Significance of the informal Sector

The informal sector is a significant contributor to employment in developing countries around the world. The informal sector is estimated to provide employment to over 60 percent of urban population in most African countries and accounts for up to 75 percent of basic necessities in some African cities. In Kenya the majority of job growth since the 1990’s has emanated from the informal sector. By 2016 the sector was providing jobs to 11.8 million people, with half a million jobs created each year. The 2016 MSME basic survey report identified 84.4% of all new jobs created in 2015 as being in the informal sector. It is estimated that 1.6m MSMEs are licensed with 5.9 million unlicensed. Collectively registered and unregistered MSME’s employ 14.9 million people. The informal sector represents 82.7% of employment in Kenya.

This review seeks to address how well the draft MTPIII trade plan addresses the informal sector. This review has been prepared in reference to the Trade Policy adopted by the Cabinet in December 2016.

1. Structure

MTP III draft The Trade plan is structured along two key issues, domestic and export trade. This contrasts with the Trade policy 2016 which addresses the sector from the perspectives of retail, wholesale, informal and international trade. The simplistic structure of the draft MTP III plan results in the loss of detail and the needs of specific sub-sectors is lost almost entirely. As a result, the plan takes on an undue bias on the export sub-sector while losing critical details as indicated below.

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1 Mitulla, The Case Study of the Kenya National Alliance of Street Vendors (Kenasvit), IDS-UON Policy Briefs
3 KNBS 2014
Proposal: Revise the structure of the plan to accord with the National Trade Policy 2016

2. Report on Vision 2030
The draft plan does not give a report on the vision 2030 MTP I and II and indicated in the Terms of Reference for the review process. It is therefore not possible to measure implementing progress and lessons learned.

Proposal: Review the draft plan to include a review on the status of implementing of and MTP II, achievements and lessons learned. Ensure this information is quantified by program and project.

3. Intergovernmental Coordination
The Trade policy recognizes the absence of a coordinative framework which also provides for is a significant barrier to trade development in the county noting the sector ‘lacks a coherent framework for coordination of the formulation and implementation of trade policy….. this has resulted in conflicting policies, weak policy implementation and inability of the policies to correct deteriorating balance of trade and unexploited trade.’ – The policy proposes ‘..a formidable coordination mechanism …. A consultative National and County Government institutional structure for trade policy formulation and implementation’. The policy also recognizes coordination as one of the principles undergirding the policy. However, the draft MTP III plan completely overlooks this important proposal.

Proposal: Introduce the principles of the Trade Policy into the MTP. Introduce the proposal for a coordinative and intergovernmental framework within Quarter 2 2017-18. Make provision for informal sector within the framework. Make provision for non-state actors within the framework.

4. Value addition and supply chains
Another underlying themes of the Trade Policy is the strengthening of supply chains in wholesale, retail and informal sectors. There is need to pick up these proposals and review the present plan accordingly.

Proposal: Review the draft plan to include proposals on value additional and supply chains in all sub-sectors as a cornerstone of the plan.

5. Strengthening Associations
The Trade policy recognizes that the strengthening of supply chains and trade in general can only take place in the context of strong associations. Given Kenya’s widespread small holder, informal
and small-enterprise context competent associations are very important to represent the trade interests of MSME’s. They provide a basis for negotiation, capacity building, capital investment and mobilization if well supported, facilitated in a context of robust accountability requirements.

Proposal: Review the draft plan to include proposals on Strengthening Associations in all sub-sectors as a cornerstone of the plan.

6. AGPO
The policy notes that retail traders and MSME’s have not taken advantage of opportunities provided in the Procurement and Disposal Act due to the weak mechanisms for implementing and enforcing the 30 per cent preferential access to public procurement. This point is not captured in the proposed plan.

Proposal: Proposal: Review the draft plan to include proposals on a review of the AGPO and other enterprise funds through an evaluation on their accessibility and effectiveness.

7. Informal sector
Whereas the policy identifies the informal sector from a dual market and exclusionary perspective, which under the right circumstances will graduate into larger firms, experience from developing countries around the world demonstrates otherwise. Nonetheless, the policy correctly recognizes that efforts to rationalize regulation have failed to address high level of informality and have in some cases had the adverse effect. The trade policy also calls for a mainstreaming of informal trade into the overall economy identifying the need for friendly regulation, a supportive national and county policy framework, the establishment of markets, capacity building/business development of informal traders/businesses, alongside value chains development.

It is of great concern that the proposed plan only pays a cursory attention to the informal sector and in so doing overlooks the substantive proposals of the trade policy. In a few casual sentences the plan appears to place the burden of informal sector on the county government ignoring the inter-governmental approach used in the trade policy, fails to provide the specifics, and more crucially fails to provide an updated account of the status. For instance, the statements below fail to capture the emerging results of rationalization of licensing which have still not worked and require further exploration

A survey on business levies and other charges across various counties conducted by KIPPRA in 2015 established that many county governments have either introduced new charges or increased the rates of existing ones, thereby increasing the cost of doing
business. In view of the above, the government should come up with mechanisms to address the licensing regime within the country in order to lower the cost of doing business and encourage the formalization of MSMEs. Un-conducive licensing and regulations by several agencies including County Governments has led to high cost of doing business and un-competitiveness.

These statements are outdated and therefore incorrect.

Proposal: Review the draft plan to update the situational analysis on informal sector and provide updated specifics on the recommendations as articulate in the draft policy.

8. Affordable credit
The policy recognizes the need to facilitate informal traders’ associations to form SACCOs for enhancing savings. This will assist in resource mobilization and establishing credit guarantee schemes from the mobilized savings.

Proposal: Review the draft plan to include proposals on the provision of affordable credit through the support of informal sector saccos.

9. Competitiveness and fair access to trade
The policy stresses on the need for competiveness and fair access to trade, market and trading sites. This alludes to governance and fair competition issues. The policy also addresses the need to enhance the implementation of the simplified trade regime at the Kenya/Uganda, Kenya/South Sudan and Kenya/Tanzania borders for informal traders along the borders.

Proposal: Review the draft plan to include proposals on competiveness and fair trade.

10. Cooperative Development and Marketing
The draft plan makes proposals for development of cooperatives but limits these plans to the Dairy sector and Coffee Sector. This ignores the wide number of sectors around the country. It also ignored the role of county development trading blocs which will have an impact on the same.

Proposal: Review the draft plan to include contributions from the counties with respect to high growth sectors around the country.

11. Access to trading space/spatial planning
Whereas both the policy addresses the needs for trading space and spatial planning as a priority in the informal trade sector, neither address the governance failures that have resulted in looting of public land, irregular acquisition of expired leases as causal factors in the lack of trading space.
Proposal: Review the draft plan to include proposal for an intergovernmental taskforce to reclaim grabbed public land and secure trading sites in major urban sectors for informal traders.

11. Drivers of informality
Neither the proposed plan, nor the policy address the causal factors that drive informality. These include low job creation due to weak manufacturing sector development, excessive diversification in use of imported machinery vehicles etc which prevents the development of low technology market inputs that create jobs, lack of competitive access to market opportunities and development due to lack of investment in research and development and political capture of development policies and opportunities. These are rooted in poor governance which fails to protect entrepreneurs and traders from insider dealings by politically connected individuals.

Proposal: Review the draft plan to include political-economy context on the drivers of informality and low job creation in Kenya and attendant recommendations.

12. Audit Vision2030 Flagship Projects for intergovernmental compliance and relevance
The Vision 2030 was conceptualized on the basis of projects as opposed to a more considered development approach. This implies that proposed flagship projects often lack the underpinning development logic. Ten-years into its implementation, and with the benefit of policy review processes such as the Trade section there is a need to audit the projects proposed for concurrence with intergovernmental roles, and development experience form the first 10 years of implementation. This is especially so with infrastructure development project in functional areas of the county government such as the building of markets.

13. Unfavorable Business Environment
The plan states more than once that county governments have created an unfavorable business environment due to the imposition of licensing and other service charges which has driven up costs. This accusation ignores the constitutional rights of county government to impose service charges, and obligation of national government to rationalize their costs in line with their constitutional functional roles. The plan also needs to clarify in the same section the high cost of doing business occasioned the high cost of electricity, high cost of infrastructure development high cost of debt repayments much of which is driven by poor governance and inefficiencies.
Proposal: Review the draft plan to include a balanced statement on the factors causing an unfavorable business environment.