrial Training (Amendment) Act 2011)	-Industrial training -Integrating labour market information into skills development; -Accrediting institutions engaged in skills training for industry	-Implementation of KYEOP to improve youth employability by providing the training providers and private sector employers to offer training and work experience to the youths.
Ministry of Education Science and technology	Government Ministry	-Responsible for national policies and programmes that help Kenyans access quality and affordable, school education, post-school, higher education and academic research -Access for youth to relevant education and training -Participation and representation of minorities and marginalized groups in governance and other spheres of life - Promote gender equality and equity and facilitate gender mainstreaming in national development	-Waived fees for national examinations -Focus on TVET to increase the number of technical and vocational institutions in counties -Competence Based Education Training (CBET) introduced. The new curriculum aims at providing demand driven workforce through involvement of both government and private sector in its implementation to develop relevant skills and competencies to the industry for economic development

4.3 Legal Frameworks, Policies and Institutions Involved in Financing MSEs

According to the 2019 economic survey, 83.6% of the jobs created were in the informal sector which shows an upward trend over the years. From these statistics it is evidence, this sector would act as catalyst of inclusive growth leading to productive employment. One of the challenges that hinder growth of the MSEs, is their inability to access financial services that would spur their growth. In Kenya for instance, most MSEs do not access financial assistance from the banks due to lack of financial records that would determine the credit worthiness of an enterprise and whether the enterprise operator will be capable of repaying the loan. Despite the concerted efforts to finance the MSEs, inadequate finances have emerged as a critical factor that hinders their growth and scaling up.

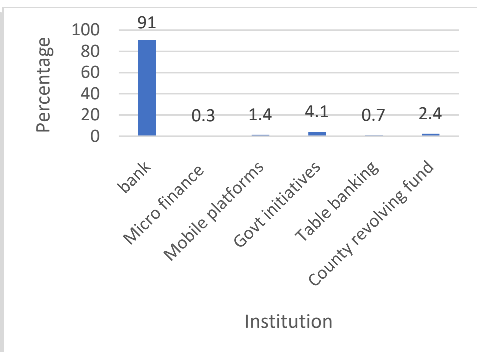
According to the MSE Survey 2017, only 22% of MSE associations had sought credit with 39% of them being successful. The major reason for being denied the credit was lack of collateral (20%). The institutions approached were: Bank (37%), Micro-finance (12%), Saccos (12%) and others (39%). On the other hand, 63% of individuals had sought credit for their businesses with 94% of them being successful. The major for being denied was lack of collateral (38%). The institutions approached were: Bank (52%), Micro-finance (15%), Saccos (20%) and others (13%). In addition, the CBEM Survey 2019, indicates that banks are the most approached institutions for credit with a proportion of 91% while government initiatives (YEDF, Uwezo Fund, WEF and NGAAF) come second with 4.1%. Although the government has created legal institutions to finance MSEs such as Uwezo, youth and women funds, there is little evidence from the MSE survey on utilization of these institutions as sources of financing. Generally, few associations seek credit from financial institutions, yet they can benefit from group borrowing.

Figure 4. 2 Institutions approached for credit:



Source: MSE Survey 2017

Figure 4.3 Institutions approached for credit:



Source: CBEM 2019

The constitution of Kenya, 2010, came as a big win for the youth, women and Persons with Disabilities (PWDs), with emphasis on the obligation of the government to respect, protect, promote and fulfil the rights of its citizens. Under article 54, 55 and 66 there is clear outline on the rights of the vulnerable and marginalized groups which includes the youth, women and PWDs. These groups of people have a right to gainful employment and actively participate in the development agenda of the country. As a result, the government is expected to provide an enabling environment for them to thrive and achieve their full potential through affirmative action programs. For these reasons, the government has come up with initiatives that addresses the plight of these people. Such initiatives include the Youth Enterprise Development Fund, the Uwezo Fund and Women Enterprise Fund.

From the CBEM Survey 2019 results, even though there is still low uptake of these funds, the livelihoods of women, the youth and PWDs have been imparted positively through them. For instance the Women Enterprise Fund has been able to spread its resources across all the constituencies in Kenya and providing trainings and market access for the products. In addition, the fund has partnered with Kenya Bureau of Standards (KEBS) on branding and certification of their products.

Currently, the government is working on merging the YEDF, the Uwezo Fund and women enterprise into one single fund known as the Biashara Kenya Fund. Amendments under the Public Finance Management (Biashara Kenya Fund) regulations, 2018 state that the separate funds run parallel programs and cases of overlap have been cited. The Biashara Kenya Fund will reduce cases of fragmentation, resolve issues of overlaps and make good use of the state resources. Further, this would also lead to proper coordination of the funds ensuring that the rightful beneficiaries access the funds. A fund policy guideline is also being developed to give a clear direction on the disbursement of the funds.

Therefore, there is need to expedite the implementation of the MSE Fund whose aim is to provide affordable and accessible credit for the MSEs, finance the promotion and development of the MSEs, finance research and development; and transfer of technology and innovation. Section 51 of the act stipulates that funds would be accessed through small business associations already registered with MSEA. Once the associations have access to the funds, they have the responsibility of disbursing them as loans or invoice discounting. The association can also guarantee for access to credit from financial institutions. Up until now the MSE Fund has not been formed due to low funds allocations.

Table 4.9: Policies governing on financing of MSEs

Policies	Strategies	Gaps/ Challenges	Stakeholders
National Trade policy, 2017	-Establishment of trade finance facility to provide loans to traders and business start-up -Establishment of savings and credit cooperatives (SACCOs) by MSE associations and enhance the existing -Establishment and encourage use of credit guarantee schemes -Establish County Credit and Loans Schemes	-Challenges of access to finance due to lack of collateral, high interest rate and high administrative and processing costs	-National Government -County Government -Private Sector

Table 4.10: Acts governing on financing of MSEs

	Provisions
Finance Act 2017	-Reduced corporate tax rate for the new assemblers from 30% to 15% in the first 5 years -Proposed comprehensive assessment of interest rate capping laws
Finance Act 2018	- The Finance Act of 2006 through the Income Tax introduced the turnover tax that would target individuals in the informal sector in Kenya. During the reading of the 2018 budget statement it was noted that the turnover tax system of taxation had largely been unsuccessful and the levels of compliance had remained low due to the profile of the sector. This led to a proposal to amend the Income Tax act from the turnover tax to the presumptive tax. The act states that the rate of presumptive tax shall be an amount equal to 15 per cent of the amount payable for a business permit or trade license issued by a County Government: Provided that the tax charged shall be final. Source: The National Treasury
Income tax act	-Each person shall be charged an income tax for the income earned each year if it was accrued or derived from Kenya -Provides for Payment of tax on income from businesses
Value added Tax Act	-Zero rating the supply of maize flour, cassava flour wheat or meslin flour and maize flour containing cassava flour by more than 10 per cent in weight. This will favour value addition on these supplies
The Micro and Small Enterprises Act, 2012	-MSE development fund to offer affordable financing to MSEs (Entering to agreement with financial institutions for affordable and accessible credit to MSEs, approving financing proposals, manage bank account for the fund, supervising and controlling administration of the fund, give loans to associations or umbrella organization, finance MSE capacity building, research, development, innovation and technology.

Table 4.11: Organizations involved in financing MSEs

Organization	Legal Status	Mandate
Women Enterprise Fund	Enacted through a Legal Notice No. 147 of 2007 as a semi-autonomous agency under the Ministry of Public Service, Youth and Gender Affairs.	-To provide support for women-owned enterprises by providing them with ease of access to low cost credit, trainings/ capacity building and marketing of their merchandise with an aim of enhancing their entrepreneurial culture
Youth Enterprise Development Fund	The Fund was established through Legal Notice No. 167 of 2006. - It later became a State Corporation under the Ministry of Public Service, Gender and Youth Affairs through Legal Notice No. 63 of 2007. - The fund is a flagship project of Vision 2030 under the social pillar	-Provide loans to youth-owned enterprises -Provide market support to youth enterprises -Facilitate youth enterprises to develop linkages with large enterprises -Provide trading premises and work sites -Provide business development services to youth owned enterprises -Facilitate youth to obtain jobs abroad
Uwezo Fund	Enacted through Legal Notice No. 21 of the Public Finance Management Act 2014 and domiciled at the Ministry of Devolution and Planning The Fund seeks to expand access to finances and promote women, youth and persons living with disability led enterprises at the constituency level	-To expand access to finances in promotion of youth and women businesses and enterprises at the constituency level for economic growth towards the realization of the goals of Vision 2030; -To generate gainful self- employment for the youth and women - To model an alternative framework in funding community driven development.

The National government Affirmative Action Fund (NGAAF)	Enacted through the Legal Notice No. 24 of the Public Finance Management (PFM) Act, 2012 Public Finance Management (National Government Affirmative Action Development Fund), Regulations 2016. -Semi-autonomous agency (SAGA) under the Ministry of Public Service and Gender affairs, State Department of Gender Affairs -Anchored on vision 2030 blue print social pillar	-Enhance access to finance for affirmative groups (women, youths, persons with disabilities, needy children, and elderly persons) -Support value addition initiatives -Sociocultural development and talent nurturing e.g. arts, music and sports -Offer bursaries and scholarships for education -Establish rehabilitation and counselling centres for drugs and substance abuse -Civic education and community sensitization on NGAAF policies and programmes and Improving livelihoods of through socioeconomic empowerment, financial support for inclusive and participatory sustainable development
National Research Fund (NRF)	Formed through an STI Act No. 28 2013	-Funding research for advancement of ST&I as provided in STI Act, 2013 -Mobilize, allocate and manage financial resources for effective National Innovation System -Will be funded by 2% of the Gross Domestic Product (GDP) annually, private sector and development partners

4.4 Legal Frameworks, Policies and Institutions Governing Manufacturing by MSEs

The MSE survey 2019 indicates that only 24% of the associations have members with access to common manufacturing facilities within the work site or workspace.

An analysis of MSE institutions survey 2017 identifies Kenya Association of Manufacturers (KAM) as one of the MSEs supporting institutions but majorly support the registered MSEs. This poses a challenge on the productivity of the MSEs with informal manufacturing enterprises. This is because KAM majorly supports the formal sector.

Table 4.12: Policies governing manufacturing by MSEs

	Provisions
Sessional Paper No. 2 of 1996 on Industrial Transformation to 2020	-Focused on improving dialogue with private sector and increased allocation to research, technology development and management
The national Industrialization Policy 2012-2030	-Encouraged creativity and innovation to improve production, quality of products and competitiveness

Table 4.13: Organizations involved in promotion of manufacturing by MSEs

Organization	**Legal Status**	**Mandate**	**Achievements**
Kenya Association of Manufacturers (KAM)	Established in 1959 as a private sector body	-Policy advocacy for the government to create a conducive environment for entrepreneurship and MSE development -Representing Value addition industries -Review of legislations affecting members -Providing strategic leadership to support the manufacturing SMEs in achieving inclusive global competitiveness. -Offering value added services to the manufacturing MSEs -Prepare, nurture and grow businesses to enable them benefit from new emerging local and international markets (through value addition) -Providing technical expertise and training to improve productivity of MSEs - Promoting trade and investment -Upholding standards -Industry and Insights analysis -Networking and mentorship	-Enactment of the Trade remedies Act 2017 that protects MSEs from harmful trade practices by providing for powers to impose countervailing, anti-dumping and safeguard measures as well as investigating, evaluating and adjudicating procedures that are growth oriented and market ready -Advocating for enactment of Anti-Counterfeit Act, 2008, Illicit trade manual, -Offering TVET program targeting to provide 500 graduates with internship and job placement and also providing refresher training to industry employees as per skills gap -Providing financial solution for production of green energy. Over 300 projects have been supported in biogas, solar, biomass, hydro and real estate. They have financed projects worth USD70 million. -Are based in various counties including those in Nairobi, Coast, Western, Nyanza, Central and Rift Valley regions. -Have a manufacturing Academy that provides specialized, technical and management training

4.5 Legal Frameworks, Policies and Institutions Governing on MSEs Worksites and Infrastructure

Article 41(1) of the Constitution of Kenya 2010 guarantees every citizen a right to fair labour practices while 41(2) states that every citizen has a right to fair working conditions, reasonable remuneration among other rights. In addition, article 6(a) of the constitution provides for equitable land use. The urban spatial planning left out the informal sector traders which pose a challenge in accessing work sites and workspaces.

The MSE Act 2012 provides that MSEA should advise, facilitate and liaise with the relevant Government ministries and other agencies to develop and promote MSEs. They have the role of earmarking and zoning of land, development of work site management policy, provision of suitable infrastructure including social amenities, common usage facilities, work sites, business information centres, centres of excellence and other facilities necessary for development of MSEs. The CBEM survey 2019 shows that 38% of MSEs associations do not have work sites and work spaces. Lack of funds to purchase land and build required infrastructure, no land allocation, land disputes and lack of support by County government are some of the reasons given for lack of work sites and workspace. Moreover, the results indicate that most of the available work sites are individually constructed (43.8%) and 21.5% are constructed by the development partners. MSEA has made some strides in constructing the work sites with MSEA having constructed 12.4% of the work sites while the MSE associations have constructed 9.4%.

Table 4.14: Access to work sites and workspace for MSEs

		%
Access to work sites and workspace for Members	Yes	61.5
	No	38.5
Reason for no access to work site		
	No Land Allocation	26.6
	Lack of Funds	16.5
	Land Disputes	14.7
	Rent or Build own workspace	11.9
	Inadequate Infrastructure	8.3
	Lack of Support from County Government	7.3
	No need	5.5
	Construction underway	2.8

	Bureaucracy	2.8
	Political Interference	1.8
	Corruption	1.8
Institutions constructing work sites		
	Individually Constructed	43.8
	Development Partners	21.5
	MSEA	12.4
	MSE Association	9.4
	Kenya Industrial Estates (KIE)	7.3
	County Government	5.7

Source: CBEM Survey 2019

Counties have the responsibility of integrating social, economic, physical, environmental and spatial planning into the county agenda. Considering land is an important factor to consider in provision of work sites for MSEs, the County Government ought to be in the forefront in the supporting MSEs but evidence shows that only 5.7% of the work sites have been constructed by County Government. The County Government Act of 2012 provides that the sub county commissioner should manage, supervise and coordinate the development of the various policies and plans, ensure adequate infrastructure and service delivery to the locals and establish developmental activities that would empower the community. In addition, in section 110 of the County Government Act, the county government is mandated with the responsibility of spatial planning and identifying areas where strategic intervention measures can be taken (GoK, 2012). The CBEM survey 2019 shows that there is inadequacy of internet connectivity (4%), water supply (42%), common manufacturing facilities (24%) and waste collection and disposal mechanisms (53%) (Table 4.15) below. Therefore, devolution of planning functions to the county level, provides a conducive environment for the development of policies and legal frameworks that can incorporate and appreciate the activities of the informal sector and how to effectively integrate the MSEs operators so as to reap maximally from the benefits of the informal sector at the same time minimizing on the externalities of the sector.

Table 4.15: Availability of Work sites and Infrastructure to MSE Associations

	Yes (%)	No (%)
Electricity	61	39
Internet Connectivity	4	96
Water Supply	42	58
Common Manufacturing Facilities	24	76
Waste Collection and Disposal	53	47

Source: *CBEM Survey 2019*

Trade Licensing Act (Cap 497) is an Act of Parliament that lays down the rules and regulations for licensing of trades and businesses as classified under the various business ventures. The act requires the applicants of the trade licenses to state their address of trade or any other evidence that shows permission to access and use the space or premises. However, the act is quite ambiguous when it comes to the informal sector operators as they do not have a permanent physical location or address for their businesses nor any document that would show prove of ownership. Of interest is that before one is issued with the trade license, the trade license must be certified by the planning authority and the health department. Nonetheless, obtaining of the license does not give the informal sector operators full rights of trading; they have to ensure that they are trading on designated spaces. In addition, the process of obtaining a license is burdensome and most authorities have a negative perception towards informal sector operators.

Section 24 (1) of the Physical Planning Act, 1996 provides for securing appropriate land for transportation, commercial, public purposes, utilities and services, residential, industrial and recreational areas, including open spaces, parks and reserves and also the making of suitable provision for the use of land for building or other purposes. This therefore provides a mandate for the preparation of plans that seek to promote economic growth and development of commercial zones. The powers of county government stipulated in Section 29 includes prohibition and control of use and development of land and buildings for purposes of orderly and proper development in the County. This therefore requires clear guidelines of operations between MSEA and county governments to avoid conflict of interest.

Table 4.16: Acts governing provision of work sites and infrastructure to MSEs

	Provisions
MSE Act 2012	Development and Promotion of MSEs by MSEA through: ✓ Earmarking and zoning of land ✓ Development of infrastructure
Urban Areas And Cities Act No. 13 of 2011	-Control land use, land sub-division, land development and zoning by public and private sectors for industry, commerce, markets, shopping and other employment centres, freight and transit stations within the framework of the spatial and master plans for the city or County
Urban areas and cities (amendment) Act 2017	-Cities Board shall comprise of among others representatives from a private sector association, registered associations of informal sector as well as registered neighbourhood associations. -Municipality board should include members nominated by an association representing private sector, informal sector and neighbourhood associations. -The town governance and management committee should have members from registered associations of informal sector and also from the business community.

Table 4.17: Organizations providing work sites and infrastructure to MSEs

Organization	Legal Status	Mandate	Achievements
Kenya Industrial Estates Ltd (KIE)	-Public Limited Company established in 1967 as a Small and Medium Industrial Promotion Organization -A government owned Development Finance Institution (DFI) under Ministry of Industry, Trade and Cooperatives	-Provide work space and work sites -Providing financial support and capital formation to micro small and medium industries (MSMIs) -Indigenize Industrialization by exploiting local resources -Provide Business and Technical Advisory Services for MSMEs Entrepreneurship and capacity development -Equitable regional distribution of wealth especially in rural areas -Poverty reduction by creating wealth -Employment creation -Modernization, expansion rehabilitation of industries -Establishing incubation centres for MSMEs	-Have representation in almost all Counties (37 branches) -Constructed over 500 industrial sheds in 33 industrial estates -Over Ksh.6 billion invested in MSMI sector countrywide -Providing Business Development services to over 200,000 entrepreneurs -Value addition of Ksh.12 billion to primary goods -Over 500,000 jobs created and sustained -Wealth creation of over Ksh.16 billion to address regional imbalances (80% supports projects in rural areas; 30% of loans support women-owned enterprises) -Providing training (book keeping, record keeping, website, internet marketing)

5. Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

A SWOT analysis was carried out to identify the various strengths and weaknesses in the institutional structures governing the informal sector as well as comprehending the opportunities and threats to confront to create an enabling environment for productive employment in the informal sector. The SWOT analysis is based on the critical assessment of the various Legal Frameworks, Policies, Strategies and Organizations governing the informal sector, as provided in Table 5.1.

Table 5.1: SWOT analysis

Strengths	Weaknesses
- Presence of MSE Act of 2012 to provide the legal framework - MSEA already established to ensure coordination and harmonization of the informal sector - Presence of MSEA at County which is spearheaded by CEDOs - Some linkages between MSEA and other stakeholders such as KAM, KIBT, KIRDI already formed - Database on MSE Associations developed and MSEs can be easily identified for support - In the process of preparing a Coordination strategy that would reduce fragmentation and overlaps of mandates - Some jua kali sites already functional with about 489 MSE Associations operating countrywide as identified in the CBEM 2019 - Provision of required infrastructures, amenities and services to some MSE associations e.g. work sites, work space and training institutions - The TVET Policy integrates those in the informal sector hence easy to implement	- Weak link between the government and MSEs which hinders coordination of the informal sectors activities - Overlaps in institutional mandates such as KIRDI, KENIA, KIE - Cumbersome procedures and requirement for accessing funds from various institutions such as youth Fund and Uwezo Fund - Delay in establishment of institutions violates the law and is an impediment to growth and development of the MSE sector. Some of the institutions that MSEA Strategy established but are not formed include MSE regulations on implementation of MSE Act 2012, Communication strategy, and Database for MSE associations and umbrella associations. - Guidelines for collaboration between MSEA and County Government are not yet developed - Encroachment to MSE work sites - Lack of market for products and services for MSEs - Low level of training leading to lack of skills for the MSE operators on how to run their enterprises - Inadequate resources that hinders institutions charged with different mandates to discharge their duties

	- Lack of modern equipment, machinery, technology, tools in the training institutions and in the industry with most being dilapidated and obsolete - Poor facilitation of MSEs with infrastructures and amenities for efficient business operation - Low public awareness on existence and mandate of MSEA and other institutions such as KEPSA for MSEs support - Lack of Laws and policies in some critical areas: incubation, common manufacturing, and commercialization of inventions and innovation policy, Prompt Payment Bill - Low access to common manufacturing facilities - The Monitoring & Evaluation framework for MSEs is not yet developed by MSEA - Lack of MSEA communication strategy that would enhance efficient flow of information - The procedure of obtaining a business permit/ license is cumbersome - Low value addition with limited product range due to Low level of technology and innovation uptake - Inadequate training centres and centres of excellence in every county - No proper spatial planning to accommodate the informal sector in cities and towns - Delayed payments by government and retail chains to private sector suppliers affecting Small Scale holders and starters - Threat of traders from counterfeit products with the national processes and procedures governing on the expected standards of products being weak hence leading to release of many sub-standard products into the market without the KEBS quality mark. - Lack of sensitization on available government opportunities e.g AGPO initiative and patenting

Opportunities	Threats
- Good will from government (National and County) and key stakeholders - Laws in place for establishing required institutions e.g. MSE Fund, Tribunal, Registrar - Collaborations and Partnerships with already established stakeholders - Presence of untapped markets for informal sector products - Presence of Centres of Excellence to support R&D - Constitution of Kenya 2010 guarantees every citizen a right to fair labour practices - Public participation platform available as stipulated in Article 10 of the Constitution of Kenya paving way for MSE operators to be involved in decision making	- Increasing level of unemployment leading to proliferation of informal sector - Dumping of counterfeit and cheap products in the market from other countries - Low level of technology and innovation uptake in the country leading to low value addition and production of limited product range - The attitude that informal Sector is unregulated and fragmented affects stakeholder involvement in the sector

6. Conclusion and Policy Recommendations

6.1 Conclusion

The policies, legal frameworks and institutions are key to the development agenda of a country as they provide a road map towards achieving the targeted goals and visions. The informal sector requires a well thought institutional framework to increase its productivity since it creates the highest employment in the labour market as compared to the formal sector. The Government initiatives are geared towards reducing the informal sector to increase government revenue and collaboration with all the stakeholders including public and private partners, industry, and development partners is paramount for successful implementation of the set-out policies, laws, and regulations. MSEA has been given the mandate to coordinate, harmonize, manage and develop the largely fragmented sector and the strategies employed in addressing the existing gaps will highly determine the success in improving productivity of the sector. Resources and efforts should be channelled towards developing a coordination strategy, training and capacity building strategy, establishment of key institutions such as a registrar and tribunal as well as lobbying for more funding from the exchequer, private sector and development partners. County government is key in development of the MSEs since most of them are in the jurisdiction of the County government. Therefore, fast-tracking the preparation of clear collaboration guidelines will help to close the gaps emanating from exclusion of the informal sector in the county development agenda. The MSEs enrolment to the MSE associations and Umbrella associations creates a platform for bridging the gap between the self-regulatory frameworks and government regulatory frameworks since they are established under the MSE Act of 2012. The members adhere to a stipulated framework of operation which enables them to benefit from collective gains availed by the government such as access to funds, work sites, markets, training opportunities, modern technologies among others. This far, those in the informal sector can only benefit from the government efforts in developing and improving the productivity of the informal sector by joining an MSE association or umbrella association and sensitization of the community and enterprises on this initiative is key if the bulging informal sector is to be reduced.

6.2 Policy Recommendations

- **Proper conceptualization and implementation of the National coordination strategy of Kenya's MSE sector whose preparation is underway** will fast-track the achievement of key MSEA role of coordination, harmonization and management of MSEs. The strategy will be instrumental in facilitating the integration of various public and private sector development plans, programmes and activities for MSEs development.
- **Harmonize the legal frameworks resulting in overlapping mandates of the implementing organizations.** Overlapping mandates affects execution of duty due to institutional conflicts and lack of clarity which in-turn affects resource allocation.
- **MSEA should forge for more partnerships and collaborations with National and County governments, industries, stakeholders and development partners.** Overdependence on financing through the parliament provides inadequate financing for the authority to execute its mandate hence the need partnerships to attract more resources and close the financing gap**.**
- **MSEA should lobby for financing to facilitate in establishment of institutional structures stipulated in the legal framework.** They include the Tribunal which will play a key role in solving the infringement cases affecting MSEs especially with the many court cases regarding allocation of work sites and work space; registrar of MSEs to enhance registration of MSE associations and umbrella associations for proper planning of programmes targeting the sector; and MSE fund to improve accessibility and affordability of MSEs financing.
- **Provide necessary infrastructure and social amenities to improve the working environment for MSEs**. The National and County Government should work together to facilitate access of various amenities such as work sites and workspace, modern technologies, incubation centres.
- **Encourage the MSEs in the informal sector to join MSE associations to leverage on collective gains.** The MSE associations are formal institutions that are recognized by the government and one may benefit from the social capital and collective gains like access to funds, work sites, markets, training opportunities, modern technologies among others

- **Develop and implement the key pending policies to provide a roadmap in critical areas**. Some of the policies like national innovation and commercialization policy are key to guide on commercialization of technologies. Moreover, the implementation of AGPO policy is still weak and very few MSEs benefit from it.
- **Developing a capacity building strategy to create a platform for collaboration with the other stakeholders.** Considering the MSEs are in diversified sectors of the economy MSEA should work in partnership with other established stakeholders to provide quality demand based trainings and capacity building programs which are otherwise impossible due to the financial, infrastructural and technical requirement.
- **Sensitization of public on available government initiatives.** Government has established some platforms to improve the MSEs hence creating awareness on the available initiatives will increase utilization of the available government opportunities to improve productivity. Some of them include Government Funds, AGPO, and IPR.
- **Need to develop and implement M&E framework for MSEs.** Kenya has created a number of public institutions to support R & D. Some of the institutions that are mandated to carry out this role include KIPPRA, KIRDI, MSEA, Public Universities, Centres of Excellence, and NACOSTI among others. Moreover, the establishment and continued support to KIPI has been instrumental in ensuring that the various inventions and innovation are patented and protected through issuance of Intellectual Property rights. Therefore, a well-coordinated M&E framework will play an essential role in evaluating the impact of various regulatory and development activities in the sector.
- **MSEA should work in collaboration with county Government** to ensure that the counties integrate social, economic, physical, environmental and spatial planning into the county agenda.
- **Adherence to the stipulations of the Anti-Counterfeit Act, 2008.** A holistic, multi-layered and digitally enhanced approach should be enhanced in fighting counterfeit products to protect the Kenyan brand and provide an effective end-to-end supply chain solution.

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ISBN 9966 817 30 3

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