REPUBLIC OF KENYA

MINISTRY OF CO-OPERATIVES AND MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) DEVELOPMENT

State Department for Micro, Small and Medium Enterprises(MSMEs) Development

DRAFT MSME FORMALISATION POLICY 2026

State Department for MSMEs Development
Prism Towers
Third Ngong Avenue
P.O. Box 30547-00100,
Nairobi

As a federal enterprise, GIZ supports the German Government in achieving its objective in the field of international cooperation for sustainable development.

Prepared on behalf of
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 40
53113 Bonn, Germany
Phone: +49 228 44 60-0
Fax: +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn
Phone: +49 61 96 79-0
Fax: +49 61 96 79-11 15

Email info@giz.de
Internet www.giz.de

Responsible
Moritz Fichtl

Author
Agatha Nderitu

Name and logo of the contracted company

GFA Consulting Group GmbH

Place and date of publication

Hamburg, 24 August 2026

FOREWORD

PREFACE AND ACKNOWLEDGEMENT

EXECUTIVE SUMMARY

TABLE OF CONTENTS

ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AGPO	Access to Government Procurement Opportunities
ASALs	Arid and Semi-Arid Lands
BDS	Business Development Services
BETA	Bottom-Up Economic Transformation Agenda
BKBK	Buy Kenya Build Kenya
BMOs	Business Membership Organisations
BRS	Business Registration Service
CAJ	Commission on Administrative Justice
CBK	Central Bank of Kenya
CBOs	Community-Based Organisations
CGS	Credit Guarantee Scheme
CIDPs	County Integrated Development Plans
CoG	Council of Governors
DOSHS	Directorate of Occupational Safety and Health Services
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
FSD Kenya	Financial Sector Deepening Kenya
GDP	Gross Domestic Product
GoK	Government of Kenya
IBEC	Intergovernmental Budget and Economic Council
ICT	Information and Communication Technology
IGRTC	Intergovernmental Relations Technical Committee
ILO	International Labour Organization
IRA	Insurance Regulatory Authority
JICA	Japan International Cooperation Agency
KAM	Kenya Association of Manufacturers
KBA	Kenya Bankers Association
KDC	Kenya Development Corporation
KEBS	Kenya Bureau of Standards
KEPHIS	Kenya Plant Health Inspectorate Service
KEPROBA	Kenya Export Promotion and Branding Agency
KIE	Kenya Industrial Estates
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KIRDI	Kenya Industrial Research and Development Institute
KLRC	Kenya Law Reform Commission
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenya National Chamber of Commerce and Industry
KRA	Kenya Revenue Authority
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MFIs	Microfinance Institutions
MSMEs	Micro, Small and Medium Enterprises
MSEA	Micro and Small Enterprises Authority
MTP IV	Fourth Medium-Term Plan
NCPWD	National Council for Persons with Disabilities
NEMA	National Environment Management Authority
NSSF	National Social Security Fund
NTSA	National Transport and Safety Authority
ODPC	Office of the Data Protection Commissioner
OECD	Organisation for Economic Co-operation and Development
PPADA	Public Procurement and Asset Disposal Act
PPRA	Public Procurement Regulatory Authority

PWDs	Persons with Disabilities	**UK**	United Kingdom
SACCOs	Savings and Credit Co-operative Organisations	**UNCITRAL**	United Nations Commission on International Trade Law
SDGs	Sustainable Development Goals	**USA**	United States of America
SHA	Social Health Authority	**VAT**	Value Added Tax
TOT	Turnover Tax	**WEF**	Women Enterprise Fund
TWG	Technical Working Group	**YEDF**	Youth Enterprise Development Fund

1 INTRODUCTION

1.1 Background

Micro, Small and Medium Enterprises (MSMEs), as defined under the Micro and Small Enterprises Act (2012)[1], **constitute the backbone of Kenya's economy**, playing a central role

[1] MSMEs in Kenya are defined under the Micro and Small Enterprises Act (2012) based on employment size and annual turnover. Micro enterprises employ fewer than 10 persons with annual turnover not exceeding KES 500,000; small enterprises employ

in employment creation, income generation, and poverty reduction. The **KNBS Micro, Small and Medium Establishments Survey 2016 remains the most comprehensive and authoritative national source on the number and characteristics of MSMEs in Kenya, including the extent of informality at enterprise level**. The Survey estimated that Kenya had approximately **7.4 million MSMEs**, of which about **5.8 million were unlicensed**, representing approximately **79 per cent of MSMEs**, and that the sector employed approximately **14.9 million people** (KNBS, 2016). While more recent national statistics do not provide an updated enterprise-level estimate of the number of informal MSMEs, they confirm the continued predominance of informal economic activity in employment. The **Economic Survey 2026** estimates that **18.1 million persons were engaged in the informal sector in 2025**, up from **17.4 million in 2024**, and that the informal sector accounted for **87.2 per cent of the 822,100 new jobs created in 2025** (KNBS, 2026).

In addition to its contribution to employment, the MSME sector contributes approximately **30-40 per cent of Kenya's Gross Domestic Product (GDP)**, underscoring its importance to economic growth and structural transformation (Government of Kenya, 2025; World Bank, 2022). However, this economic significance is not matched by proportional participation in the formal tax system. **Kenya's tax base remains concentrated among a relatively small number of formal firms and employees**, while a substantial share of MSME activity remains partially or entirely outside formal fiscal and regulatory systems (OECD, 2023; World Bank, 2022).

The persistence of informality is therefore not incidental - it is structural. Informal enterprises dominate key sectors such as wholesale and retail trade, manufacturing, and services, particularly among micro and household-based enterprises. This pattern is consistent with global trends, where informality accounts for a significant share of employment, especially in developing economies (International Labour Organization, 2015).

Crucially, **informality in Kenya is not a binary condition but exists along a continuum of formality**. Enterprises operate at varying levels of engagement with formal systems across multiple dimensions, including legal registration, taxation, licensing, labour regulation, and market participation. Formalisation is therefore not a singular event, such as business registration, but a **multi-dimensional and progressive process** through which enterprises increasingly integrate into structured economic systems (World Bank, 2020). In practice, many MSMEs are **partially formalised**. Enterprises may be registered with the Business Registration Service (BRS) but not fully compliant with tax obligations, or they may hold county business permits while remaining outside national regulatory systems. Others operate through group-based structures, cooperatives, or digital platforms, enabling them to access certain elements of the formal economy without full compliance. These patterns reflect not only enterprise-level constraints, but also the way in which the regulatory framework itself is structured and experienced.

The current formalisation landscape is therefore fragmented. Different institutions register, recognise and regulate MSMEs for different purposes and according to their respective mandates, without a common framework for determining or supporting formalisation. This fragmentation creates complexity and uncertainty for MSMEs and contributes to selective engagement with formal systems. These overlapping and sometimes uncoordinated requirements increase compliance costs, create uncertainty, and incentivise selective engagement with formal systems.

between 10 and 49 persons with turnover between KES 500,000 and KES 5 million; while medium enterprises employ between 50 and 99 persons with turnover above KES 5 million.

At the same time, **regulatory design and enforcement practices significantly influence enterprise behaviour**. Where compliance is associated with high costs, administrative burden, or punitive enforcement, enterprises may rationally choose to remain informal or only partially formalised. In this context, informality is not simply a function of exclusion, but is often shaped by the design and implementation of the formal system itself.

1.2 Policy Issue

Despite sustained policy, legal, and institutional reforms, **MSME informality in Kenya remains high, persistent, and largely unchanged in structure**. Over the past decade, the Government of Kenya has undertaken significant reforms aimed at strengthening the MSME ecosystem. These include:

- **simplification and digitalisation of business registration processes** through platforms such as eCitizen and BRS;
- **expansion of access to finance** through targeted funds, including, among others, the Youth Enterprise Development Fund, Women Enterprise Fund, and Uwezo Fund;
- **promotion of inclusive procurement** through the Access to Government Procurement Opportunities (AGPO) programme; and
- broader **business environment reforms** aimed at improving competitiveness and investment climate.

These efforts are anchored in national frameworks such as the **Bottom-Up Economic Transformation Agenda (BETA)** and the Revised **MSME Policy 2026**, both of which recognise MSMEs as central to inclusive growth and economic transformation. However, **these reforms have not translated into sustained formalisation**. A large proportion of MSMEs continue to operate either fully or partially outside the legal, regulatory, fiscal, sectoral, labour and social protection arrangements applicable to their activities. This suggests that the constraints to formalisation extend beyond business entry to the broader operational environment.

The core policy issue is therefore the persistence of informality despite reform. This persistence reflects a combination of interrelated structural challenges:

- **High and recurring costs of operating formally**, including licensing, taxation, and administrative compliance;
- **Weak, inaccessible, or delayed incentives for formalisation**, limiting the perceived value of compliance;
- **Fragmented and poorly coordinated institutional frameworks**, creating duplication, complexity, and uncertainty;
- **Limited enterprise capabilities**, including financial, managerial, and digital capacity;
- **Regulatory enforcement approaches that may be perceived as punitive or unpredictable**, discouraging engagement with formal systems; and
- **Absence of accessible mechanisms for managing business risk and failure**, including simplified insolvency or restructuring frameworks.

As a result, many MSMEs engage in **selectively with formal systems, meeting some applicable requirements while remaining outside others and thereby exhibiting varying degrees of partial formalisation**. This limits their ability to scale, access finance, integrate into structured markets, and contribute effectively to the tax base.

1.3 Rationale for the Policy

There is a compelling and urgent case for a comprehensive MSME Formalisation Policy that addresses the structural drivers of informality in a coordinated and systemic manner.

First, **informality constrains enterprise growth, productivity, and competitiveness**. Informal MSMEs face restricted access to finance, limited participation in formal markets, and reduced opportunities for value addition and innovation. This limits their contribution to economic transformation and industrialisation.

Second, **widespread informality has significant macroeconomic implications**. It reduces the effective tax base, constrains domestic revenue mobilisation, and limits the Government's capacity to finance public goods and services. It also creates an uneven playing field between formal and informal enterprises, distorting competition.

Third, **informality is closely linked to vulnerability and inequality**. Workers in informal enterprises often lack social protection, job security, and stable incomes. Women, youth, persons with disabilities, and enterprises in marginalised regions face disproportionate barriers to formalisation, reinforcing patterns of exclusion.

Fourth, the current policy and institutional framework, while strong in intent, remains **fragmented and insufficiently aligned with enterprise realities**. Existing interventions focus heavily on business entry, with limited attention to the broader ecosystem required to define, coordinate and support progressive formalisation, including regulatory coherence, incentives, institutional coordination, and risk management.

Fifth, and critically, **formalisation is currently not perceived as a sufficiently attractive or viable pathway by many MSMEs**. Where the costs of compliance are high and the benefits uncertain or inaccessible, enterprises make rational decisions to remain informal.

In line with the Government of Kenya Public Policy Handbook, public policy must be evidence-based, problem-driven, and aligned with national development priorities, while addressing clearly defined policy issues and their underlying causes. The MSME Formalisation Policy therefore seeks to reposition formalisation as a pathway to enterprise growth, productivity, and economic inclusion, rather than as a compliance obligation. It adopts a systemic and differentiated approach, addressing both enterprise-level and structural constraints, and promoting progressive and sustainable pathways into the formal economy.

1.4 Policy Goal and Objectives

The overall goal of this Policy is to **promote progressive, sustainable, and inclusive MSME formalisation, as a pathway to enterprise growth, productivity, and economic inclusion**.

The **Specific Objectives** of the Policy are to:

- **Reduce the cost and complexity of operating formally**, across the MSME lifecycle;
- **Strengthen incentives for formalisation**, including access to finance, markets, and support services;

- **Enhance institutional coordination and regulatory coherence**, at both national and county levels;
- **Support MSMEs to transition progressively** towards meeting the formalisation requirements applicable to their activities and circumstances ;
- **Promote inclusive and equitable formalisation**, addressing barriers faced by vulnerable groups; and
- **Strengthen data, monitoring, and evidence systems** to track formalisation outcomes and inform policy implementation.

1.5 Scope of the Policy

This policy applies to **MSMES across all sectors of the economy**, including informal, partially formalised, and formal enterprises. It covers both **national and county-level regulatory and institutional frameworks**, recognising the shared roles of different levels of government in MSME development and formalisation.

The policy addresses formalisation as a **multi-dimensional process**, encompassing legal and institutional recognition, taxation, national and county licensing, sector-specific regulatory requirements, and applicable labour and social protection requirements. It further addresses the regulatory, institutional, incentive and enterprise-support environment necessary to enable MSMEs to transition progressively towards greater formality.

1.6 Structure of the Policy Document

In line with the Government of Kenya Public Policy Handbook, this Policy is structured to provide a clear and logical progression from problem identification to implementation and review.

The document begins with this **Introduction**, which sets out the background to MSME formalisation in Kenya, defines the core policy issue, and establishes the rationale, objectives, scope, and overall direction of the Policy. This section situates the Policy within the broader national development context and provides the foundation for subsequent analysis and policy articulation.

This is followed by the **Situational Analysis**, which presents a comprehensive diagnostic of MSME informality in Kenya. It begins by examining how MSME formalisation is understood and defined within Kenya's institutional context and internationally, before examining the structure and characteristics of the MSME sector, the nature and dynamics of informality, its underlying drivers, and the associated economic and social costs. It also assesses the current policy and institutional framework, draws on international and comparative insights, and highlights key strategic tensions. This section provides the evidence base upon which the Policy is developed.

Building on this diagnostic, the **Policy Statements** section articulates the Government's strategic direction and commitments in addressing MSME informality. It sets out the key policy positions, guiding principles, and priority areas of intervention, reflecting a shift toward a progressive, incentive-based, and inclusive approach to formalisation.

The **Implementation Framework** translates these policy commitments into actionable measures. It outlines the institutional arrangements, coordination mechanisms, legal and regulatory considerations, and resource requirements necessary for effective implementation. This section also provides guidance on sequencing interventions and aligning actions across national and county levels to ensure coherence and impact.

The **Monitoring and Evaluation Framework** establishes the mechanisms for tracking progress, assessing outcomes, and ensuring accountability in the implementation of the Policy. It defines key indicators, data sources, reporting structures, and feedback mechanisms, with a view to supporting evidence-based decision-making and continuous learning.

Finally, the **Policy Review Provisions** set out the framework for periodic review of the Policy, including timelines and conditions under which revisions may be undertaken. This ensures that the Policy remains responsive to emerging issues, evolving economic conditions, and changes in the broader policy and regulatory environment.

2 SITUATIONAL ANALYSIS

This section presents a comprehensive situational analysis of MSME informality in Kenya, examining the structure of the sector, the nature and dynamics of informality, key drivers, associated costs, and the current policy and institutional environment. The analysis also draws on international experience and highlights emerging strategic issues to inform policy design.

2.1 Understanding and defining MSME Formalisation

A fundamental challenge in addressing MSME informality in Kenya is the **absence of a single, consistently applied understanding of what constitutes a formal enterprise and, consequently, what is meant by formalisation.** Different public institutions register, recognise, regulate or support enterprises and other economic units for different purposes and according to their respective statutory mandates. Formality may therefore be associated with registration of a business or other legal entity, registration as a micro or small enterprise, recognition as a community group or association, registration as a co-operative, tax registration, county licensing, sector-specific authorisation, or compliance with employment and social protection requirements.

These different forms of recognition are not necessarily contradictory. Rather, they reflect the different functions performed by government institutions. However, they create an important policy challenge: **an enterprise or economic unit may be formally recognised for one institutional purpose while remaining informal or only partially formal in other respects**. Consequently, institutional recognition, legal registration, regulatory compliance and comprehensive enterprise formalisation are related but distinct concepts.

Registration and recognition under the Micro and Small Enterprises (MSE) Framework

The Micro and Small Enterprises Authority (MSEA), established under the Micro and Small Enterprises Act, 2012, has a statutory mandate to promote, develop and regulate micro and small enterprises and facilitate their integration into the national economy (Republic of Kenya, 2012). The Act **expressly recognises both formal and informal enterprises, defining an enterprise as an undertaking or business concern, whether formal or informal, engaged in the production of goods or provision of services**. The Act defines a **micro enterprise** as an enterprise whose annual turnover does not exceed KES 500,000 and which employs fewer than ten persons, subject also to prescribed asset and investment thresholds. A **small enterprise** is defined as one whose annual turnover ranges between KES 500,000 and KES 5 million and which employs between ten and fifty persons, again subject to the applicable investment thresholds (Republic of Kenya, 2012).

Significantly, one of the express objects of the Act is to **facilitate the formalisation and upgrading of informal micro and small enterprises**. The statutory framework therefore recognises that an enterprise may qualify as a micro or small enterprise while remaining informal and envisages formalisation as a subsequent process of transition and upgrading. In this respect, **being classified as an MSE and being formal are not synonymous under the Act** (Republic of Kenya, 2012).

The Act establishes the office of the Registrar of Micro and Small Enterprises and assigns the Registrar responsibility for registration under the MSE framework. Its detailed registration provisions provide for the **registration of MSE associations and umbrella organisations**. An association is defined as a group of not fewer than 35 micro and small enterprises registered under the Act for purposes of accessing common services and mobilising resources for their development, while an umbrella organisation brings together MSE associations (Republic of Kenya, 2012). The Act therefore provides mechanisms through which MSEs can organise and obtain formal institutional recognition, while retaining the distinction between such recognition and the broader transition of individual enterprises from informality to formality.

Within this statutory mandate, MSEA has increasingly presented **registration and institutional recognition as important pathways towards formalisation**. For example, the Authority has explicitly encouraged entrepreneurs to formalise through registration with MSEA, presenting formalisation as providing a gateway to government financing, capacity building and structured business development support (MSEA, 2026a). MSEA programmes similarly use evidence of formal registration as an important eligibility criterion. Under the Kenya Jobs and Economic Transformation Project, for example, eligible clusters may include registered co-operatives, associations and companies, which are required to provide valid registration documentation (MSEA, 2026b).

The MSEA approach therefore associates formalisation particularly with **bringing micro and small enterprises and their organisations into an identifiable and structured institutional framework**, thereby facilitating recognition and access to enterprise-development support. Importantly, this approach also reflects the developmental orientation of the MSE Act: formalisation is linked not only to recognition or compliance, but also to the **upgrading and development of informal enterprises**.

However, registration or recognition within the MSE framework does not in itself establish that an enterprise has complied with all other requirements that may apply to its operations, including business registration, taxation, county licensing, labour and social protection requirements or sector-specific regulation. **MSE registration or recognition should therefore be understood as one dimension of formalisation rather than, by itself, a comprehensive determination that an enterprise is fully formal.**

Business Registration and Legal Identity

The BRS provides another important dimension of formalisation. Established under the Business Registration Service Act, BRS administers laws relating to the incorporation, registration, operation and management of companies, partnerships and firms and maintains registers and records of registered entities (Republic of Kenya, 2015). BRS describes itself as the custodian of information on entities registered in Kenya (BRS, 2026a).

Through BRS, enterprises can acquire recognised forms of business identity, including registration of business names, companies and limited liability partnerships. BRS notes, for example, that a **business name represents the simplest business form under which an individual may operate**, although a registered business name does not constitute a legal entity separate from its proprietor (BRS, 2026b).

Business registration therefore constitutes an important legal and administrative dimension of formalisation, as it establishes a recognised business identity and places information about the enterprise within an official government register. However, **registration with BRS does not automatically establish compliance with other requirements applicable to the enterprise,** including taxation, county business licensing, sector regulation, employment regulation or social protection obligations. Business registration should therefore be understood as an important **entry point or milestone within the formalisation process**, rather than necessarily constituting formalisation in its entirety.

Community Groups, Self-Help Groups and Community-Based Organisations

Kenya's institutional framework also provides formal recognition to economic and social organisations that do not necessarily constitute conventional business entities. The Community Groups Registration Act, 2022 establishes a statutory framework for the registration and regulation of community groups and provides for registration through the Directorate responsible for Social Development (Republic of Kenya, 2022). The framework encompasses community-based organisations (CBOs), self-help groups and other forms of organised community activity.

Registration provides such groups with recognised institutional status and enables them to interact with government institutions and other organisations. The State Department responsible for social protection identifies registration of self-help groups and CBOs as one of its services and links registered organisations to state and non-state actors and financing and development opportunities (State Department for Social Protection and Senior Citizen Affairs, 2026).

This pathway is particularly important to understanding formalisation within the MSME sector because many economic activities in Kenya are undertaken collectively through groups that may be **formally recognised by government without being constituted as conventional registered businesses**. Registration of a community group may therefore constitute one dimension of formality without necessarily establishing that the individual businesses or income-generating activities undertaken by its members meet all applicable enterprise-level requirements.

The Uwezo Fund illustrates how such institutional recognition is used within government programmes. The Fund targets organised groups of women, youth and persons with disabilities and requires eligible groups to be registered with the relevant government institution, including Social Services, co-operative authorities or the Registrar of Societies (Republic of Kenya, 2014;

Uwezo Fund, n.d.). Uwezo communications have similarly associated registration of groups with their formalisation and ability to access government funding (Uwezo Fund, n.d.).

Accordingly, **a group may legitimately be considered formal for purposes of recognition or eligibility under a particular government programme while the economic activities of the group or its individual members remain informal or partially formal in other dimensions**. The distinction is important because programme recognition should not automatically be interpreted as evidence of comprehensive enterprise formalisation.

Co-operative Registration

Formalisation through the co-operative framework provides another distinct pathway. The State Department for Co-operatives is responsible for registration and regulation of co-operative societies as well as broader functions relating to co-operative development, governance, audit, marketing and financing (State Department for Co-operatives, n.d.).

Under the Co-operative Societies Act, registration confers legal status upon a co-operative society, which becomes a body corporate with perpetual succession and capacity to hold property, enter into contracts and undertake other activities in its own name (Republic of Kenya, 1997). Co-operative registration therefore represents a significant form of **legal and organisational formalisation**, accompanied by continuing governance and regulatory obligations.

However, registration of the co-operative does not necessarily establish that every economic activity undertaken by individual members is comprehensively formalised. A farmer, artisan, trader, transport operator or other entrepreneur may belong to a duly registered co-operative while operating an individual economic activity that remains unregistered or only partially compliant with other applicable requirements.

Collective organisation may therefore provide an important **pathway towards greater formalisation**, enabling informal economic actors to access finance, markets, training, government programmes and other services without necessarily requiring every individual member immediately to establish a separate corporate entity.

Tax Registration and Fiscal Formality

Tax registration constitutes another important dimension of enterprise formality. The KRA administers registration for tax purposes, including issuance of Personal Identification Numbers (PINs) and registration for applicable tax obligations. Persons carrying on business and persons liable for specified tax obligations are required to register as prescribed under the tax framework (KRA, 2026).

Fiscal formality is related to, but distinct from, business registration. For example, a sole proprietor may operate under a registered business name while tax obligations attach to the proprietor's PIN. Conversely, possession of a tax identifier does not necessarily demonstrate that all other business-registration, licensing or sector-specific requirements have been met.

Formalisation from a fiscal perspective therefore concerns both **entry into the tax system and continuing compliance with the tax obligations applicable to the enterprise**. This illustrates why formalisation cannot be assessed solely through possession of a single registration certificate or identifier.

County Licensing and Local Regulatory Formality

County governments constitute another critical part of Kenya's formalisation architecture. Under the constitutional and legislative division of functions, county governments regulate aspects of trade and business activity within their jurisdictions, including through business licensing and permits, regulation of markets and trade development, and management of county trading facilities (Republic of Kenya, 2010; Republic of Kenya, 2012b). **An enterprise may therefore possess a nationally recognised business identity but still require one or more county licences or permits before lawfully undertaking particular activities within a county**. Similarly, enterprises operating across county boundaries may encounter different licensing requirements, fees and administrative processes.

At the same time, county interaction with informal economic actors extends beyond conventional annual business licensing. **In some counties and trading locations, informal and micro-scale traders may pay daily market, trading-space, user or other prescribed fees for access to markets, stalls, designated trading areas or county facilities.** Such payments may apply, for example, to market traders, hawkers and other small-scale economic operators and may be collected on a daily or other periodic basis under the relevant county finance legislation.

These arrangements create an important form of **local administrative recognition**. A trader may not possess a conventional business registration or annual business permit but may nevertheless be known to the county government, operate from a county-authorised or managed trading space, and make regular payments for the right to trade or use a particular facility. While such payments should not be equated with comprehensive enterprise formalisation or confirmation that the trader has met wider regulatory requirements, they demonstrate that the enterprise is **neither entirely outside the government system nor necessarily fully formalised.**

This distinction is particularly relevant to the design of progressive formalisation pathways. **Existing county recognition mechanisms could provide an entry point into formalisation rather than requiring government to identify informal enterprises entirely from scratch.** Traders already interacting with counties through market registers, allocation of trading spaces, daily fee payments or similar mechanisms could be supported to progress towards appropriate levels of registration, licensing and compliance, subject to the nature, scale and risk of their activities. Such arrangements further demonstrate that enterprise status exists along a continuum, ranging from economic actors operating entirely outside formal administrative systems to those recognised for limited purposes and those compliant across multiple national and county requirements. **Enterprise formalisation therefore cannot be reduced to registration with a single institution or possession of a single licence.**

Sector-Specific Registration and Regulatory Compliance

Across Kenya's regulated sectors, enterprises are generally required to obtain **additional registrations, licences, permits, certifications or approvals specific to the activities they undertake**, over and above general business registration and county licensing requirements. These requirements arise across sectors including agriculture and food, health, tourism, transport, construction, environmental management and other regulated activities, and may be administered by one or several sector-specific institutions.

For example, the Crops Act provides for registration and regulation of dealers in scheduled crops, illustrating how an enterprise that already possesses a recognised business identity may nevertheless require additional sector-specific authorisation before undertaking particular activities (Republic of Kenya, 2013). Conversely, **sector-specific recognition does not necessarily mean that the underlying enterprise is comprehensively formalised**. For example, small-scale agricultural producers, traders or aggregators may be registered, licensed or otherwise recognised by an agricultural regulatory authority for purposes of undertaking a particular regulated activity, while operating as individuals or informal economic units without a separately registered business entity and potentially without meeting other applicable county, fiscal or employment-related requirements. In such circumstances, the economic actor is **formal or recognised for the particular regulated activity, but not necessarily formal across other dimensions of enterprise operation**.

Sector-specific compliance therefore adds another dimension to enterprise formality. **What constitutes appropriate formalisation is partly determined by what the enterprise does**, and not merely by its legal form, size or possession of a general business registration. Conversely, possession of a sector-specific licence or registration should not, on its own, be interpreted as evidence that the enterprise is comprehensively formalised.

Employment and Social Protection Formality

The status of workers represents a further dimension of formalisation. An enterprise may possess a recognised legal identity and meet business licensing and tax requirements while some or all of its workers remain outside applicable labour or social protection arrangements. Conversely, the existence of employment-related registrations does not itself demonstrate that all enterprise-level requirements have been satisfied.

This distinction is particularly relevant to MSMEs because micro and small enterprises frequently rely on own-account work, family labour, casual employment and other flexible employment arrangements. A comprehensive understanding of formalisation must therefore recognise both **enterprise formality and the formality of employment relationships within the enterprise**.

Formalisation under the Revised MSME Policy 2026

The Revised MSME Policy 2026 recognises formalisation as an important policy objective but does not provide a specific definition of either *formalisation* or *formality*. The Policy defines an enterprise broadly to encompass undertakings operating within both the formal and informal economy, thereby recognising the coexistence of formal and informal enterprises within the MSME sector (State Department for MSMEs Development, 2026).

More significantly, the Revised MSME Policy contains a dedicated policy intervention on supporting the formalisation of MSMEs. Proposed interventions include the **centralisation and simplification of MSME registration processes, enhanced collaboration among relevant Ministries, Departments, Agencies and Counties towards formalisation, and creation of incentives to promote formalisation** (State Department for MSMEs Development, 2026).

The Revised MSME Policy therefore does not explicitly equate formalisation solely with business registration. Its inclusion of institutional coordination and incentives points towards a broader transition process. Elsewhere, the Policy proposes measures to simplify licences, approvals and registration and strengthen digital and institutional mechanisms through which MSMEs interact with government (State Department for MSMEs Development, 2026).

Nevertheless, the Revised MSME Policy does not specify **which dimensions of formality must be satisfied, how different forms of registration and compliance relate to one another, whether formalisation occurs at a particular threshold, or how progress towards formalisation should be measured**. Consequently, while it establishes the policy mandate to support MSME formalisation, the concept remains operationally undefined. Addressing this gap is therefore an important function of this MSME Formalisation Policy.

International Understanding of Formalisation

International approaches increasingly recognise that formalisation extends beyond business registration and that informality can exist across several dimensions.

a) International Labour Organisation

The principal international normative framework is the International Labour Organisation's **Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)**. Recommendation No. 204 defines the informal economy as economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by **formal arrangements** (ILO, 2015).

While Recommendation No. 204 does not prescribe a single or exhaustive definition of 'formal arrangements', subsequent ILO guidance explains these as **the procedures and legal-administrative arrangements established by government to regulate the activities of economic units and workers and protect their legal rights**. Coverage by formal arrangements therefore implies that productive activities are recognised within a country's legal and administrative framework and are associated with both **obligations and protections**. Such arrangements may include commercial laws governing economic activity and contractual relations; registration and reporting requirements, including fiscal obligations; social security arrangements; and labour laws and regulations governing matters such as wages, working time and employment benefits (ILO, 2023/2024).

The Recommendation adopts a broad understanding of economic units, encompassing units employing hired labour, units owned by individuals working on their own account, and co-operatives and social and solidarity economy units (ILO, 2015). This approach is particularly relevant to Kenya because it accommodates the diversity of MSME economic organisation rather than assuming that formalisation necessarily entails incorporation as a company or another conventional corporate form.

Within this framework, formalisation involves progressively bringing workers and economic units within the coverage of formal arrangements. The ILO's enterprise formalisation approach consequently extends beyond registration to encompass taxation, social security, labour regulation and access to finance, business services and markets, while emphasising the importance of reducing unnecessary regulatory barriers and costs associated with entering the formal economy (ILO, 2021).

Recommendation No. 204 further emphasises that transition to formality should preserve and improve livelihoods, promote decent work and entrepreneurship, extend social protection and prevent the informalisation of formal employment (ILO, 2015). Formalisation is therefore not simply a mechanism for increasing regulatory control or expanding the tax base, but a broader process of **economic and social inclusion**.

A particularly important feature of the ILO approach is its recognition of both **economic-unit and worker formality**. An enterprise may therefore exhibit significant characteristics of formality while employment relationships within it remain wholly or partly informal.

b) Organisation for Economic Co-operation and Development

Recent OECD analysis similarly treats informality as a **multidimensional and graduated phenomenon** rather than a simple formal/informal dichotomy. The OECD distinguishes between complete informality, where enterprises operate outside public administration and relevant registration and tax systems, and forms of **partial informality**, where enterprises may be registered but continue to employ unregistered workers, under-report economic activity or remain outside other formal arrangements (OECD et al., 2024).

More recent OECD analysis of SME formalisation similarly considers business entry, labour registration and fiscal compliance as interrelated dimensions of the transition towards formality. Digital and simplified business registration can facilitate entry into the formal economy, but registration constitutes one element within a broader institutional environment required to support sustainable formalisation (OECD et al., 2026).

The OECD's wider work on informality also frames formalisation in terms of integrating informal workers and enterprises into **formal legal, economic and social protection systems**, thereby improving job quality, extending rights and supporting economic inclusion (OECD, 2026).

The OECD approach is particularly relevant to the Kenyan context because it provides contemporary support for recognising **degrees and dimensions of formality**. An enterprise may be formally registered but remain informal in relation to workers, taxation or particular regulatory requirements. Formalisation can therefore involve progressive movement across several dimensions rather than a single transition triggered by registration.

c) World Bank

Recent World Bank work similarly distinguishes different dimensions of informality rather than treating it solely as the absence of business registration. Its work on measuring the informal economy differentiates between **informal production, informal labour and informal businesses**, with informal business activity associated particularly with enterprises operating without required formal registration or licences, while labour informality concerns workers who remain outside applicable labour, taxation and social protection arrangements (World Bank, 2026).

This distinction reinforces the importance of separating the **formal status of the economic unit from the formal status of employment within it**. It also recognises that the regulatory status of enterprises can encompass more than a single registration requirement.

Recent World Bank analysis further emphasises that decisions to formalise are influenced by the balance between the perceived costs and benefits of formality. Potential benefits include access to finance, markets, infrastructure and other services, while costs can include registration, taxation and continuing regulatory compliance (World Bank, 2025). Sustainable formalisation therefore depends not only on requiring enterprises to register or comply, but also on creating a regulatory and institutional environment in which formal participation produces tangible value.

Taken together, recent international approaches therefore support an understanding of formalisation as a **multidimensional process involving progressive integration of enterprises and workers into applicable legal, regulatory, fiscal and social protection arrangements**, rather than a single administrative event.

While the specific legal and administrative mechanisms through which formalisation is operationalised vary across countries, these international approaches converge on an understanding of formalisation that extends beyond business registration and recognises the progressive integration of enterprises and workers into applicable legal, regulatory, fiscal and social protection arrangements.

Implications for MSME Formalisation in Kenya

The review demonstrates that **Kenya does not lack mechanisms through which enterprises and economic units become registered, recognised or regulated; rather, it has multiple mechanisms operating without a common conceptual and measurement framework for MSME formalisation**.

Business registration through BRS, recognition within the MSE framework, registration of community groups and co-operatives, tax registration, county licensing and sector-specific authorisation each confer different forms or dimensions of formal status. Employment and social protection requirements introduce an additional dimension concerning the workers engaged by enterprises. Government programmes such as Uwezo may, in turn, recognise one or several of these forms of status as sufficient for particular programme purposes.

Consequently, **formality in Kenya is already de facto multidimensional and graduated**, even though policy and administrative practice may sometimes present enterprises simply as formal or informal. An enterprise may possess a recognised business identity but lack an applicable county licence; belong to a registered community group but have no independently registered business; operate through a registered co-operative while individual members remain informal; be registered for taxation but lack relevant sector authorisation; or meet enterprise-level requirements while some of its workers remain outside formal employment and social protection arrangements.

The different dimensions can broadly be understood as comprising:

- **legal and organisational identity**, including business, co-operative and recognised group registration;
- **MSME institutional recognition**, including recognition within the MSE framework;
- **fiscal formality**, through registration and compliance with applicable tax obligations;
- **local regulatory formality**, including applicable county licences and permits;

- **sectoral formality**, comprising registrations, licences, standards and approvals applicable to particular activities; and
- **employment and social protection formality**, relating to compliance with applicable requirements concerning workers.

The absence of a common framework linking these dimensions has implications for **policy targeting, MSME data and measurement, eligibility for government support and incentives, regulatory enforcement, inter-agency coordination and monitoring of progress towards formalisation**. Most fundamentally, it creates uncertainty regarding the status towards which government intends MSMEs to transition when it promotes formalisation.

The central policy challenge is therefore not simply to determine whether an MSME is registered or unregistered, but to establish **what constitutes meaningful formalisation, which requirements are applicable to different types of enterprises, how different forms of recognition and compliance relate to one another, and how enterprises can progressively transition towards greater levels of formality**.

Definition of Formalisation under this Policy

Against this institutional and conceptual background, **this Policy defines MSME formalisation as the progressive process through which an enterprise or economic unit acquires appropriate legal and institutional recognition and meets the regulatory, fiscal, sectoral, labour and social protection requirements applicable to its activities.**

This definition recognises that **formalisation is multidimensional and extends beyond business registration**. The dimensions relevant to a particular enterprise may include legal or organisational identity; MSME institutional recognition; tax registration and compliance; national and county licences and permits; sector-specific registrations, licences, standards and approvals; and applicable labour and social protection requirements. The specific requirements applicable to an enterprise will vary according to factors including its legal form, size, sector, location, activities and employment characteristics.

Formalisation is also **progressive rather than a single administrative event**. An enterprise may meet some applicable requirements while remaining outside others and may therefore be formal in some dimensions while remaining partially formal in others. Obtaining a business registration, licence, tax identifier or other form of institutional recognition may constitute an important step towards formalisation, but does not necessarily establish that the enterprise is formal across all applicable dimensions.

Accordingly, for purposes of this Policy, **registration, recognition, compliance and formalisation are related but distinct concepts**. Registration or recognition establishes the status of an enterprise or economic unit with a particular institution or for a particular purpose; compliance denotes fulfilment of a specific applicable obligation; while **formalisation describes the broader process through which an enterprise progressively becomes recognised and compliant across the dimensions applicable to its operations**.

2.2 Structure and Characteristics of the MSME Sector

Kenya’s MSME sector is both **large and economically centr**al, but characterised by a **high concentration of informal and subsistence-level enterprises, with relatively few firms scaling into formal, growth-oriented businesses**. According to the Kenya National Bureau of Statistics (KNBS), the country hosts approximately **7.4 million MSMEs**, employing an estimated **14.9 million people**, the majority of whom operate outside formal enterprise structures (KNBS, 2016).

Kenya’s enterprise landscape is characterised by a high degree of informality and a relatively small formal base. The 2017 Census of Establishments identified approximately **138,000 formal establishments,** the majority of which are micro and small enterprises (Cruz & Hernandez Uriz, 2022). By contrast, the KNBS MSME Survey (2016), which captured both licensed establishments and household-based businesses, **estimates approximately 1.6 million licensed MSMEs and 5.8 million unlicensed enterprises** (KNBS, 2016; Cruz & Hernandez Uriz, 2022). These classifications reflect the respective methodologies and measures of the underlying surveys and should not be interpreted as equivalent measures of formalisation as defined under this Policy.

More recent estimates suggest that **approximately 79% of MSMEs operate without licenses**, reinforcing the structural dominance of informality (Ipsos Kenya et al., 2024). **Many MSMEs operate with county-level licences but are not fully formalised at the national level**, while others, particularly household enterprises, operate without licences altogether. In addition, the Census of Establishments captures only businesses operating from fixed premises, excluding a large share of mobile and home-based enterprises.

As shown in **Figure 1**, available data points to a large enterprise population operating without licences or outside the formal establishment base captured by official statistics, underscoring the scale and complexity of informality within Kenya's MSME sector.

Additionally, the **size distribution of enterprises is heavily skewed towards micro firms**, which dominate both the formal and informal segments. In the formal sector, micro enterprises (0–9 employees) account for approximately **71% of establishments**, while large firms, though representing less than 1%, account for over **50% of formal sector**

Figure 1, Structure of MSMEs in Kenya – Selected Estimates of Formal, Licensed and Unlicensed Enterprises

Source: World Bank (2022), based on KNBS MSME Survey (2016) and Census of Establishments (2017)

employment (Cruz & Hernandez Uriz, 2022). Across the broader MSME population, more than **80% of enterprises employ fewer than 10 people**, with many operating at subsistence level (KBA & JICA, 2021). These enterprises are typically characterised by low capital intensity, limited use of technology, and high vulnerability to economic shocks.

This structural imbalance reflects a persistent **"missing middle"** in Kenya's enterprise landscape. While there is a high rate of entry into micro enterprise activity, relatively few firms transition into small and medium-sized enterprises capable of scaling, formalising, and contributing meaningfully to productivity growth. Evidence suggests that while MSMEs are numerous, **their capacity to grow, innovate, and sustain operations over time remains constrained** (Cruz & Hernandez Uriz, 2022).

Looking specifically to employment, recent data confirms that the **informal sector continues to dominate employment in Kenya.** In 2025, the informal sector employed approximately 18.1 million persons, up from 17.4 million in 2024, and accounted for 87.2% of the 822,100 new jobs created during the year (KNBS, 2026). The table below highlights employment trends between 2021 and 2025, underscoring the dominant role of the informal sector in job creation.

Figure 2, Total Recorded Employment[1], 2020 - 2024

	2021	2022	2023	2024	2025*
Modern Establishments					
Wage Employees	2,906.1	3,015.4	3,138.3	3,213.8	3,315.0
Self-employed and unpaid family workers	163.7	168.1	172.4	175.5	179.6
Sub -Total	3,069.8	3,183.5	3,310.7	3,389.3	3,494.6
Informal Sector[2]	15,261.8	15,964.7	16,685.6	17,389.3	18,106.1
TOTAL	**18,331.6**	**19,148.2**	**19,996.3**	**20,778.6**	**21,600.7**

** Provisional*
[1]Refers to employment stock as at 30th June and excludes small scale farming and pastoralist activities.
[2]Estimated

Source, KNBS, 2026

Kenya's employment structure over the period **2021–2025** reflects continued expansion in employment, **driven predominantly by growth in the informal sector**. Persons engaged in the informal sector increased from approximately **15.3 million in 2021 to 18.1 million in 2025**, representing an increase of about **2.8 million persons** over the period. In 2025 alone, informal-sector employment grew by **4.1 per cent**, from 17.4 million persons in 2024 to 18.1 million (KNBS, 2026).

Employment in the modern sector has expanded more modestly. In 2025, the modern sector accounted for approximately **3.5 million persons**, comprising about **3.3 million wage employees** and **180,600 persons in self-employment and unpaid family work**, compared with total informal-sector employment of 18.1 million (KNBS, 2026). The contrasting trajectories reinforce the structural importance of the informal economy: while modern-sector employment continues to grow, **the overwhelming majority of employment growth continues to be absorbed by the informal sector**.

Sectorally, informal-sector employment remains heavily concentrated in **wholesale and retail trade, hotels and restaurants**, which accounted for approximately **10.7 million persons in 2025**, or nearly **59 per cent of total informal-sector employment**. Manufacturing accounted for approximately **3.6 million persons**, community, social and personal services for **1.9 million**, and construction for approximately **490,100**. Construction recorded the fastest growth in 2025, increasing by **6.7 per cent** (KNBS, 2026). This employment structure broadly reflects the wider concentration of MSMEs in **relatively low-entry-barrier activities**, particularly wholesale and retail trade and services (KNBS, 2016; Cruz & Hernandez Uriz, 2022; Ipsos Kenya et al., 2024). The continued concentration of informal employment in these activities points to persistent challenges of **enterprise diversification, productivity upgrading and structural transformation**.

Figure 3, Persons engaged in the Informal Sector by Activity (estimates 2021-2025)

Activity	2021	2022	2023	2024	2025*
Manufacturing	3,067.1	3,181.0	3,371.8	3,487.9	3,624.7
Construction	416.0	419.7	457.3	459.3	490.1
Wholesale and Retail Trade, Hotels and Restaurants	9,114.5	9,320.9	9,634.9	10,315.1	10,741.5
Transport and Communications[2]	431.9	444.9	482.5	506.9	510.9
Community, Social and Personal Services	1,521.6	1,846.4	1,981.4	1,828.5	1,915.2
Others	710.8	751.8	757.7	791.6	823.6
TOTAL	**15,261.8**	**15,964.7**	**16,685.6**	**17,389.3**	**18,106.1**
Urban	6,224.0	6,560.1	6,964.0	6,785.3	7,160.8
Rural	9,037.8	9,404.6	9,721.6	10,604.0	10,945.3

**Provisional*
[1]*Estimated*
[2]*Includes mainly support services to transport activity*

Despite accounting for the majority of employment and also making up approximately 98% of all businesses, (Government of Kenya, 2025; Ipsos Kenya et al., 2024), **the informal sector contributes a significantly smaller share of overall economic output, estimated at approximately 30–35 per cent of GDP**, reflecting its concentration in low-productivity activities (Medina, Jonelis, & Cangul, 2017; World Bank, 2022). At the same time, **its contribution to tax revenue remains disproportionately low, with much of informal economic activity operating outside formal fiscal systems.** Evidence from the KRA indicates that majority of tax revenue is derived from formal sources, including income tax (both corporate and personal); value added tax (VAT), Excise Tax and customs duties; underscoring the limited contribution of informal economic activity to the tax base. KRA consistently identifies the informal sector as **a major untapped source of revenue, underscoring the limited extent to which economic activity is captured within the tax base** (KRA, 2024).

This imbalance between employment, output, and revenue reflects a broader structural challenge. While the informal sector sustains livelihoods at scale**, it generates limited fiscal returns and constrains domestic revenue mobilisation.** Over time, this contributes to a narrowing tax base and increasing fiscal pressure, as reflected in Kenya's declining tax-to-GDP ratio in recent years (KIPPRA, 2023; World Bank, 2022).

Geographically, MSMEs are **unevenly distributed**, with a strong concentration in urban areas, particularly Nairobi and other major economic hubs. Survey evidence indicates that over **50% of MSMEs are located in Nairobi**, with smaller shares distributed across other regions (KBA & JICA, 2021). This spatial concentration reflects access to markets, infrastructure, and services, but also highlights disparities in enterprise development across counties.

In terms of firm demographics, MSMEs in Kenya are **predominantly young enterprises**. Approximately **55% of formal firms have been in operation for less than 10 years**, while broader evidence indicates that over **50% of MSMEs are less than five years old** (Cruz & Hernandez Uriz, 2022; KBA & JICA, 2021). While this reflects dynamism in firm entry, it also signals **high rates of firm turnover and limited survival**, particularly among micro enterprises. Nearly **46% of MSMEs close within their first year of operation**, often due to limited working capital and weak market linkages (Ipsos Kenya et al., 2024).

Ownership and organisational structures further reflect the nature of the sector. A large proportion of MSMEs operate as **sole proprietorships or informal household enterprises**, particularly among micro firms (KNBS, 2016; Ipsos Kenya et al., 2024). Even among registered enterprises, many retain informal operational characteristics, including reliance on personal accounts, informal labour arrangements, and limited financial record-keeping (KBA & JICA, 2021). While some evidence suggests that up to **70% of enterprises maintain some form of financial records**, a significant proportion still rely on manual systems or do not maintain records at all, limiting their ability to access finance and scale (KBA & JICA, 2021).

A further defining feature of the MSME sector is its **financial structure and constraints**. Access to finance remains limited and uneven, with a significant reliance on informal sources. Approximately **64% of MSMEs rely on personal savings for start-up capital**, while only a small proportion access formal bank financing (KBA & JICA, 2021). Informal sources, including family and friends, remain critical, while mobile lending and SACCOs are increasingly important channels (Ipsos Kenya et al., 2024). At the same time, the estimated MSME financing gap in Kenya remains substantial, at approximately **USD 19 billion**, reflecting unmet demand for credit, particularly among micro enterprises (Ipsos Kenya et al., 2024).

Operationally, MSMEs are characterised by **limited integration into formal value chains and markets**. Many enterprises operate with small supplier and customer bases, often within localised and informal networks. Evidence shows that **over 70% of MSMEs rely on direct individual customers**, with limited engagement with formal institutions or structured markets (KBA & JICA, 2021). This limits opportunities for scaling, value addition, and integration into higher-value economic activities.

At the same time, there are emerging structural shifts within the sector. These include increasing **digitisation of business processes**, particularly in payments and marketing, as well as greater use of mobile financial services (Ipsos Kenya et al., 2024). However, adoption remains uneven, with many enterprises continuing to rely on manual systems and demonstrating limited digital and financial literacy.

Taken together, the structure of Kenya's MSME sector can be characterised by:

- A **large but predominantly informal enterprise base**
- Dominance of **micro and survivalist enterprises**
- Strong concentration in **low-productivity sectors**
- **High rates of firm entry but weak scaling and survival**
- A persistent **"missing middle"** in enterprise development
- Limited access to finance and **heavy reliance on informal funding sources**
- Weak integration into **formal markets and value chains**

This structural profile is central to understanding informality in Kenya. It indicates that informality is not merely a regulatory gap, but a reflection of deeper economic realities, including enterprise size, sectoral concentration, capability constraints, limited access to finance, and weak growth pathways.

While these structural characteristics provide essential context, they do not fully explain how informality manifests in practice. To design an effective formalisation policy, it is necessary to examine how MSMEs engage with formal systems, the forms of partial compliance that exist, and the behavioural patterns that sustain informality.

The next section therefore examines the nature and dynamics of MSME informality in Kenya, with particular emphasis on the continuum of formality and patterns of selective engagement with regulatory, tax, and market systems.

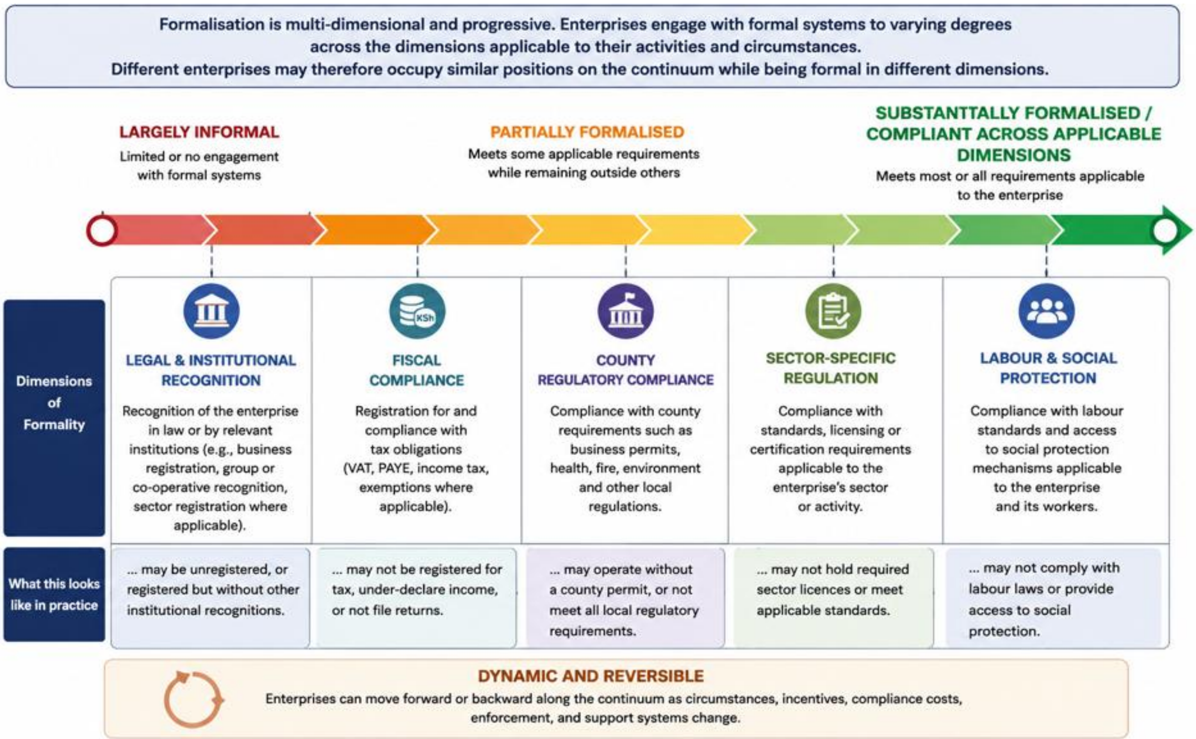
2.3 Nature and Dynamics of Informality

Building on the definition adopted in the preceding section, informality in Kenya manifests in varying degrees and combinations across enterprises. MSMEs may operate entirely outside applicable formal arrangements or meet some requirements while remaining outside others, resulting in widespread partial formalisation. The nature and extent of informality therefore varies across enterprises, sectors and activities, and may change as enterprises interact with different regulatory and institutional systems.

. Partial formalisation is a defining characteristic of Kenya's MSME landscape. In practice, enterprises may meet some applicable requirements while remaining outside others. A business may, for example, be registered with the BRS but not meet applicable tax or licensing requirements; hold a county business permit without a nationally registered business identity; or be formally recognised through a group, co-operative or sector-specific arrangement while remaining outside other applicable regulatory systems. The combination and extent of formalisation therefore varies across enterprises rather than following a uniform sequence.

The figure below summarises this continuum of formality, illustrating the different levels of engagement between MSMEs and formal systems.

Figure 4, Continuum of Formality in Kenya's MSME Sector



Source, Author's illustration, generated with AI

The continuum of formality should therefore not be understood as a single sequence of prescribed steps through which every MSME must pass. Rather, it reflects the **overall extent to which an enterprise is recognised and meets the requirements applicable to its particular activities and circumstances**. Enterprises may consequently occupy similar positions on the continuum while differing in the specific dimensions in which they are formal or informal.

This pattern of selective engagement reflects rational behaviour rather than inconsistency. Enterprises tend to engage with those elements of the formal system that provide immediate and tangible benefits, while avoiding those perceived as costly, complex, or risky. As a result, formalisation is often **non-linear, fragmented, and reversible**, rather than a one-directional transition.

The prevalence of **partial formalisation** suggests that for many MSMEs, this state represents not merely a transitional phase, but a **stable operating equilibrium**. Enterprises calibrate their level of engagement to maximise benefits, such as access to markets, infrastructure, or financial services, while minimising exposure to regulatory costs and risks. This has important implications: it indicates that policies focused solely on entry-level reforms, such as business registration, are unlikely to drive deeper or sustained formalisation.

Informality is also **highly sector-specific**, reflecting differences in market structure, entry barriers, and regulatory requirements. In Kenya, informality is **concentrated in sectors such as wholesale and retail trade, transport, hospitality, and small-scale manufacturing.** These sectors are characterised by low capital requirements, high competition, and ease of entry, which facilitate the proliferation of small, informal enterprises (KNBS, 2016). For example, in retail trade, many MSMEs operate in open-air markets, roadside stalls, or small neighbourhood shops, relying on cash transactions, informal supply chains, and flexible labour arrangements. In transport, informal operators provide essential mobility services, often through semi-formal arrangements shaped by regulatory complexity and market demand. In small-scale manufacturing and artisanal activities, enterprises frequently operate in clusters or informal industrial zones, where collective production exists alongside limited regulatory compliance.

The position of MSMEs within **value chains** further influences their level of formality. **Enterprises integrated into structured or export-oriented value chains are more likely to formalise in order to meet contractual and regulatory requirements**. In contrast, those operating in localised markets face fewer incentives to formalise, as their economic interactions do not necessitate compliance with formal standards.

At the enterprise level, **informality is strongly shaped by behavioural and economic considerations**. Increasingly, international evidence recognises that decisions regarding formalisation are not driven solely by legal obligations or regulatory enforcement, but by **how enterprises perceive the relative costs and benefits of engaging with formal institutions** (Perry et al., 2007; Maloney et al., 2026). MSMEs therefore make formalisation decisions based on a cost–benefit assessment. The costs of compliance - including taxes, licensing fees, administrative burdens and exposure to inspections - are weighed against potential benefits such as access to finance, markets, business development services and legal protections (La Porta & Shleifer, 2014; World Bank, 2020). Where benefits are uncertain, inaccessible or insufficient to justify compliance costs, enterprises may rationally choose to remain informal or selectively engage with formal systems.

This trend is further influenced by **uncertainty and perceived risk**. Where regulatory systems are fragmented, complex, or inconsistently enforced, MSMEs may face uncertainty regarding obligations and potential liabilities. In such contexts, informality can function as a form of **risk management**, allowing enterprises to retain flexibility and avoid exposure to unpredictable enforcement actions. In addition, for many MSMEs, the state is most visible through licensing requirements, inspections, and enforcement actions, particularly at the county level. **Where enforcement is perceived as punitive, unpredictable, or disproportionate, it can discourage engagement with formal systems**. In such contexts, informality may become a defensive strategy.

This has led, in practice, to a situation that may be described as the **criminalisation of informality**, where **non-compliance is addressed primarily through enforcement rather than facilitation**. Enterprises operating in public or non-designated spaces may face eviction, confiscation of goods, or closure, reinforcing the perception that formal systems impose risks rather than provide support. At the same time, inconsistent enforcement creates uneven playing fields, weakening incentives for compliance and undermining the credibility of regulatory systems.

It is important to emphasise that **informality is not synonymous with illegality or deliberate evasion**. For many MSMEs, particularly micro and survivalist enterprises, informality reflects structural constraints rather than intent. These include limited access to information, low levels of financial and digital literacy, constrained access to finance, and the need to prioritise immediate survival over long-term compliance.

The dynamics of informality are also shaped by **social and structural inequalities**. Women, youth, persons with disabilities, and enterprises in marginalised regions often face additional barriers to formalisation. These include constraints related to access to finance, property ownership, networks, and administrative services. Geographic disparities, particularly in Arid and Semi-Arid Lands (ASALs), further increase the cost and complexity of formal engagement, while reducing potential benefits.

As a result, **formalisation pathways are highly differentiated**. Enterprises start from different positions, face different constraints, and respond to different incentives. As a result, enterprises start from different positions, face different constraints and respond to different incentives, producing highly differentiated formalisation trajectories.. Taken together, the nature and dynamics of MSME informality in Kenya can be characterised by:

- A **continuum of formality**, rather than a binary distinction
- Widespread **partial and selective engagement** with formal systems
- Informality as a **rational and adaptive response** to economic and regulatory conditions
- Strong influence of **sectoral structures and value chain participation**
- Informality shaped by **regulatory design and enforcement practices**
- Significant **social and geographic disparities in formalisation pathways**

These dynamics lead to a central conclusion that **informality is not simply the absence of formality, but the outcome of how formal systems are designed, implemented, and experienced by MSMEs.**

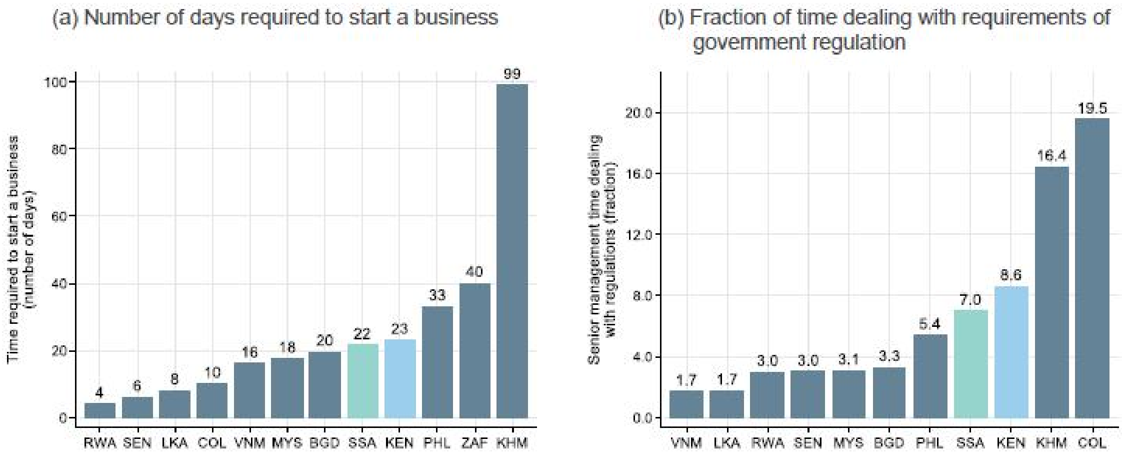
2.4 Drivers of MSME Informality in Kenya

The persistence of informality within Kenya's MSME sector is not the result of a single constraint, but rather the **outcome of a complex interaction between economic incentives, regulatory structures, institutional arrangements, and enterprise-level capabilities.** Informality, in this context, emerges not only from exclusion, but also from **rational adaptation to an operating environment in which the costs, risks, and uncertainties associated with formalisation often outweigh the perceived benefits**(Maloney et al., 2026). By implication, informality should not be viewed as a problem of non-compliance, but as a systemic outcome shaped by how the business environment is structured and experienced by enterprises.

A central driver of informality in Kenya is **the cumulative cost and complexity of operating within the formal economy, which extends far beyond initial business registration**. While reforms, particularly digital platforms such as eCitizen, have reduced entry barriers, the ongoing costs of compliance remain substantial. These include **direct costs, such as licensing fees, taxes, and regulatory charges at both national and county levels, as well as indirect costs, including administrative burden, time spent navigating procedures, and the need to engage intermediaries**. For MSMEs operating on thin margins, these cumulative and recurring costs are often perceived as disproportionate to their scale of operations.

The regulatory burden is not limited to financial cost but also reflects **significant time and procedural demands.** Evidence from the World Bank indicates that firms in Kenya face relatively high administrative requirements compared to regional peers, including longer times to start a business and a higher proportion of management time spent dealing with regulatory processes (Cruz & Hernandez Uriz, 2022). The figure below illustrates Kenya's regulatory burden

Figure 5, Regulatory Burden and Time Required to Start a Business in Selected Countries



Note: Source: Panel a – Doing Business Indicators; Panel b - World Bank Enterprise Survey.

Source: Cruz and Hernandez Uriz (2022), Entrepreneurship Ecosystems and MSMEs in Kenya: Strengthening Businesses in the Aftermath of the Pandemic. Washington, D.C. The World Bank. World

relative to selected peer countries**.**

As can be seen from the above figure, **Kenya compares unfavourably with several regional peers in both the time required to start a business and the administrative burden associated with regulatory compliance**. These time-related costs are particularly constraining for MSMEs, where owners are directly involved in day-to-day operations and have limited capacity to manage complex compliance requirements.

These findings are confirmed by recent evidence from the Kenya Association of Manufacturers (KAM) Regulatory Audit Report (KAM, 2025). Across selected manufacturing subsectors, **enterprises are required to comply with between 17 and 57 separate licences, permits, fees, levies and charges, administered by between four and eleven different regulatory authorities**. The evidence further demonstrates a **strong correlation between the number of regulatory authorities involved and the number of licences and compliance requirements imposed on enterprises.** Sectors regulated by a larger number of agencies consistently face a higher volume of compliance obligations and significantly higher regulatory costs.

This creates a regulatory environment in which **compliance costs may increase as enterprises formalise, diversify, or seek to expand their operations.** Rather than encountering a coherent and proportionate progression of applicable obligations, enterprises often face **additional regulatory layers characterised by multiple compliance points, duplicated inspections, overlapping mandates, repeated information requirements and varying regulatory practices across jurisdictions**.. For MSMEs with limited financial and administrative capacity, these transaction costs can become a significant deterrent to formalisation and long-term compliance.The table below presents an illustrative breakdown of the regulatory burden faced by selected manufacturing subsectors in Kenya.

Table 1, illustrative regulatory burden of selected manufacturing sub-sectors

SECTOR	NO. OF REGULATORY AGENCIES	TOTAL LICENCES / PERMITS / CHARGES	ANNUAL COMPLIANCE COST (KES)
Pharmaceutical & Medical Equipment	11	57	3.59 million
Chemical & Allied	10	53	2.20 million
Food & Beverage	10	51	4.28 million
Timber & Furniture	4	46	2.75 million
Sugar Milling	7	45	3.46 million
Salt	7	31	5.78 million
Textile & Apparel	4	17	1.38 million

Source: KAM Regulatory Audit Report (2025).

A further insight emerging from the KAM analysis is that **compliance costs are increasingly driven by county-level fees, levies, permits, and charges**. Across several manufacturing subsectors, the increase in county-level compliance costs between 2020 and 2025 significantly exceeded increases at the national level. For example, county-level compliance costs increased by approximately 127 per cent in both the Pharmaceutical and Medical Equipment Sector and the Building, Construction and Mining Sector, 116 per cent in the Automotive and Accessories Sector, and 110 per cent in the Sugar Milling Sector (KAM, 2025). This suggests that the cost of formalisation is not solely a national regulatory issue, but is increasingly shaped by county-level regulatory and fiscal practices. As a result, **efforts to reduce the cost and complexity of formalisation will require strong engagement with county governments alongside national reforms**.

Importantly, this fragmentation is not simply a matter of weak coordination, but reflects the underlying structure of governance, in **which responsibilities are distributed across institutions with distinct mandates, incentives, and accountability frameworks**. Recent evidence suggests that fragmentation is not only manifested through the number of institutions and compliance requirements**, but also through overlapping regulatory mandates.** In some instances, **multiple institutions exercise regulatory authority over the same or closely related activities, requiring enterprises to comply with duplicated inspections, permits, audits, reporting requirements, and certification processes relating to the same activity**. As observed by KAM (2025), several regulatory areas are subject to concurrent oversight by national and county authorities, creating uncertainty regarding applicable requirements and increasing administrative and compliance costs.

The table below illustrates selected examples of overlapping regulatory mandates affecting enterprises in Kenya.

Table 2, Examples of overlapping regulatory mandates

REGULATORY AREA	NATIONAL INSTITUTION(S)	COUNTY GOVERNMENT ROLE	IMPLICATION FOR MSMES
Air pollution control	NEMA; Directorate of Occupational Safety and Health Services (DOSHS)	County environmental functions	Multiple inspections, audits, and compliance requirements
Effluent discharge	NEMA	County environmental and public health functions	Duplicate permits, approvals, and reporting obligations
Fire safety	DOSHS	County fire and emergency services	Overlapping inspections and certification requirements
Medical examinations and workplace health	DOSHS; Public Health Authorities	County public health departments	Duplicate health and medical compliance requirements
Waste management	NEMA	County waste management functions	Multiple approvals, inspections, and compliance obligations

Source: Adapted from KAM Regulatory Audit Report 2025 (KAM, 2025).

In response, **enterprises often adopt strategies of selective compliance, engaging with those aspects of the regulatory system that are most immediately necessary or least burdensome, while remaining outside others**. This behaviour reinforces patterns of partial formalisation and limits progression toward sustained compliance. In this context, the cost of formalisation is not simply a financial consideration, but a broader function of how the regulatory system is structured and experienced. Where compliance is complex, fragmented, and time-consuming, the incentive to operate fully within formal systems is weakened.

Recent evidence also suggests that these challenges extend beyond the direct costs of compliance to include **a significant information and administrative burden (KAM, 2025)**. As the number of regulatory authorities, licences, permits, inspections, and reporting requirements increases, enterprises are required to navigate an increasingly complex regulatory landscape. For many MSMEs, particularly micro and small enterprises with limited managerial and administrative capacity, understanding and complying with all applicable requirements can be difficult. In practice, this may result in involuntary non-compliance, where enterprises fail to meet regulatory obligations not out of deliberate avoidance, but because the system is difficult to understand and navigate Consequently, reducing the costs of formalisation requires not only simplifying individual procedures, but also improving transparency, information accessibility, and the overall coherence and integration of the regulatory environment.

The **enforcement environment** also plays a critical role in shaping MSME behaviour. Enforcement practices that **rely on inspections, penalties, and sanctions can increase the perceived risks associated with formal engagement,** particularly where compliance requirements are complex or unclear. For enterprises operating in vulnerable conditions, such as in public or non-designated spaces, enforcement actions such as eviction, confiscation of goods, or closure can pose existential threats. In such contexts, informality can function as a **risk management strategy**, allowing enterprises to minimise exposure to regulatory sanctions. At the same time, inconsistent enforcement undermines incentives for compliance, creating uneven playing fields and weakening the credibility of the regulatory system.

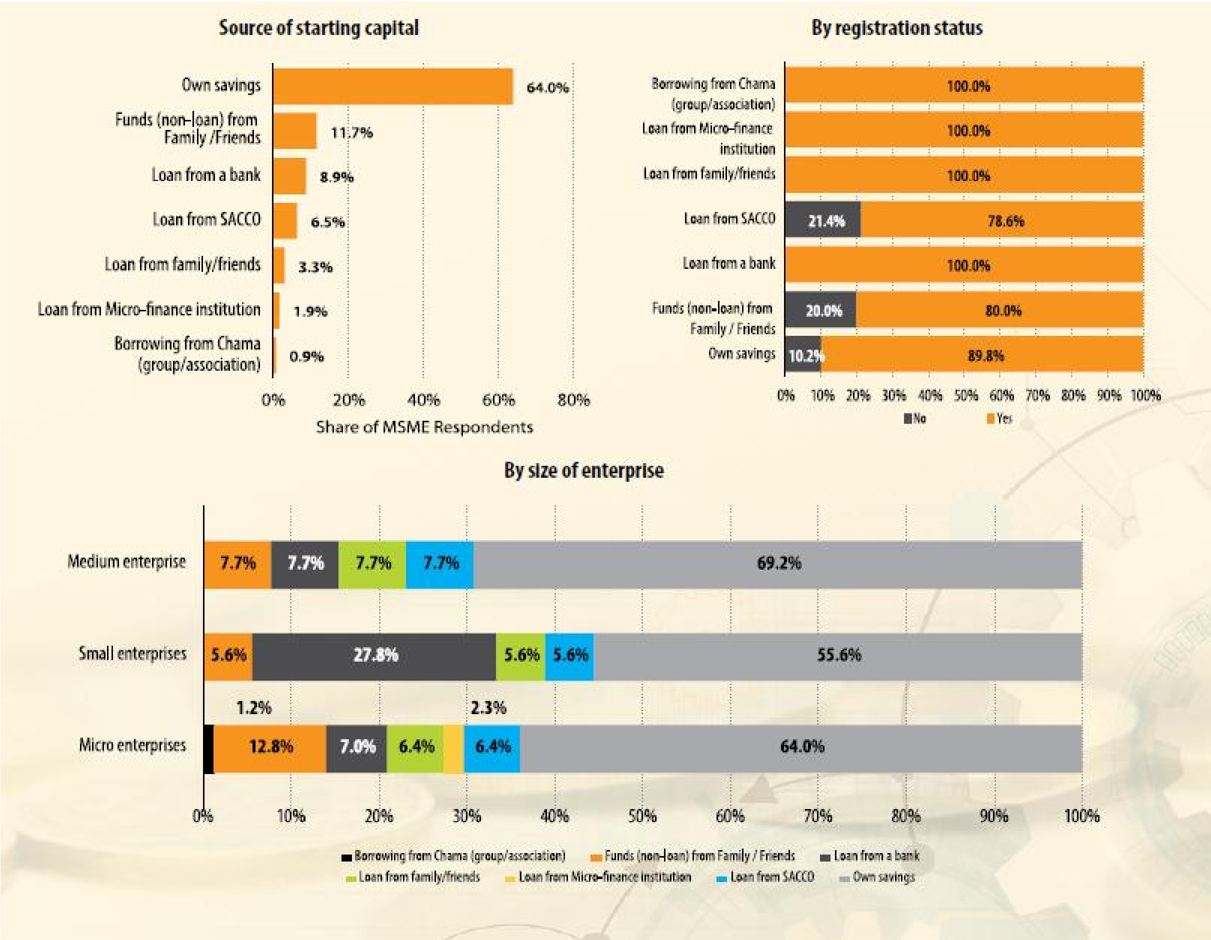
Taxation represents a particularly sensitive dimension of this cost structure. Although Kenya has introduced simplified regimes such as Turnover Tax/Presumptive tax, the experience of taxation continues to shape enterprise behaviour significantly. For many MSMEs, taxation is associated not only with financial cost but also with **administrative complexity and increased visibility to enforcement authorities**. Digital systems such as iTax and eTIMS, while improving efficiency, can be difficult to navigate for enterprises with limited digital literacy and or means. In addition, **tax obligations are often perceived as misaligned with enterprise realities, particularly where income is volatile or seasonal**. As a result, taxation is frequently viewed as a cost rather than part of a reciprocal relationship with the state (OECD, 2023), contributing to patterns of **partial or non-compliance**.

A further critical driver is the **weak and often inaccessible incentive structure for formalisation**. In principle, formalisation is associated with improved access to finance, markets, and government support programmes. **In practice, these benefits are not consistently realised**. Access to finance remains constrained, even for formally registered enterprises, due to collateral requirements, lack of credit histories, and limited financial records (KBA & JICA, 2021). Similarly, participation in public procurement and formal value chains requires capabilities, such as compliance with standards and documentation, that many MSMEs lack. Where benefits are uncertain, delayed, or inaccessible, enterprises have little incentive to incur the costs of formalisation.

The financial structure of MSMEs reinforces this dynamic. A large proportion of enterprises **rely on informal and semi-formal sources of finance**, including personal savings, family networks, and digital or community-based lending mechanisms. At the same time, MSMEs report greater ease in accessing informal and alternative financial instruments, such as loans from personal networks, mobile-based credit, and group-based financing arrangements. These patterns suggest that MSMEs are not only constrained in accessing formal finance, but also actively engage with financial channels that are more accessible, flexible, and responsive to their immediate needs. This is reflected in actual financing behaviour, where the majority of enterprises rely on internal and informal sources of capital. **Approximately 64% of MSMEs use personal savings as start-up capital, with only a small proportion accessing formal bank financing** (KBA & JICA, 2021). The MSME financing gap in Kenya is estimated at approximately USD 19 billion, reflecting significant unmet demand for credit (Ipsos Kenya et al., 2024).

The figure below illustrates the primary sources of start-up capital among MSMEs in Kenya,

Figure 6, Source of starting capital by industry, age, and turnover



Source: Kenya Bankers Association & JICA (2021) - KBA MSMEs Survey Report

highlighting the dominance of informal financing mechanisms.

More recent evidence confirms that access to finance remains a significant constraint for businesses, notwithstanding Kenya's high overall levels of financial inclusion. The 2024 FinAccess Household Survey found that **92.3% of business owners had access to formal financial services**, compared with national formal financial access of 84.8%. However, **this high level of financial inclusion does not necessarily translate into access to finance for productive business purposes**. Among businesses surveyed, **82.1% relied primarily on reinvested business income to finance day-to-day operations**, while loans and credit accounted for only a small share of operating capital. **Limited access to credit was reported as a major business challenge by 24.7% of respondents**, alongside limited market access (51%) and the high cost of supplies (28.2%) (CBK, KNBS & FSD Kenya, 2024). These findings reinforce the distinction between **access to financial services and access to appropriate enterprise finance** and suggest that broad financial inclusion has not eliminated financing constraints affecting MSME operation and growth.

Enterprise-level constraints also play a significant role. Many MSMEs operate with **limited managerial capacity, low levels of financial and digital literacy, and weak record-keeping systems**. While some enterprises maintain basic records, a significant proportion rely on manual systems or do not maintain records at all, limiting their ability to comply with regulatory requirements or access formal services (KBA & JICA, 2021). Information gaps further compound this challenge, as MSMEs may lack clear, accessible guidance on formalisation processes, costs, and benefits. Digitalisation, while offering opportunities for simplification, can also create new barriers where capabilities are uneven.

Market structure and demand conditions further influence informality. Many MSMEs operate in **localised, highly competitive markets**, primarily **serving individual consumers**, as their main market, with limited integration into formal supply chains or export markets (KBA & JICA, 2021). In such contexts, formalisation offers limited immediate advantages, as participation in these markets does not require compliance with formal standards. Sectoral characteristics reinforce this dynamic, particularly in retail, transport, and small-scale manufacturing, where low entry barriers and high competition support informal modes of operation (KNBS, 2016).

A particularly important, and often overlooked, driver of informality is the **absence of accessible mechanisms for managing business risk and failure.** While Kenya has a modern insolvency framework, its practical application remains oriented toward larger, formal enterprises. For MSMEs, formalisation may increase exposure to legal and financial consequences in the event of failure, including creditor claims and formal insolvency proceedings. International evidence highlights that **effective insolvency systems for MSMEs must be simplified, low-cost, and accessible**, recognising the limited capacity of small enterprises to engage with complex legal processes (**World Bank, 2020**). The United Nations Commission on International Trade Law (UNCITRAL) further emphasises that **micro and small enterprises require tailored insolvency regimes**, including streamlined procedures, reduced documentation requirements, and early restructuring options to enable viable firms to recover and non-viable ones to exit efficiently (**UNCITRAL, 2021**).

In the absence of such mechanisms, **formalisation can increase perceived downside risk**, particularly for enterprises operating in uncertain and volatile environments. As a result, **remaining informal may function as a risk management strategy**, allowing enterprises to adjust operations or exit activities without exposure to formal legal consequences. This dynamic weakens incentives for formalisation, particularly among growth-oriented MSMEs that face higher levels of risk. This highlights a critical gap in the formalisation ecosystem, where **“safe exit” mechanisms remain underdeveloped relative to entry and growth support**. Strengthening MSME-appropriate insolvency and restructuring frameworks, alongside improved awareness and accessibility, could therefore play a key role in **rebalancing the risk-reward calculus associated with formalisation**.

Finally, the drivers of informality are shaped by **structural inequalities and inclusion challenges**. Women, youth, persons with disabilities, and enterprises in marginalised regions face additional barriers, including limited access to finance, networks, infrastructure, and administrative services. Geographic disparities, particularly in ASAL regions, increase the cost of accessing formal systems while reducing potential benefits. These factors result in **differentiated pathways into informality**, reinforcing its persistence across specific groups and regions.

Taken together, these drivers point to a system in which **formalisation is constrained by a fundamental misalignment between regulatory systems, enterprise realities, and economic incentives**. MSMEs operate within an environment where:

- the **cost of compliance is high and recurring**,
- the **benefits of formalisation are uncertain or inaccessible**,
- **institutional systems are fragmented and complex**,
- **enterprise capabilities are uneven and often limited**, and
- **There are no mechanisms for addressing risk and failure**.

In this context, informality is not an anomaly, it is a predictable outcome**.** Addressing it therefore requires a systemic approach that tackles the underlying drivers, rather than isolated interventions focused on business registration or enforcement alone.

While these drivers explain why informality persists, it is equally important to understand its implications**.** Informality has consequences not only for MSMEs themselves, but also for the broader economy, affecting productivity, fiscal capacity, labour conditions, and long-term development outcomes. The next section therefore examines the costs and implications of MSME informality in Kenya, at both enterprise and economy-wide levels.

2.5 Costs and Implications of MSME Informality in Kenya

While informality may offer short-term flexibility and cost avoidance for MSMEs, it imposes significant costs at both the enterprise and economy-wide levels. These costs are often not immediately visible, particularly to micro and survivalist enterprises, but they have **profound implications for productivity, growth, resilience, and long-term economic transformation.**

Understanding these costs is critical to reframing formalisation, not as a compliance exercise, but as a **pathway to enterprise development and economic inclusion**. At the same time, the persistence of informality reflects a rational response to existing conditions, where the immediate costs of formalisation may outweigh its perceived benefits. This section therefore examines both the **opportunity costs of remaining informal** and the **systemic implications of widespread informality**.

Enterprise-Level Costs of Informality

At the level of individual enterprises, informality imposes structural constraints that limit growth, productivity, and long-term sustainability. A primary constraint is **restricted access to finance**. Informal and partially formalised enterprises may lack the documentation, financial records, and legal identity required by formal financial institutions. As seen earlier, majority of MSMEs depend on internal funds or informal sources, constraining their ability to invest, expand, or adopt new technologies (KBA & JICA, 2021). This reinforces a cycle of low investment and limited growth.

Informality also restricts **access to formal markets and higher-value opportunities**. Participation in public procurement, structured value chains, and export markets generally requires compliance with regulatory, tax, and quality standards. Enterprises operating informally are therefore largely confined to local, low-value markets characterised by high competition and low margins. This limits **their ability to scale, diversify, or integrate** into more productive economic activities.

A further constraint relates to **limited access to business development and support services**. Many public and private sector programmes, such as training, market linkages, and financing initiatives, require enterprises or economic units to meet specified registration, recognition or eligibility requirements.. Informal MSMEs that do not meet these requirements may therefore be excluded from these programmes, reinforcing capability gaps and limiting opportunities for upgrading.

Informality can also reduce **effective access to legal protection and increase exposure to risk**. Limited use of formal contracting and dispute resolution mechanisms can heighten enterprises' exposure to non-payment, exploitation and other commercial risks. In addition, the absence of formal insurance and risk mitigation mechanisms increases vulnerability to shocks such as theft, illness, or business disruption.

Over time, these constraints result in **low productivity and limited growth trajectories**. Informal enterprises tend to operate at small scale, with low capital intensity and limited technological adoption. This creates a self-reinforcing cycle in which low productivity constrains income, and limited income constrains investment and growth.

Importantly, these costs are not always immediately perceived by MSMEs, particularly those operating at subsistence levels. However, they represent significant **opportunity costs**, limiting the transition toward more productive and sustainable forms of economic activity.

Labour and Social Protection Implications

Informality also has far-reaching implications for employment conditions and labour outcomes within the MSME sector. A large share of employment in informal enterprises is characterised by **non-contractual arrangements, irregular income, and limited job security**. Workers often lack access to labour protections, including minimum wage guarantees, occupational safety standards, and formal dispute resolution mechanisms. In addition, informal employment is typically not linked to **social protection systems**, such as pensions, health insurance, or unemployment support. This exposes workers to significant vulnerability, including income shocks, illness, and long-term insecurity.

These conditions have broader implications for **human capital development and productivity**. Where employment is insecure and low-paying, incentives for skills development and long-term investment in human capital are reduced. This weakens the overall quality and productivity of the labour force. The persistence of informal employment also contributes to **inequality and social vulnerability**, as workers in informal enterprises tend to earn lower and more volatile incomes. These disparities are particularly pronounced for women, youth, and other vulnerable groups, who are disproportionately represented in informal employment (ILO, 2015).

Economy-Wide Costs of Informality

At the macroeconomic level, widespread informality imposes significant costs on economic performance, fiscal sustainability, and structural transformation. One of the most direct impacts is on **domestic revenue mobilisation**. The large informal sector reduces the effective tax base, limiting the Government's ability to generate revenue and finance public goods and services. This creates reliance on a narrow base of formal taxpayers and may distort incentives for compliance. (World Bank, 2022; KNBS, 2024).

At the same time, the economic cost of informality is reflected in constrained productivity and limited enterprise growth. Empirical evidence indicates that **informal firms are significantly less productive than formal enterprises, often by a factor of two to five**, due to restricted access to finance, technology, and structured markets. In Kenya, this is reflected in the gap between high firm entry rates and weak firm growth and scaling (Cruz & Hernandez Uriz, 2022; La Porta & Shleifer, 2014; World Bank, 2020). This is further compounded by a substantial MSME financing gap as seen earlier. (Ipsos Kenya et al., 2024).

Taken together, these factors highlight that informality not only narrows the tax base but also suppresses productivity growth and structural transformation, with long-term implications for economic development. International experience suggests that **sustained economic transformation has been closely associated with the expansion of formal enterprises, productivity growth, and integration into formal markets, as observed in high-growth economies in East Asia** (World Bank, 2020; OECD, 2019).

In addition, **informality distorts competition within markets**, creating structural disadvantages for compliant firms. Enterprises complying with applicable regulatory, tax and standards requirements incur costs associated with licensing fees, tax obligations, compliance reporting and quality certification. By contrast, enterprises operating outside some or all of these requirements may face lower compliance costs.. Evidence from enterprise surveys indicates that this dynamic is widespread in Kenya. Approximately **half of formal firms report that they face direct competition from informal businesses, with many identifying this as a major constraint to their operations** (World Bank, 2018). This is particularly problematic in price-sensitive sectors such as retail trade, manufacturing, and services.

At the firm level, this dynamic affects profitability and investment decisions. Compliant enterprises may face reduced margins and loss of market share, while the incentives to comply with regulatory and tax requirements are weakened. In such contexts, **compliance is perceived as a competitive disadvantage, rather than a pathway to growth**. This in turn discourages firms from investing in quality upgrading, standards compliance, and market expansion, particularly where these investments are not matched by corresponding competitive advantages.

Taken together, informality does not simply coexist with the formal economy, it actively reshapes competitive dynamics. By lowering the cost of non-compliance and weakening incentives for formal participation, it reinforces patterns of selective compliance and constrains the development of fair and competitive markets.

The prevalence of informality also limits **integration into regional and global markets**. Participation in cross-border trade and value chains, such as under the African Continental Free Trade Area, requires compliance with standards, documentation, and regulatory frameworks. A large informal sector therefore constrains export diversification, investment attraction, and participation in higher-value economic activities.

Systemic and Structural Implications

Beyond these direct economic effects, informality has broader implications for the structure and trajectory of economic development. A persistently large informal sector reinforces a pattern of **low-value, low-productivity economic activity**, limiting structural transformation into higher-value sectors such as manufacturing and modern services.

Informality also weakens **institutional effectiveness**. Where a significant share of economic activity occurs outside formal systems, the ability of institutions to regulate, plan, and deliver services is constrained. Data on economic activity may be incomplete or unreliable, affecting policy design and implementation.

The coexistence of formal and informal systems contributes to **fragmented economic governance**, where different rules apply to different segments of the economy. This can reduce transparency, increase opportunities for discretionary enforcement, and undermine trust in public institutions.

At a broader level, informality weakens the **social contract between the state and economic actors**. Where enterprises and workers operate outside formal systems, the reciprocal relationship between taxation, service delivery, and accountability is weakened, with implications for long-term governance and state capacity.

2.6 Assessment of Current Policy, Institutional and Incentives Framework

Policy and Institutional Framework

Kenya has established a broad and well-articulated policy and institutional framework for MSME development, within which formalisation is recognised as an important policy objective. This framework is anchored in the country's long-term development agenda, particularly **Vision 2030, which identifies private sector development and enterprise growth as central to economic transformation**. These priorities are operationalised through successive Medium-Term Plans, including the current Fourth Medium-Term Plan (MTP IV), which places emphasis on industrialisation, value chain development, and employment creation.

The Bottom-Up Economic Transformation Agenda **(BETA) further reinforces this positioning by placing MSMEs at the centre of economic policy, particularly in relation to job creation, income generation, and local economic development across priority sectors**. The Revised Micro, Small and Medium Enterprises (MSME) Policy 2026 complements these frameworks by providing a dedicated focus on MSME growth and explicitly recognising the high prevalence of informality within the sector.

Taken together, these frameworks demonstrate strong strategic alignment and a clear policy commitment to MSME development. However, despite this, informality remains pervasive, indicating that the challenge lies not in policy intent, but in how the formalisation agenda is translated into operational systems, institutional coordination, and enterprise-facing processes (Government of Kenya, 2023; Government of Kenya, 2025; World Bank, 2022).

Within the current policy architecture, formalisation is **generally positioned as a cross-cutting outcome of MSME development, rather than as a distinct and operationalised policy objective with a common objective andclearly defined pathway**. Existing frameworks focus on improving the business environment, expanding access to finance, and strengthening enterprise capabilities. However, they do not consistently articulate how the different dimensions of formalisation relate to one another; how enterprises transition towards greater formality, or how different policy instruments collectively support this transition. **As a result, formalisation is addressed indirectly, without a clearly defined end-to-end framework that reflects the realities of MSME operations.**

At the institutional level, Kenya's architecture for MSME formalisation is extensive and functionally diverse. The State Department for MSMEs Development provides overall policy direction and oversight for the MSME agenda, while different institutions administer the various forms of registration, recognition and compliance relevant to MSMEs. These include **business and MSE registration and recognition; registration of co-operatives and community groups; taxation; national and county licensing; sector-specific regulation; and labour and social protection requirements**. County governments additionally play a central role in local licensing, enforcement, provision of trading spaces and enterprise support, making them one of the most immediate interfaces between MSMEs and the State. Line ministries and other public institutions further shape the formalisation environment through sector-specific policies, regulations and enterprise-support functions.

While these institutional roles are clear and necessary, they do not operate as part of an integrated system from the perspective of MSMEs. Enterprises interact with each institution separately, according to its mandate, rather than through a coordinated formalisation pathway. This results in parallel administrative processes, limited coordination in service delivery, and the absence of a single, coherent interface through which MSMEs can engage with formal systems. **The lack of interoperability across relevant registration, recognition, taxation, licensing and regulatory functions, and between national and county platforms, further reinforces this fragmentation** (World Bank, 2020).

Devolution has significantly shaped this landscape. County governments have enhanced the proximity of government services to enterprises and play a critical role in regulating MSME activity. However, this has also introduced variability in regulatory practice. **Differences in licensing regimes, fee structures, and administrative procedures across counties create inconsistencies that affect enterprises operating in more than one jurisdiction**. A further challenge relates to the absence of structured frameworks for determining county fees and charges. Although the County Governments Act requires county governments to develop tariff and pricing policies to guide the setting of fees, levies, and charges, recent evidence indicates that no county has adopted such a policy since the requirement was introduced in 2012 (KAM, 2025). As a result, county fees and charges are often established through annual finance legislation without a consistent pricing framework, contributing to variations across counties and perceptions of unpredictability among enterprises. For MSMEs, this can increase compliance uncertainty, raise the cost of operating across multiple jurisdictions, and weaken confidence in the formalisation process. While intergovernmental coordination mechanisms exist, including the Council of Governors (CoG) and the Intergovernmental Relations Technical Committee (IGRTC), these are not consistently operationalised to harmonise MSME-related regulatory practices. **The result is a formalisation environment characterised by national policy direction but decentralised and uneven implementation.**

At the regulatory level, Kenya has made significant progress in simplifying business entry through legal reforms and digitalisation, particularly via platforms such as eCitizen. These reforms have reduced procedural barriers at the point of registration and improved access to legal identity (World Bank, 2020). However, this progress has not been matched by equivalent attention to the operational environment. Licensing, sectoral regulation, and ongoing compliance requirements remain distributed across multiple institutions, with limited consolidation or rationalisation. **In effect, reforms have focused on improving access to existing processes, rather than reviewing and restructuring the overall regulatory framework.** As a result, while entry into the formal system has become more accessible, engagement with the system after registration remains complex and fragmented.

Kenya has also established a wide range of programmes to support MSME development, including targeted public funds, financial inclusion initiatives, and preferential procurement frameworks such as AGPO. These interventions demonstrate a strong commitment to supporting enterprise growth and inclusion. However, they operate largely as standalone programmes, rather than as part of a coordinated formalisation strategy. Access to these opportunities is not consistently structured around formalisation status or progression, and linkages between programmes are often weak. **As a result, the broader support architecture does not function as an integrated incentive system that reinforces movement along the formalisation continuum** (OECD, 2023).

A key limitation of the current framework is the absence of several system-level elements required to support formalisation as a sustained and progressive process. These include:

- **a common operational framework that identifies applicable dimensions of formalisation and enables enterprises to progress incrementally towards greater formality;**
- **integrated data systems that allow institutions to share information and coordinate interventions;**
- **a coherent regulatory framework that reduces overlaps and inconsistencies across institutions and levels of government; and**
- **a lifecycle approach to enterprise policy that addresses not only entry and growth, but also business risk, restructuring, and exit** (UNCITRAL, 2021; World Bank, 2020).

These gaps do not reflect a lack of policy attention, but rather a lack of integration across existing instruments.

In summary, Kenya's policy and institutional framework for MSME development is well-developed, but it operates as a collection of policies, institutions, and programmes, rather than as a coherent formalisation system. The central challenge is therefore one of integration, coordination, and system design, with formalisation continuing to be experienced as fragmented and partial, limiting its effectiveness as a tool for enterprise development and economic transformation**.**

The table below summarises the key institutions and their primary roles within the formalisation system.

Table 3, Key Institutions and Actors in MSME Formalisation in Kenya

CATEGORY	INSTITUTION / ACTOR	PRIMARY ROLE IN MSME FORMALISATION
Policy & Coordination	State Department for MSMEs Development	Overall policy direction, coordination and oversight of the MSME formalisation agenda
MSE Registration, Recognition & Support	Micro and Small Enterprises Authority (MSEA) / Registrar of Micro and Small Enterprises	MSE registration and institutional recognition; enterprise development, capacity building and support for progressive formalisation
Business Registration & Legal Identity	Business Registration Service (BRS)	Business registration and establishment of recognised business and legal identity
Community Group Registration & Recognition	State Department responsible for Social Development / Directorate of Social Development	Registration and recognition of community groups, self-help groups and community-based organisations
Co-operative Registration & Regulation	State Department for Co-operatives / Commissioner for Co-operative Development	Registration, regulation and development of co-operative societies
Taxation	Kenya Revenue Authority (KRA)	Tax registration, administration and compliance
County Regulation & Enterprise Support	47 County Governments	Local business licensing and regulatory administration; management of markets and trading spaces; local enterprise support and economic development
Sector Policy & Regulation	Line Ministries and Sector Regulators, including KEBS, KEPHIS, NEMA, NTSA and other relevant regulators	Sector-specific policies, registration, licensing, standards, permits, approvals and other regulatory requirements applicable to MSMEs
Labour & Social Protection	Relevant labour and social protection institutions	Administration of applicable employment, labour and social protection requirements affecting MSMEs and their workers
Public Finance & Enterprise Support	Youth Enterprise Development Fund, Women Enterprise Fund, Uwezo Fund and other public MSME financing programmes	Targeted financing, financial inclusion and enterprise-development support
Finance	Commercial Banks, SACCOs, MFIs and Fintechs	Provision of credit, financial services and financial inclusion solutions for MSMEs
Market Access	AGPO Programme and other Government market-access initiatives	Facilitation of MSME participation in public procurement and other structured market opportunities
Private Sector	Business Membership Organisations, including KNCCI, KAM and other associations	Advocacy, enterprise awareness, market linkages, business support and stakeholder feedback
Development & Knowledge Partners	Development partners, research institutions, academia and civil society organisations	Technical assistance, financing, research, innovation, capacity development and knowledge support

Existing Incentives and support measures for MSME Formalisation

The Government has established a broad range of programmes, initiatives, and support measures aimed at promoting MSME development and encouraging participation in the formal economy. Many of these interventions provide benefits that can support enterprise growth and create incentives for engagement with formal systems.

Access to finance remains one of the most significant incentives associated with formalisation. Over the years, the Government has established a number of targeted financing programmes aimed at addressing credit constraints faced by MSMEs. These include:

- The Youth Enterprise Development Fund (YEDF), established to provide affordable credit, entrepreneurship training, market linkages, and business development support to young entrepreneurs aged between 18 and 34 years. The Fund offers both individual and group-based financing products and has supported thousands of youth-owned enterprises across the country. Access to some financing windows and support services typically requires enterprises to demonstrate a degree of formal organisation or registration.

- The Women Enterprise Fund (WEF), created to improve access to affordable credit and capacity-building services for women entrepreneurs. In addition to financing, the Fund provides training, market access support, and financial literacy programmes aimed at strengthening women-owned enterprises. The programme has become one of the Government's flagship initiatives for promoting women's economic empowerment and enterprise growth.

- The Uwezo Fund, established to expand access to finance for youth, women, and persons with disabilities through group-based lending and capacity-building support. The Fund seeks to promote self-employment and enterprise development among vulnerable and underserved groups, particularly at the grassroots level. Beneficiary groups are generally required to be registered and meet specified eligibility criteria.

- More recently, the Financial Inclusion Fund (Hustler Fund) was introduced as part of the Government's financial inclusion agenda to provide accessible and affordable digital credit and savings products to individuals, micro-enterprises and small businesses. Unlike many traditional financing programmes, the Fund leverages mobile technology to reach entrepreneurs, including those operating in the informal economy, without requiring conventional business registration or full regulatory compliance as a condition for basic access.

  In addition to providing finance, the Fund generates digital borrowing, repayment and savings records for its users, creating an important source of administrative and behavioural financial data (Financial Inclusion Fund, 2026). Given its scale and reach among informal and micro-scale economic actors, the Fund provides an existing financial inclusion and data platform that could support progressive formalisation. While participation in the Fund does not itself constitute enterprise formalisation, its existing relationship with informal economic actors can provide a channel through which enterprises may be identified, linked to appropriate enterprise-support and formalisation services, and progressively connected to additional financial products and opportunities as they develop. The Fund could therefore complement other registration, recognition and support mechanisms within a broader progressive formalisation framework.

- In addition to these targeted funds, the Government established the Credit Guarantee Scheme to encourage commercial banks and other participating financial institutions to increase lending to MSMEs. Under the scheme, the Government shares a portion of the lending risk, thereby reducing collateral constraints that often prevent smaller enterprises from accessing formal credit. The scheme is particularly important for growth-oriented MSMEs seeking larger-scale financing from the banking sector.

Together, these financing initiatives seek to expand access to capital, strengthen enterprise development, and improve financial inclusion among MSMEs. They also create important incentives for enterprises to engage with formal systems, as registration and compliance often facilitate access to financing opportunities and complementary business support services (Government of Kenya, 2025; National Treasury, 2024).

Formalisation is also linked to improved access to markets. Through the Access to Government Procurement Opportunities (AGPO) programme, the Government reserves at least 30 per cent of public procurement opportunities for enterprises owned by youth, women, and persons with disabilities. AGPO opportunities are available across both national and county government procurement processes, and eligible beneficiaries may participate either as registered enterprises or through organised groups that meet the programme requirements. Participation in AGPO requires registration and compliance with specified administrative requirements, thereby creating a direct incentive for enterprises to engage with formal systems (Public Procurement Regulatory Authority [PPRA], 2024).

In addition to AGPO, the Public Procurement and Asset Disposal Act, 2015 (PPADA) and the Public Procurement and Asset Disposal Regulations, 2020 provide a range of preference and reservation schemes intended to increase the participation of Kenyan enterprises in public procurement. These include the application of a margin of preference for goods manufactured, mined, extracted, grown, or produced in Kenya, as well as reservations for specific categories of local enterprises in designated procurement opportunities (PPRA, 2024). The Buy Kenya Build Kenya (BKBK) initiative further promotes the procurement of locally produced goods and services by public institutions and encourages stronger linkages between government demand and domestic producers, including MSMEs (Ministry of Investments, Trade and Industry, 2023). Collectively, these measures create potentially significant market opportunities for formal enterprises by linking business registration, tax compliance, and regulatory compliance with access to government procurement and local sourcing opportunities. However, studies and stakeholder consultations indicate that awareness, capacity to meet procurement requirements, and actual utilisation of these opportunities remain uneven across the MSME sector (PPRA, 2024; Government of Kenya, 2025).

Beyond finance and procurement, **a range of enterprise support measures are available to MSMEs, although eligibility requirements vary across programmes and institutions..** These include business development services, entrepreneurship training, incubation support, technology development and transfer, market linkage programmes, export promotion initiatives, and access to industrial workspaces through institutions such as the Micro and Small Enterprises Authority (MSEA), which provides business development, incubation, and enterprise support services; Kenya Industrial Estates (KIE), which offers industrial workspaces, credit, and enterprise development support; the Kenya Industrial Research and Development Institute (KIRDI), which supports technology development, innovation, and industrial research; the Kenya Development Corporation (KDC), which provides development finance and investment support; and the Kenya Export Promotion and Branding Agency (KEPROBA), which facilitates export promotion and market access. Additional support is provided through county enterprise development programmes and sector-specific value chain initiatives. Enterprises meeting relevant registration, regulatory and market requirements aregenerally better positioned to participate in structured value chains, access certification support, benefit from technology and innovation programmes, and engage in domestic and international trade opportunities (Government of Kenya, 2025; OECD, 2023).

In addition, **recent regulatory and digitalisation reforms have reduced some of the procedural barriers associated with formal participation.** Platforms such as eCitizen and the BRS have simplified registration processes, improved access to government services, and reduced the time required to establish a business. These reforms represent an important non-financial incentive by lowering the administrative costs of entering the formal economy (World Bank, 2020).

The table below summarises selected incentives and support measures currently available to MSMEs in Kenya. The table also highlights the extent to which access to these benefits is linked to formalisation and business registration requirements.

Table 4, Summary of Incentives

CATEGORY	INTERVENTION / PROGRAMME	INTENDED BENEFIT	REGISTRATION OR COMPLIANCE REQUIREMENT
Finance	Youth Enterprise Development Fund	Access to affordable credit and enterprise financing	**Varies by financing product -** specified individual, group or business registration and eligibility requirements may apply
Finance	Women Enterprise Fund	Access to affordable credit, capacity building and enterprise support	**Varies by financing product -** specified group or enterprise registration and eligibility requirements may apply
Finance	Uwezo Fund	Group-based enterprise financing and capacity-building support	**Yes, qualifying group registration required**, including registration through Social Services, Co-operatives or the Registrar of Societies
Finance	Hustler Fund	Access to digital microcredit and savings products	**No formal business registration required** for relevant individual and micro-enterprise products
Finance	Credit Guarantee Scheme	Improved access to formal credit through participating financial institutions	**Yes, applicable business, tax and lender eligibility requirements apply**
Public Procurement	Access to Government Procurement Opportunities (AGPO)	Access to reserved public procurement opportunities for women, youth and persons with disabilities	**Yes, specified registration, tax and programme eligibility requirements apply**
Enterprise Development	MSEA Business Development Services	Training, mentorship, incubation, advisory services and enterprise-development support	**Varies by programme -** some interventions may require registration or recognised organisational status
Infrastructure & Enterprise Development	Kenya Industrial Estates (KIE) Workspaces and Facilities	Access to industrial workspaces, credit and enterprise-development support	**Varies by facility or programme -** applicable eligibility and documentation requirements apply
Market Access	KEPROBA Export Promotion Programmes	Export readiness, market intelligence, trade promotion and international market linkages	**Varies by programme or service -** enterprises may be required to meet relevant registration, regulatory or export-readiness requirements

Registration & Digital Government Services	eCitizen and BRS Services	Simplified access to business registration and related government services	**Not applicable - these services facilitate entry into and interaction with formal administrative systems**

Source: Author generated using various Government and institutional sources

Taken together, **these interventions demonstrate that Kenya possesses a substantial architecture of incentives and support measures aimed at encouraging enterprise development and participation in the formal economy.** However, evidence suggests that awareness, accessibility, uptake, and coordination remain uneven (Ipsos Kenya et al., 2024; KBA & JICA, 2021). Many MSMEs remain unaware of available programmes, face difficulties meeting eligibility requirements, or do not perceive a clear connection between formalisation and access to benefits. In other cases, incentives are fragmented across institutions and programmes, making them difficult to navigate, particularly for micro and small enterprises with limited administrative capacity.

Recent international evidence also suggests that formality should be viewed **not merely as a legal status, but as a productive business input**. Formal enterprises are better positioned to access larger markets, participate in public procurement, obtain finance, enter structured value chains, protect commercial interests through enforceable contracts, and invest in business growth (Maloney et al., 2026). **Formalisation therefore creates value not simply because it satisfies regulatory requirements, but because it enhances enterprise competitiveness and productivity**. Where formalisation does not deliver these practical business advantages, enterprises are less likely to perceive sufficient value in becoming or remaining formal. Consequently, **many MSMEs do not consistently experience or associate these benefits with formal participation,** which weakens the perceived value proposition of formalisation and contributes to the persistence of partial and selective engagement with formal systems.

2.7 International and Comparative Insights

International experience confirms that high levels of informality are a structural feature of many developing and emerging economies, particularly across Sub-Saharan Africa, Latin America, and South Asia. Despite sustained reform efforts, the transition from informality to formality has proven to be **gradual, complex, and highly context-specific**, shaped by differences in economic structure, institutional capacity, and enterprise characteristics.

A consistent finding across these contexts is that **informality cannot be effectively addressed through enforcement or registration reforms alone**. Rather, countries that have made measurable progress have done so through **targeted and system-oriented interventions that reduce the cost of compliance, strengthen incentives, and improve institutional coordination** (ILO, 2015; World Bank, 2020). These insights reinforce the analytical framing adopted in this policy, which views formalisation as a **progressive, multi-dimensional process**, rather than a discrete administrative step.

Lessons from Brazil

The experience of Brazil provides one of the most widely cited and empirically grounded examples of large-scale MSME formalisation through targeted regulatory reform. The introduction of the *Microempreendedor Individual* (MEI) regime in 2009 represented a deliberate shift away from applying standard regulatory frameworks to micro and informal enterprises, toward the creation of a **distinct, simplified formalisation pathway tailored to micro-scale economic activity**.

The MEI regime is built around three core design features:

a) **Brazil established a distinct legal and regulatory category for micro enterprises.** The MEI regime defines eligibility based on a turnover threshold (currently approximately BRL 81,000 annually) and limits participation to sole proprietors with up to one employee. This effectively removes micro enterprises from the standard corporate and tax regimes, recognising their limited administrative capacity and scale of operations. By creating a separate legal category, Brazil addressed a key structural barrier to formalisation: the misalignment between regulatory requirements and enterprise realities (OECD, 2021; ILO, 2018).

b) **The regime introduced a single, simplified and predictable tax and contribution system.**
MEI participants pay a fixed monthly amount (approximately BRL 70–80), which consolidates multiple obligations, including income tax, social security contributions, and municipal or state taxes. This eliminates the need for complex accounting, multiple filings, and interaction with different tax authorities. Compliance is further facilitated through a fully digital platform that integrates registration, payment, and reporting functions. This radical simplification significantly reduces both the financial and administrative costs of formalisation (OECD, 2023; World Bank, 2020).

c) **Brazil linked formalisation to immediate and tangible benefits.** Registration under the MEI regime provides automatic access to social security benefits, including pensions, maternity leave, and disability coverage. It also enables enterprises to issue formal invoices, which is critical for participating in formal value chains, and improves access to financial services, including bank accounts and credit. Importantly, these benefits are **accessible upon registration**, rather than contingent on future compliance or firm growth, thereby strengthening the incentive to formalise (ILO, 2018; OECD, 2021).

These design features have translated into substantial and measurable outcomes. Since its introduction in 2009, more than 13 million micro-entrepreneurs had registered under the MEI formalisation regime by 2023, **, making it one of the largest formalisation initiatives globally.** The number of registered MEIs grew from fewer than **1 million in 2010 to approximately 4.5 million by 2014, 7.7 million by 2018, and over 13 million by 2023** (Government of Brazil, 2023; OECD, 2021). MEIs now account for more than 70% of all registered businesses in Brazil. The regime has also contributed to increased social security coverage among self-employed workers and improved access to formal financial services (ILO, 2018).

At the same time, Brazil's experience highlights important limitations. A significant proportion of enterprises remain within the MEI regime without transitioning to higher levels of formality, indicating that while simplified entry mechanisms are effective in expanding the formal base, they do not automatically lead to enterprise growth or progression. This underscores the importance of designing **graduation pathways** that support firms to move beyond entry-level formalisation as they scale (OECD, 2021).

The key lesson for Kenya is therefore not simply the adoption of simplified registration mechanisms, but the need for a differentiated and integrated formalisation framework. Specifically, Brazil's experience demonstrates that:

- **Micro enterprises require a distinct regulatory regime**, rather than adaptation of standard frameworks;
- **Radical simplification of compliance**, including consolidation of taxes and procedures, is critical to reducing the cost of formalisation; and
- **Formalisation must be linked to immediate and accessible benefits**, particularly social protection and market participation, to influence enterprise behaviour.

These insights suggest that incremental reforms within existing systems may be insufficient. Instead, a more fundamental restructuring of how micro enterprises are regulated, taxed, and supported may be required to achieve sustained formalisation outcomes.

Lessons from India

The experience of India provides important insights into how MSME formalisation can be strengthened through a combination of simplified administrative recognition, differentiated pathways for informal micro enterprises, integrated data and incentives, and cluster-based enterprise development. Rather than relying on a single intervention, India's approach combines mechanisms for bringing enterprises into government administrative systems with measures that strengthen their capacity, productivity and access to shared infrastructure and services.

The experience of India provides important insights into how MSME formalisation can be supported. Four features are particularly relevant to Kenya.

a) India established simplified and differentiated mechanisms for bringing MSMEs, including informal micro enterprises, into the formal administrative system: the introduction of the **Udyam Registration system in 2020** established a fully digital, paperless and self-declaratory mechanism through which enterprises can obtain official MSME recognition. Registration is free and based largely on self-declaration, with enterprise information linked to government databases, including tax systems. This reduces documentation requirements and administrative interaction while creating a nationally recognised MSME identity (Government of India, 2026).

Importantly, India subsequently introduced the **Udyam Assist Platform (UAP) in January 2023 specifically to bring Informal Micro Enterprises (IMEs) into the formal ambit**. The platform, developed by the Ministry of MSME in association with the Small Industries Development Bank of India (SIDBI), provides a pathway for micro enterprises, including those exempt from the Goods and Services Tax regime, to acquire recognised MSME status. Certificates issued to IMEs through UAP are treated at par with Udyam Registration Certificates for purposes of accessing **Priority Sector Lending**, thereby linking administrative recognition directly to an important formal financing opportunity (Government of India, 2026).

The scale of this approach is significant. As at 31 January 2026, approximately **76.1 million MSMEs, including informal micro enterprises registered through UAP, were recorded within the Udyam/UAP system** (Government of India, 2026). India's approach therefore demonstrates that bringing informal enterprises into formal administrative systems need not begin with conventional business incorporation or comprehensive regulatory compliance. Government can provide an accessible form of recognition that creates an **entry point into formal systems**, from which enterprises can progressively engage with additional requirements and opportunities.

b) India links MSME recognition to a wider ecosystem of economic incentives and support: Udyam registration functions not merely as an administrative identifier, but as a gateway through which enterprises can access a range of government schemes, incentives and statutory benefits. These include credit and credit-guarantee programmes, public procurement opportunities, technology and quality-upgrading initiatives and other enterprise-development interventions (Government of India, 2026).

The Udyam Assist approach extends this principle to informal micro enterprises by allowing recognised IMEs to access specified benefits without requiring them first to satisfy all the requirements associated with conventional enterprise registration. This creates a more graduated relationship between **recognition, access to benefits and deeper formalisation**, rather than requiring enterprises to cross a single high threshold before entering the government support system.

c) India embeds MSME recognition within an integrated and increasingly data-driven administrative system: the Udyam framework is integrated with other government databases, including tax systems, enabling enterprise information and classification to be verified and updated through administrative data rather than repeated documentary submissions by enterprises. The system therefore provides Government with a large and increasingly comprehensive database of MSMEs across sectors, locations and enterprise categories (Government of India, 2026).

This integration strengthens both service delivery and policy design. It reduces repeated information requirements for enterprises while improving the ability of government to identify MSMEs, target interventions and monitor developments within the sector. Formalisation and administrative recognition consequently also become mechanisms for strengthening **data visibility and coordinated MSME governance**.

However, expanded registration and administrative recognition should not be equated with comprehensive formalisation across all dimensions. Enterprises recognised through Udyam or UAP may still differ in their compliance with taxation, labour, licensing and other requirements applicable to their activities. India's experience therefore reinforces the distinction between **administrative recognition as an entry point into formal systems and deeper formalisation across the wider regulatory framework**.

d) India complements enterprise-level formalisation with a strong cluster-based model of MSME development and upgrading: a further important feature of India's approach is its use of **cluster development as a key strategy for strengthening the productivity, competitiveness and capacity of micro and small enterprises**. Through the Micro and Small Enterprises Cluster Development Programme (MSE-CDP), enterprises undertaking similar or complementary activities, sharing common markets or skills, or facing common challenges can be supported collectively rather than solely at the level of the individual enterprise (Government of India, 2026).

The cluster model combines several forms of intervention. Diagnostic studies are used to identify common constraints and develop cluster-level action plans, while capacity-building and other soft interventions support areas such as technology, skills, quality improvement, market development and collective organisation. The programme also supports common infrastructure and **Common Facility Centres (CFCs)** that can provide shared production and processing facilities, testing, design, training, research and development, raw-material services, effluent treatment and other facilities that would be difficult or uneconomic for individual micro and small enterprises to establish independently (Government of India, 2026).

The approach also encourages collective organisation through mechanisms such as self-help groups, consortia and strengthened enterprise associations. In this way, clustering creates a platform through which enterprises can collectively address constraints relating to technology, infrastructure, standards, skills, production and market access. India's Ministry of MSME expressly identifies the cluster-development approach as a strategy for enhancing the productivity and competitiveness of MSEs and building their capacity for common action (Government of India, 2026).

The programme has been implemented at considerable scale. Current Ministry of MSME data records more than **600 approved cluster-development projects**, comprising Common Facility Centres and infrastructure-development projects across India (Government of India, 2026).

From a formalisation perspective, the significance of the cluster model lies in recognising that **many barriers faced by informal and micro enterprises cannot be efficiently addressed enterprise by enterprise**. Shared infrastructure, collective services, common facilities, enterprise associations and coordinated support can reduce the cost of upgrading and make it easier for enterprises to meet quality, technology, environmental, market and regulatory requirements progressively. Cluster-based approaches can therefore complement enterprise-level formalisation pathways by strengthening the ecosystem within which enterprises operate.

India's experience provides four important lessons for Kenya:

- **Administrative recognition can provide an entry point into formalisation without requiring comprehensive compliance at the outset.** The Udyam Assist Platform demonstrates how informal micro enterprises can be recognised within government administrative systems and linked to specified opportunities while remaining on a pathway towards deeper formalisation. This is particularly relevant to Kenya, where many enterprises already interact with government through different forms of group, MSE, county, co-operative or sector-specific recognition.

- **Recognition should connect enterprises to tangible economic opportunities.** India's linkage of MSME recognition to finance, procurement, enterprise support and other schemes strengthens the practical value of entering government administrative systems. In Kenya, while comparable support programmes exist, linkages between different forms of recognition, formalisation status and enterprise benefits remain fragmented.

- **Integrated data systems are critical to progressive formalisation.** India's administrative integration enables government to identify and classify enterprises, reduce repeated information requirements and link enterprises more effectively to relevant interventions. In

Kenya, data remains fragmented across BRS, MSEA, KRA, County Governments and other institutions, limiting the ability to track and support enterprise progression.

- **Cluster-based approaches can reduce the cost of enterprise upgrading and support collective pathways towards greater formality.** India's MSE-CDP demonstrates the value of addressing shared constraints through common facilities, infrastructure, capacity building and collective organisation. Kenya's existing MSME clusters, associations, co-operatives, markets and other concentrations of economic activity could similarly provide platforms through which infrastructure, technology, standards compliance, enterprise support and formalisation services are delivered collectively rather than enterprise by enterprise.

Taken together, India's experience demonstrates that **formalisation need not be approached as a single transition undertaken independently by each enterprise**. A more inclusive approach can combine accessible recognition of informal enterprises, progressive linkage to formal systems and benefits, integrated administrative data, and collective mechanisms that strengthen the capabilities and operating environment of MSMEs as they progress towards greater formality.

Lessons from Mexico

The experience of Mexico provides a particularly relevant example of how **tax system design can either constrain or enable formalisation**, especially for micro and small enterprises operating with low and volatile incomes. The introduction of the Régimen de Incorporación Fiscal (RIF) represents a shift toward a **graduated and incentive-based approach to tax compliance**.

The RIF regime was designed to facilitate the transition of informal enterprises into the formal tax system through three key mechanisms.

a) **First, Mexico introduced a simplified tax regime tailored to micro and small enterprises.** The RIF system significantly reduced administrative requirements by simplifying tax calculation and filing procedures. This lowered compliance costs and made participation in the tax system more accessible for enterprises with limited accounting capacity (OECD, 2023; World Bank, 2019).

b) **Second, the regime incorporated a gradual transition into full taxation through time-bound incentives.** Newly registered firms benefited from substantial tax reductions in the initial years, with discounts phased out progressively over a ten-year period. This allowed enterprises to adjust gradually to the tax system, rather than facing immediate full compliance obligations. The design explicitly recognised income volatility and the limited capacity of micro enterprises to absorb tax burdens at early stages (OECD, 2023).

c) **Third, Mexico linked tax registration to access to social protection and financial services.** Participation in the RIF regime provided access to health insurance and other social benefits, as well as improved access to formal financial services. This strengthened the perceived value of tax compliance and reinforced incentives for formalisation (World Bank, 2019).

These reforms contributed to an expansion of the formal taxpayer base and improved engagement of micro enterprises with the tax system. However, outcomes have been mixed, with some firms reverting to informality once incentives expired, highlighting the importance of sustained benefits and effective enforcement.

Mexico's experience is highly relevant in light of Kenya's ongoing challenges with Turnover Tax and Presumptive taxation. It highlights three critical lessons.

- **Tax systems must reflect enterprise realities, particularly income volatility:** Mexico's phased approach recognises that MSMEs cannot absorb full tax obligations immediately. In Kenya, **tax regimes are often perceived as rigid and misaligned with MSME income patterns**, particularly for micro enterprises with irregular and seasonal earnings. This contributes to resistance to tax compliance and reinforces informality.

- **Gradual integration is more effective than immediate full compliance:** Time-bound tax incentives in Mexico allowed firms to transition progressively into the formal tax system. In Kenya, **formalisation is often associated with immediate and full tax obligations**, with limited transitional support. This creates a sharp cost increase at the point of formalisation, discouraging entry and sustained compliance.

- **Tax compliance must be linked to visible and accessible benefits:** Mexico strengthened incentives by linking tax registration to social protection and financial inclusion. In Kenya, **taxation is widely perceived as a cost rather than part of a reciprocal system**, with limited visibility of benefits. The weak linkage between tax compliance and access to services reduces incentives for MSMEs to formalise.

<u>Lessons from Rwanda</u>

The experience of Rwanda provides a strong example of how **regulatory simplification, institutional coordination, and the removal of redundant requirements** can reduce barriers to formalisation. Over the past two decades, Rwanda has implemented a series of reforms aimed at improving the business environment, with a particular focus on streamlining administrative procedures and reducing regulatory burdens on enterprises.

These reforms have been led primarily through the Rwanda Development Board (RDB), which functions as a centralised institution responsible for investment promotion, business registration, and regulatory facilitation. Rwanda's approach is characterised by three key design elements.

a) **Rwanda established integrated one-stop service delivery systems,** by consolidated multiple administrative processes, including business registration, licensing, and investment services, within a single institutional framework. Through both physical one-stop centres and digital platforms, enterprises can complete registration procedures in a streamlined and coordinated manner. Business registration can be completed within a matter of hours, and the number of procedural steps required to start a business has been significantly reduced (World Bank, 2020; Government of Rwanda, 2022). This reform addresses not only the time required for registration, but also the fragmentation of administrative processes across institutions.

b) **Rwanda undertook targeted regulatory simplification, including the removal of unnecessary and redundant licensing requirements: a** central feature of Rwanda's reform programme has been the **systematic review and rationalisation of business licences and regulatory requirements**. This has involved:
   - eliminating redundant or overlapping licences
   - reducing the number of approvals required to operate a business
   - standardising licensing procedures across sectors
   - simplifying compliance requirements, particularly for small enterprises

These reforms were implemented through structured regulatory reviews and coordination across government agencies, aimed at reducing administrative burdens and improving regulatory clarity. By removing duplicative requirements, Rwanda reduced both the cost and uncertainty associated with formalisation, particularly for micro and small enterprises (World Bank, 2020; OECD, 2021). This is a critical point: formalisation was not only made easier at entry, but **less burdensome during operation**.

c) **Rwanda strengthened institutional coordination and digital integration across regulatory functions:** Rwanda has made significant progress in integrating systems across institutions, allowing for improved data sharing and coordination between registration, licensing, and tax authorities. Digital platforms enable enterprises to interact with government through a more unified interface, reducing duplication and improving transparency. This integration has also supported more efficient service delivery and strengthened the government's ability to monitor and support enterprise activity (Government of Rwanda, 2022; World Bank, 2020).

Rwanda's reforms have contributed to substantial improvements in the business environment: time required to start a business reduced to **less than 48 hours; n**umber of procedures significantly reduced compared to regional averages and the country consistently ranks top in Africa in global business environment assessments. In addition, regulatory simplification and improved coordination have reduced administrative burdens and improved the predictability of the business environment.

However, Rwanda's experience also highlights important limitations. Despite significant progress in simplifying entry and reducing regulatory burdens, **informality remains present**, particularly among micro and subsistence enterprises. This reflects the reality that simplified registration alone does not address deeper structural constraints; access to finance, markets, and enterprise capabilities remains uneven and some enterprises continue to operate informally due to low perceived benefits of full compliance. This reinforces a critical fact that **entry reform is necessary, but not sufficient for sustained formalisation**.

Rwanda's experience provides important lessons for Kenya, particularly in relation to regulatory simplification, licensing reform, and institutional coordination. It highlights three key areas where progress is needed.

- **Formalisation requires not only simplified entry, but reduced regulatory burden during operation:** Rwanda's reforms demonstrate that removing redundant and overlapping licences can significantly reduce the cost and complexity of operating formally. In Kenya, **licensing remains fragmented, duplicative, and often inconsistent across counties and sectors**. Enterprises are frequently required to obtain multiple licences and approvals from different institutions, even where these serve similar regulatory purposes. This creates unnecessary costs, administrative burden, and uncertainty, discouraging sustained formalisation.

- **Institutional coordination and integrated service delivery are critical:** Rwanda's one-stop service model and integrated institutional framework reduce the need for enterprises to interact with multiple agencies and systems. In Kenya, **institutional responsibilities remain fragmented across national and county governments**, including the Business Registration Service (BRS), Kenya Revenue Authority (KRA), sector regulators, and county licensing authorities. Limited coordination and interoperability between these institutions result in duplication of processes, repeated data requirements, and increased transaction costs for MSMEs.

- **Regulatory reform must extend beyond procedures to address system coherence:** Rwanda's approach involved not only simplifying individual procedures, but also reviewing and rationalising the overall regulatory framework to eliminate inconsistencies and overlaps. In Kenya, reforms have largely focused on **digitising existing processes**, rather than fundamentally reviewing and rationalising the underlying regulatory framework. As a result, enterprises often face digital versions of complex and fragmented systems, rather than a simplified and coherent regulatory environment.

Taken together, Rwanda's experience highlights that effective formalisation requires a **system-wide approach to regulatory reform**, including the removal of unnecessary requirements, improved coordination across institutions, and a focus on reducing the full cost of compliance across the enterprise lifecycle. For Kenya, this implies the need to move beyond incremental and process-based reforms toward a more fundamental restructuring of the regulatory environment, particularly in relation to licensing and institutional coordination.

Lesson from European Union / France

The experience of the European Union, including reforms implemented in France, highlights the importance of ensuring that insolvency and restructuring frameworks are **accessible, affordable, and usable for micro, small and medium enterprises (MSMEs)**. While these frameworks apply across all firms, recent reforms have placed increasing emphasis on adapting them to the needs and capacities of smaller enterprises.

A key milestone in this regard is the Directive (EU) 2019/1023 on restructuring and insolvency, which promotes early restructuring and "second chance" mechanisms across Member States. The Directive is not MSME-specific; however, it explicitly recognises that smaller firms face disproportionate barriers in accessing insolvency systems, and therefore calls for simplified, cost-effective, and timely procedures that are accessible to them (European Commission, 2019; OECD, 2017).

Three design features are particularly relevant.

a) **First, emphasis on early intervention and preventive restructuring.** The framework enables enterprises to address financial distress before reaching formal insolvency, allowing viable firms to restructure and continue operations. This reduces the risk of business closure and preserves economic activity.

b) **Second, simplification of procedures to improve accessibility for smaller firms.** Member States are encouraged to reduce procedural complexity, lower costs, and limit court involvement where possible. In practice, countries such as France have introduced streamlined restructuring mechanisms and simplified procedures that are more accessible to small enterprises with limited administrative and financial capacity (OECD, 2017).

c) **Third, promotion of "second chance" frameworks that reduce the penalties associated with business failure.** Reforms aim to enable honest entrepreneurs to exit failed businesses and re-enter the market without prolonged legal or financial consequences. This supports entrepreneurship, innovation, and risk-taking.

In terms of key lessons, these reforms reflect a broader policy recognition that **formalisation increases exposure to legal and financial obligations**, and that without accessible mechanisms to manage distress and exit, enterprises may be discouraged from engaging fully with formal systems. Specifically:

- **Formalisation must be accompanied by accessible risk management and restructuring mechanisms:** EU reforms demonstrate that enterprises are more likely to formalise when they have viable options to manage financial distress. In Kenya, while an insolvency framework exists, **it remains largely inaccessible to MSMEs due to cost, complexity, and procedural requirements**. This limits its practical relevance for small enterprises and weakens its role as part of the formalisation ecosystem.

- **The absence of effective "exit" pathways discourages formalisation:** Where business failure carries high legal and financial consequences, enterprises may avoid formal systems to retain flexibility. In Kenya, **limited awareness, high costs, and procedural barriers mean that many MSMEs operate outside formal systems to avoid exposure to formal insolvency processes**. Informality, in this context, functions as a form of risk management.

- **Formalisation frameworks must address the full business lifecycle:** The EU approach recognises that enterprise development includes entry, growth, distress, and exit. In Kenya, **policy attention remains heavily focused on business entry and growth**, with limited integration of mechanisms for business restructuring and exit. This creates an incomplete formalisation framework and increases perceived risks associated with formal participation.

Taken together, these insights highlight that effective formalisation policy must extend beyond simplifying entry and strengthening incentives, to include **accessible, MSME-sensitive mechanisms for managing risk and business failure**. Without such mechanisms, formalisation may increase perceived vulnerability, particularly for enterprises operating in uncertain and volatile environments.

Peru (Cautionary Insight)

The experience of Peru provides a cautionary insight that is highly relevant to Kenya's current context. Despite implementing reforms similar to those undertaken in Kenya, including simplified business registration, MSME support programmes, and efforts to expand access to finance, Peru achieved only limited progress in reducing informality in the initial phases of reform (Loayza, 2016; World Bank, 2014).

This was largely due to a fundamental disconnect between formalisation measures and the realities faced by MSMEs. While compliance requirements were reduced, the **benefits of formalisation remained uncertain, difficult to access, or insufficiently valuable to enterprises**. As a result, many firms continued to operate informally or reverted to informality after initial registration.

Subsequent improvements in Peru were only observed when reforms shifted toward **strengthening the value proposition of formalisation**, including clearer linkages to access to finance, training, and market opportunities. This experience reinforces a critical lesson: **formalisation cannot be achieved through procedural reforms alone, but requires a tangible and immediate improvement in enterprise outcomes**.

In Kenya, a similar pattern is evident. Despite significant progress in simplifying registration and expanding MSME support programmes, **high levels of informality persist**, suggesting that, as in Peru, current reforms have not sufficiently altered the cost–benefit calculus facing MSMEs. Without strengthening the accessibility and relevance of formalisation benefits, further incremental reforms are unlikely to achieve sustained impact.

The comparative analysis of selected international experiences highlights that **successful MSME formalisation is not driven by isolated reforms, but by coherent, system-wide approaches** that align regulatory design, incentives, and enterprise realities. While country contexts differ, a consistent set of lessons emerges across the five cases. These underscore the importance of reducing the cost and complexity of compliance, strengthening the value proposition of formalisation, improving institutional coordination, and addressing the full lifecycle of enterprise development, including risk and exit. Importantly, the evidence also shows that where these elements are not aligned, formalisation efforts tend to yield limited or unsustainable results.

The table below illustrates the key lessons learned.

Table 5, Summary of International Lessons for MSME Formalisation

COUNTRY / REGION	CORE REFORM FOCUS	KEY LESSON	IMPLICATION FOR KENYA
Brazil	Simplified MSME regime (MEI)	Formalisation increases significantly when micro enterprises are placed under a **distinct, simplified regulatory and tax regime**, with low, predictable compliance costs and immediate benefits	Kenya should introduce a **differentiated formalisation regime for micro enterprises**, rather than adapting standard frameworks with incremental simplifications
India	Digital recognition, system integration & cluster-based MSME development (Udyam/UAP; MSE-CDP)	**Progressive formalisation is strengthened when low-friction enterprise recognition is combined with integrated data, incentives and collective mechanisms that address shared MSME constraints and formalisation support |**	Kenya should strengthen **interoperability across formalisation systems while using clusters, associations, co-operatives and other collective structures as platforms for shared infrastructure and enterprise upgrading**
Rwanda	Regulatory simplification & licensing reform	Reducing informality requires not only easier entry, but **removal of redundant licences and regulatory requirements across the business lifecycle**	Kenya should undertake **systematic licensing rationalisation**, particularly across counties, to reduce the cost of operating formally

Mexico	Graduated tax regime (RIF)	MSMEs are more likely to formalise when tax systems allow **gradual integration, reflect income volatility, and provide transitional incentives**	Kenya should **reform MSME taxation to allow phased compliance**, and strengthen the link between tax and tangible benefits
European Union / France	MSME-accessible restructuring & insolvency frameworks	Formalisation is strengthened when enterprises have **accessible mechanisms to manage risk, restructure, and exit without disproportionate penalties**	Kenya needs to **develop MSME-accessible insolvency and restructuring pathways** to reduce the perceived risks of formalisation
Peru	Reform experience with limited initial impact	Simplification alone is insufficient; formalisation improves only when **benefits are clear, accessible, and meaningful to MSMEs**	Kenya must **strengthen the value proposition of formalisation**, ensuring benefits are tangible and accessible in practice

2.8 Summary Findings

The situational analysis highlights that MSME informality in Kenya is not simply a residual or transitional condition, but a structural and persistent feature of the economy. It is shaped by the interaction of enterprise characteristics, regulatory systems, institutional arrangements, and economic incentives.

The findings below synthesise the key insights emerging from the analysis and provide a clear diagnostic foundation for the development of targeted and effective policy responses.

Finding 1: Informality is structural and persistent, not transitional:

Informality remains the dominant mode of operation for MSMEs in Kenya, despite sustained policy and regulatory reforms. This reflects underlying structural conditions, including limited formal employment opportunities, low enterprise productivity, and the central role of MSMEs as providers of livelihoods. Informality should therefore be understood as a systemic feature of the economy, requiring sustained and multi-dimensional policy responses.

Finding 2: Kenya lacks a common framework for defining and operationalising MSME formalisation:
Different institutions register, recognise and regulate MSMEs for different purposes and according to their respective mandates, resulting in multiple forms and dimensions of formal status. However, these are not currently integrated within a common framework for determining what constitutes MSME formalisation or how progression towards greater formality should be understood and measured. This creates ambiguity in policy implementation, institutional coordination, data and measurement, and the design of formalisation interventions.

Finding 3: Informality operates along a continuum, with widespread partial formalisation:

MSMEs do not operate exclusively as formal or informal entities. Many meet some applicable requirements while remaining outside others, resulting in different combinations and degrees of partial formalisation. This reflects the multidimensional and progressive nature of formalisation and highlights the absence of clear and supported pathways through which enterprises can progress towards greater formality across applicable dimensions.

Finding 4: Formalisation decisions are driven by rational cost–benefit considerations:

MSMEs make calculated decisions based on the costs, benefits, and risks associated with formalisation. Where compliance costs are high and benefits are uncertain or inaccessible, enterprises rationally opt to remain informal or partially formalised. Informality is therefore not simply a compliance failure, but a rational adaptation to prevailing economic and regulatory conditions.

Finding 5: The cost of operating formally remains a major barrier:

While business registration has been simplified, the ongoing costs of compliance, across licensing, taxation, and regulatory requirements, remain high. These costs are both financial and administrative, and are often disproportionate to the scale of micro and small enterprises. This discourages both entry into and sustained participation in the formal economy.

Finding 6: Regulatory fragmentation and overlapping mandates increase compliance costs and encourage selective compliance:MSMEs may be subject to multiple licences, permits, fees, inspections and other requirements administered across national and county institutions. Duplication, overlapping regulatory mandates and inconsistent administrative practices increase the financial and administrative cost of compliance. In response, many MSMEs engage selectively with applicable requirements, reinforcing patterns of partial formalisation.

Finding 7: Enforcement approaches can reinforce, rather than reduce, informality:

A central policy tension exists between enforcement and facilitation. Enforcement is necessary to uphold standards, but where it is perceived as punitive, inconsistent, or disproportionate, it discourages engagement with formal systems. At the same time, weak or uneven enforcement undermines incentives for compliance. Informality, in this context, often functions as a risk management strategy.

Finding 8: Enterprise capabilities and information gaps constrain formalisation:

Many MSMEs operate with limited managerial capacity, weak record-keeping, and low levels of financial and digital literacy. Information on formalisation processes and benefits is often fragmented or inaccessible. These constraints limit the ability of enterprises to comply with formal requirements and to benefit from formalisation.

Finding 9: Weak, fragmented, and inaccessible incentives reduce the attractiveness of formalisation:

Although formalisation is associated with potential benefits, such as access to finance, markets, and government programmes, these are not consistently realised in practice. Many MSMEs remain unable to access these opportunities even after obtaining formal registration or meeting relevant compliance requirements. . The incentive structure is often fragmented, difficult to access, and not systematically linked to formal status. This weakens the value proposition of formalisation and reduces incentives for transition.

Finding 10: The absence of accessible risk and exit mechanisms discourages formalisation:

Formalisation increases exposure to legal and financial risks in the event of business failure. However, accessible mechanisms for MSMEs to manage insolvency, restructure debt, or exit the market in an orderly manner remain limited. This creates a disincentive to formalise, particularly for growth-oriented enterprises operating in uncertain environments, and reinforces the use of informality as a risk management strategy.

Finding 11: Informality imposes significant costs on enterprises and the broader economy:

While informality offers short-term flexibility, it constrains enterprise growth, productivity, and resilience. At the macro level, it reduces the tax base, distorts competition, limits productivity growth, and constrains integration into regional and global markets. It also weakens institutional effectiveness and economic governance.

Finding 12: Informality reflects and reinforces structural inequalities:

A key policy tension exists between formalisation and enterprise survival. Women, youth, persons with disabilities, and enterprises in marginalised regions face additional barriers to formalisation, including limited access to finance, markets, and infrastructure. Uniform policy approaches risk excluding these groups, highlighting the need for differentiated pathways.

Finding 13: Misalignment between national and county systems increases compliance costs and uncertainty:

Kenya's devolved governance structure introduces a tension between national policy objectives and county-level implementation. Variations in licensing, licensing, fees, charges, regulatory administration and enforcement across counties create inconsistency and uncertainty for MSMEs, increasing the cost and complexity of formalisation. The absence of county tariff pricing policies, despite the requirements of the County Governments Act, further contributes to perceptions of unpredictability and increases the cost and complexity of formalisation. **Finding 14: Revenue mobilisation objectives must be balanced with enterprise growth:**

Formalisation is often linked to expanding the tax base, but there is a tension between revenue objectives and MSME sustainability. Where taxation is perceived as burdensome or misaligned with enterprise capacity, it discourages formalisation and may undermine growth.

Finding 15: Uniform policy approaches are insufficient for a heterogeneous MSME sector:

The MSME sector is highly diverse, ranging from survivalist and own account enterprises to established growth-oriented firms operating across different sectors and regulatory environments. Enterprises therefore differ not only in their capacities and growth trajectories, but also in the formalisation requirements applicable to their activities. Effective formalisation requires differentiated and proportionate approaches that recognise these differences and support progressive movement towards greater formality.

Finding 16: Current policy frameworks are strong in intent but limited in system-wide effectiveness:

Kenya's policy and institutional frameworks demonstrate strong commitment to MSME development and formalisation. However, existing interventions operate largely through separate registration, regulatory, fiscal, enterprise-support and incentive systems rather than as an integrated formalisation framework. While significant progress has been made in facilitating business entry, greater attention is required to supporting progressive formalisation across the enterprise lifecycle through regulatory coherence, institutional integration, accessible incentives and appropriate mechanisms for enterprise risk and progression.

3 POLICY STATEMENTS

The following policy statements provide the strategic framework for addressing MSME informality in Kenya. They are informed by the findings of the situational analysis and are designed to guide a coordinated and integrated approach to formalisation, encompassing regulatory reform, institutional alignment, and enterprise support.

Policy Statement 1: Establish progressive and differentiated formalisation pathways

Objective

To establish clear, progressive and differentiated pathways through which MSMEs can obtain appropriate recognition and progressively meet the formalisation requirements applicable to their activities and circumstances, taking account of enterprise size, sector, location, capacity and stage of development.

The following interventions will be pursued:

1. Develop progressive and differentiated formalisation pathways that identify the forms of recognition and compliance requirements applicable to different categories of MSMEs, taking account of enterprise size, sector and activity, location, legal or organisational form, employment characteristics and other relevant regulatory considerations.

2. Introduce simplified and proportionate registration, licensing and compliance arrangements for micro, start-up and other enterprises requiring facilitated entry into formal systems.
3. Establish graduated transition mechanisms that enable enterprises to progress towards greater formality as their scale, activities, operating circumstances and applicable regulatory obligations evolve.
4. Promote sector-specific formalisation approaches that reflect differing business models, operating environments, and compliance requirements.
5. Strengthen enterprise advisory, mentorship, and compliance support services to guide MSMEs through formalisation processes.

Establish clear progression mechanisms that build on existing forms of registration and institutional recognition, identify applicable requirements and next steps, and enable enterprises to transition progressively towards greater formality

Policy Statement 2: Reduce the cost and complexity of formalisation through regulatory simplification and integrated service delivery

Objective

To reduce the financial, administrative, and regulatory burden associated with formalisation by simplifying regulatory requirements, improving institutional coordination, and enhancing integrated service delivery across national and county governments.

The following interventions will be pursued:

1. Undertake a systematic review and rationalisation of licensing requirements at national and county levels.
2. Review and simplify taxation frameworks applicable to MSMEs, including consideration of phased and graduated compliance approaches.
3. Reduce duplicative regulatory requirements and administrative procedures across institutions.
4. Harmonise licensing practices, fee structures, and regulatory requirements across counties, where appropriate.
5. Develop integrated and interoperable systems linking relevant registration and recognition systems, licensing, taxation, and enterprise support services.
6. Establish one-stop and digital service delivery mechanisms to simplify MSME interaction with government.
7. Strengthen transparency, predictability, and accountability in regulatory administration and service delivery.
8. Promote affordable and accessible formalisation processes, particularly for start-up and micro enterprises.

Policy Statement 3: Strengthen the value proposition and incentive framework for MSME formalisation

Objective

To enhance the attractiveness, relevance, and economic value of formalisation by ensuring that MSMEs can access meaningful, accessible, and measurable benefits that support enterprise growth, productivity, competitiveness, resilience, and long-term sustainability.

The following interventions will be pursued:

1. Strengthen linkages between progression towards formalisation and access to appropriate government support programmes.
2. Expand access to public procurement opportunities for MSMEsfor MSMEs that meet applicable procurement eligibility and compliance requirements.
3. Improve access to affordable finance, credit enhancement mechanisms, and financial services for MSMEs at different stages of formalisation
4. Strengthen access to business development services, market linkages, enterprise upgrading programmes, and export opportunities.
5. Establish targeted incentive packages for priority MSME sectors and categories.
6. Improve awareness, communication, and uptake of existing incentives and opportunities available to MSMEs at different stages of formalisation.
7. Promote partnerships with business membership organisations, financial institutions, development partners, and private sector actors to expand the benefits associated with formalisation.

Policy Statement 4: Promote inclusive MSME formalisation

Objective

To ensure that formalisation pathways are equitable, accessible, and responsive to the needs of women, youth, persons with disabilities, enterprises in marginalised regions, and other underserved MSME segments.

The following interventions will be pursued:

1. Develop targeted formalisation programmes for women-owned enterprises.
2. Strengthen support for youth-led enterprises to transition into the formal economy.
3. Promote accessible and inclusive formalisation pathways for PWDs.
4. Expand formalisation support services in marginalised and underserved regions, including ASALs.
5. Improve access to infrastructure, workspaces, industrial parks, common production facilities, and market infrastructure for MSMEs.
6. Strengthen access to finance, information, and enterprise support services for underserved groups.
7. Mainstream inclusion considerations across all formalisation programmes and interventions.

Policy Statement 5: Strengthen MSME resilience, risk management and business continuity

Objective

To reduce the risks associated with enterprise formalisation and operation by strengthening MSME access to risk management, business continuity, restructuring, recovery, and enterprise sustainability mechanisms.

The following interventions will be pursued:

1. Promote access to affordable insurance and risk management products tailored to MSMEs.
2. Strengthen MSME awareness and utilisation of existing insolvency, restructuring, and business recovery frameworks.
3. Develop simplified and accessible restructuring and enterprise recovery mechanisms appropriate for MSMEs.
4. Promote business continuity planning and resilience-building initiatives for MSMEs.
5. Strengthen access to social protection mechanisms for entrepreneurs and workers operating in MSMEs
6. Enhance enterprise preparedness and recovery support during economic shocks, emergencies, and crises.
7. Promote a supportive environment that enables entrepreneurs to restart, recover, and re-enter economic activity following business distress or failure.

Policy Statement 6: Strengthen MSME data, identification and evidence systems

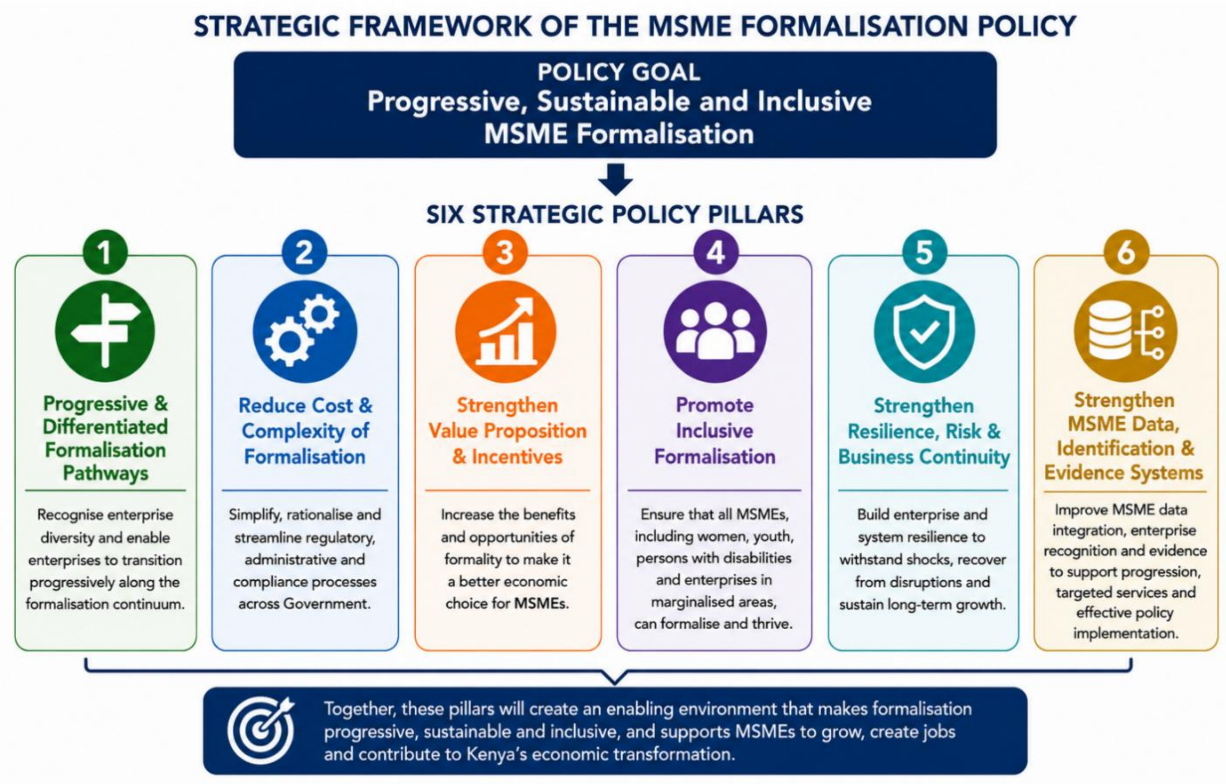
Objective

To strengthen MSME identification, data integration and evidence systems to support progressive formalisation, targeted service delivery, enterprise progression and effective policy monitoring.

The following interventions will be pursued:

1. Establish an integrated and interoperable national MSME data platform linking relevant data held across Government institutions and programmes.
2. Develop common MSME data standards, identifiers and data-sharing protocols across relevant institutions.
3. Leverage existing administrative and programme data to identify MSMEs and support referral, targeting and progression towards greater formality.
4. Establish a national MSME formalisation baseline and measurement framework, with mechanisms for periodic updating.
5. Strengthen identification and recognition of micro and informal enterprises through appropriate individual and collective mechanisms.
6. Promote cluster-based approaches for recognising, organising and supporting micro and informal enterprises.
7. Strengthen institutional capacity for MSME data management, analysis, reporting and evidence-based decision-making.

Figure 7, Summary of the Policy Framework



4 FRAMEWORK FOR IMPLEMENTING THE POLICY

Successful implementation of this Policy requires **a coordinated, whole-of-government approach** involving national and county governments, regulatory agencies, the private sector, business membership organisations, financial institutions, development partners and MSMEs themselves. Given the cross-cutting nature of MSME formalisation, implementation shall be **anchored within existing institutional mandates and coordination mechanisms**. Accordingly, the Policy seeks to strengthen collaboration, accountability, policy coherence and integrated service delivery rather than establish new institutional structures.

Implementation shall be guided by four principles:

- Institutional coordination and collaboration;
- Shared accountability across implementing institutions;
- Inclusive stakeholder participation; and

- Evidence-based implementation and continuous learning.

4.1 Coordination Framework and Administrative Mechanisms

Institutional Arrangements

The State Department responsible for MSME Development shall provide overall leadership, policy oversight and coordination for implementation of this Policy. It shall promote coherence across institutions, monitor implementation progress, facilitate intergovernmental collaboration and provide strategic direction on MSME formalisation.

Implementation of the Policy shall be undertaken through the respective mandates of national MDAs, County Governments and other public institutions responsible for enterprise registration and institutional recognition, , taxation, licensing, regulation, enterprise development, financial inclusion, labour administration, social protection and related functions. Each institution shall incorporate relevant policy interventions within its existing plans, programmes and budgets.

County Governments shall play a central role in implementation, particularly in relation to business licensing, local regulatory administration, enterprise support services, market infrastructure and local economic development. Counties shall work collaboratively with the National Government to promote harmonised approaches to MSME formalisation, reduce unnecessary regulatory variation and improve service delivery to enterprises.

The Micro and Small Enterprises Authority shall continue to support implementation through MSE registration and institutional recognition, enterprise development programmes, business advisory services, capacity building, incubation, market linkages and other interventions that facilitate enterprise growth and progressive formalisation.

Regulatory institutions responsible for enterprise registration, recognition, taxation and sector regulation, shall support implementation by simplifying compliance processes, strengthening institutional coordination and promoting efficient, transparent and predictable regulatory administration.

The private sector, including business membership organisations, financial institutions, professional associations and chambers of commerce, shall complement Government efforts by supporting enterprise awareness, business development, access to finance, advocacy, mentoring and dissemination of formalisation opportunities.

Development partners, research institutions, civil society organisations and other stakeholders shall continue to provide technical assistance, capacity development, policy research, innovation and financial support, consistent with national priorities and Government coordination mechanisms.

MSMEs themselves remain central actors in the implementation of this Policy. Enterprises are expected to progressively engage with formal systems, comply with applicable regulatory requirements and utilise available support services and opportunities to strengthen their competitiveness, resilience and long-term growth.

The table below provides a summary of the key institutional arrangements and the role of the various institutions:

Table 6, Institutional Arrangements & Roles in Implementing the MSME Formalisation Policy

INSTITUTION	PRIMARY ROLE IN POLICY IMPLEMENTATION
State Department responsible for MSME Development	Overall policy leadership, coordination, oversight, monitoring and reporting on implementation of the MSME formalisation agenda
National Government MDAs	Implement relevant policy and regulatory interventions within their respective mandates and integrate formalisation interventions into institutional plans and programmes
County Governments	Local implementation, licensing and regulatory reform, enterprise support, market infrastructure and improvement of the local business environment
MSE / Registrar of Micro and Small Enterprises	MSE registration and institutional recognition; enterprise development, advisory services, incubation, capacity building and support for progressive formalisation
BRS	Business registration, legal identity, simplification of registration processes and maintenance of business registers
State Department/Directorate responsible for Social Development	Registration and recognition of community groups, self-help groups and community-based organisations, and linkage with relevant formalisation and enterprise-support interventions
State Department responsible for Co-operatives / Commissioner for Co-operative Development	Registration and regulation of co-operative societies and support for co-operative enterprise development
KRA	Tax registration and administration, taxpayer education, simplified compliance and support for progressive fiscal compliance
Sector Regulators	Simplification and administration of applicable sector-specific registrations, licences, permits, standards, approvals and compliance requirements
Relevant Labour and Social Protection Institutions	Administration of applicable labour and social protection requirements and support for progressive inclusion of MSME entrepreneurs and workers within formal arrangements
KNBS	Collection, analysis and dissemination of MSME and informality/formalisation data to support monitoring, evaluation and evidence-based policy implementation
Business Membership Organisations (BMOs)	Enterprise awareness, advocacy, mentoring, business support and stakeholder feedback
Financial Institutions	Development of appropriate financial products and expansion of financial access for MSMEs at different stages of formalisation
Development Partners, Research Institutions and Other Knowledge Partners	Technical assistance, capacity building, research, innovation, evidence generation and financial support

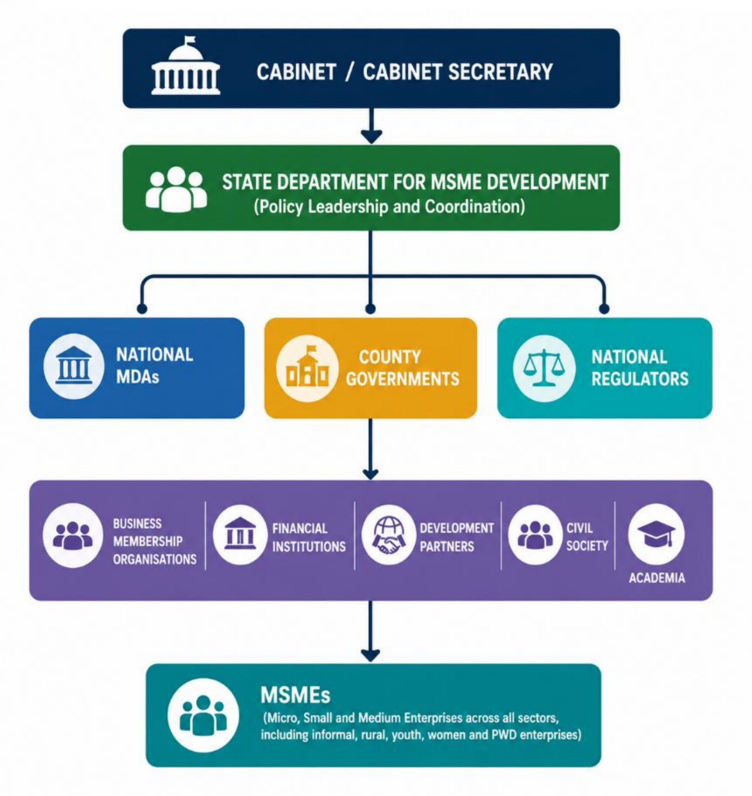
Source: Author's compilation based on relevant legislation, institutional mandates and the analysis in this Policy.

National Coordination Framework

Implementation of this Policy shall be coordinated by the State Department responsible for MSME Development through existing government coordination mechanisms and inter-agency collaboration arrangements.

Recognising that MSME formalisation cuts across multiple policy domains, the State Department shall facilitate regular engagement among relevant national institutions to strengthen policy coherence, coordinate implementation, resolve emerging implementation challenges and promote integrated service delivery. Particular emphasis shall be placed on reducing duplication of mandates, harmonising institutional interventions ; strengthening linkages across different registration, recognition and compliance systems, and improving information sharing among implementing agencies.

Figure 8, Policy Coordination Architecture



Source: Author generated using AI

The coordinating framework shall also facilitate regular consultation with County Governments, the private sector, business membership organisations, development partners and other stakeholders to ensure that implementation remains responsive to emerging enterprise needs and changing economic conditions.

County Coordination

County Governments shall be responsible for implementing those aspects of the Policy falling within their constitutional and statutory mandates. In particular, counties shall promote simplified and transparent business licensing systems, strengthen enterprise support services, improve local business environments and facilitate access to appropriate infrastructure and markets. County Governments shall also integrate relevant policy interventions within County Integrated Development Plans (CIDPs), Annual Development Plans and other county planning and budgeting instruments.

The National Government shall work collaboratively with County Governments to promote harmonisation of licensing practices, regulatory requirements and service delivery approaches, while respecting the constitutional distribution of functions. Mechanisms for consultation, information exchange and joint implementation shall be strengthened to improve consistency and reduce unnecessary compliance burdens across counties.

County Governments shall also generate and share information on formalisation trends, implementation challenges and emerging enterprise needs to inform national policy review and continuous improvement.

Stakeholder Engagement

Implementation of this Policy shall be undertaken through continuous engagement with stakeholders across the MSME ecosystem.

Business membership organisations, private sector associations, cooperatives and chambers of commerce shall play an important role in promoting awareness of formalisation, providing enterprise support services, identifying implementation challenges and representing the interests of MSMEs in policy dialogue.

Financial institutions shall contribute by developing appropriate financial products and services that respond to the needs of formalising enterprises and by strengthening linkages between formalisation and financial inclusion.

Development partners, civil society organisations, academia and research institutions shall support evidence generation, innovation, capacity development and knowledge sharing to strengthen implementation and promote continuous learning.

Stakeholder engagement shall be guided by the principles of transparency, participation, collaboration and mutual accountability to ensure that implementation remains responsive, inclusive and evidence-based.

4.2 Legal and Regulatory Framework

Successful implementation of this Policy requires a coherent legal and regulatory framework that supports enterprise formalisation, reduces unnecessary regulatory burdens, promotes policy coherence and facilitates enterprise growth. The Policy shall be implemented within the existing constitutional and legal framework while supporting progressive reforms to strengthen the business environment for MSMEs.

Alignment with Existing Legal Framework

Implementation of this Policy shall be aligned with the Constitution of Kenya, 2010, relevant national legislation and applicable county legislation governing MSME development, business registration, licensing, taxation, labour, social protection, public procurement, financial services and related sectors.

Key legislation supporting implementation of this Policy includes, but is not limited to:

Table 7, Key Legislations Relevant to the Policy

LEGISLATION	RELEVANCE TO THE POLICY
Constitution of Kenya, 2010	Provides the constitutional basis for promoting inclusive economic development, enterprise development, devolution, public participation and good governance, which underpin implementation of the Policy.
Micro and Small Enterprises Act, 2012	Provides the primary legislative framework for MSE development, including recognition of formal and informal enterprises and facilitation of the formalisation and upgrading of informal micro and small enterprises.
Companies Act, 2015	Provides the legal framework for incorporation, governance and operation of companies, representing one of the legal forms through which MSMEs may acquire legal personality and operate
Business Registration Service Act, 2015	Provides the institutional framework for business registration and maintenance of business registers, supporting legal and administrative

	recognition as an important entry point into formalisation
Community Groups Registration Act, 2022	Provides the legal framework for registration and recognition of community groups, including community-based organisations and other organised groups that may undertake economic activities or provide an entry point towards enterprise formalisation.
Co-operative Societies Act, 1997	Provides the legal framework for registration, governance and regulation of co-operative societies, including collective forms of enterprise organisation and formal economic participation.
County Governments Act, 2012	Enables county governments to implement devolved functions relating to business licensing, local economic development and MSME support, which are central to enterprise formalisation.
Public Procurement and Asset Disposal Act, 2015	Supports the Policy's objective of strengthening the value proposition of formalisation by creating opportunities for eligible formal MSMEs to participate in public procurement.
Public Finance Management Act, 2012 / Public Finance Management (Financial Inclusion Fund) Regulations, 2022	Provides the legal framework for financing implementation of the Policy and management of any public resources allocated to MSME formalisation initiatives.
Tax Procedures Act, Income Tax Act and related tax legislation	Provide the legal framework for tax registration, administration and compliance, constituting the fiscal dimension of MSME formalisation and providing the basis for appropriate simplified or progressive compliance approaches.
Employment Act, 2007	Provides the legal framework governing employment relationships and applicable employment rights and obligations, supporting the labour dimension of MSME formalisation and decent work.
Other sector-specific legislation applicable to MSMEs	Supports implementation by providing sector-specific regulatory frameworks that influence formalisation pathways across different economic sectors.

Implementation shall also be aligned with relevant national development and policy frameworks, including Kenya Vision 2030, the MTP IV and future plans; BETA, the Revised MSME Policy 2026, and other Government policies supporting private sector development and enterprise growth. These frameworks provide the broader national policy context within which this Policy will be implemented, while the Revised MSME Policy 2026 provides the overarching framework for MSME development. This Policy complements those frameworks by providing a dedicated approach to promoting progressive, inclusive and sustainable MSME formalisation

Regulatory Reform

Consistent with the objectives of this Policy, Government shall undertake continuous review and improvement of the regulatory environment affecting MSMEs in order to reduce unnecessary compliance costs, eliminate duplication, improve regulatory coherence and promote an enabling environment for enterprise formalisation.

Priority areas for regulatory reform shall include the following:

a) **Development of differentiated and progressive formalisation pathways** that identify the forms of recognition and compliance requirements applicable to different categories of MSMEs and enable enterprises to progress towards greater formality as their scale, activities, operating circumstances and applicable obligations evolve.

b) **Review and rationalisation of licensing, permits, fees and other regulatory requirements** across national and county governments to eliminate duplication, reduce administrative burden and improve consistency in enterprise regulation.

c) **Simplification of applicable taxation and regulatory compliance frameworks** for MSMEs, including the adoption of proportionate, graduated and risk-based compliance approaches that reflect enterprise capacity and stage of development.

d) **Strengthening integration and interoperability of Government systems** to enable coordinated service delivery across relevant registration and recognition systems, licensing, taxation, enterprise support and other relevant regulatory functions.

e) **Promotion of risk-based, transparent and proportionate regulatory administration**, including inspection, enforcement and compliance approaches that encourage voluntary compliance while maintaining appropriate safeguards for public health, safety, environmental protection and consumer welfare.

f) **Expansion of integrated service delivery through one-stop and digital platforms** that simplify enterprise interaction with Government across the business lifecycle.

g) **Periodic review of sector-specific regulatory frameworks** to ensure that regulatory requirements remain proportionate, coherent and supportive of enterprise development, while safeguarding legitimate public policy objectives.

h) **Strengthening of regulatory frameworks supporting enterprise resilience**, including simplified approaches to business restructuring, recovery and exit, in order to reduce the risks associated with formal participation and support long-term enterprise sustainability.

National and County Governments shall work collaboratively to promote greater harmonisation of regulatory requirements, administrative procedures and service delivery while respecting the constitutional distribution of functions.

Regional and International Frameworks

Implementation of this Policy shall be guided by Kenya's obligations under relevant regional and international frameworks that promote decent work, enterprise development, private sector growth and the transition from the informal to the formal economy.

These include, among others:

Table 8, Regional & International Frameworks relevant for the Policy

REGIONAL / INTERNATIONAL FRAMEWORK	RELEVANCE TO THE POLICY
African Continental Free Trade	Expands regional market opportunities for formal MSMEs by promoting trade

Area (AfCFTA)	liberalisation, investment and participation in regional value chains. The Agreement increases the incentives for enterprises to formalise in order to access larger markets, comply with trade requirements and benefit from export opportunities.
East African Community (EAC) Treaty and Related Protocols	Promote regional economic integration, free movement of goods, services, labour and capital, and harmonisation of business and regulatory frameworks. These commitments support cross-border enterprise growth and encourage formalisation to facilitate regional trade and investment.
Economic Partnership Agreement (EPA) between Kenya and the European Union	Provides preferential access to the European Union market for eligible Kenyan products. Formalisation enhances the ability of MSMEs to meet regulatory, quality, traceability and certification requirements necessary to participate in export markets.
Economic Partnership Agreement (EPA) between Kenya and the United Kingdom	Maintains preferential market access to the United Kingdom following Brexit. The Agreement creates opportunities for formal MSMEs to expand exports and integrate into international value chains through compliance with recognised standards and commercial requirements.
African Growth and Opportunity Act (AGOA)	Provides preferential access to the United States market for eligible products from Sub-Saharan African countries. Formalisation strengthens MSMEs' ability to meet market requirements, improve competitiveness and participate in export-oriented production.
ILO Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy (2015)	Provides internationally recognised principles for promoting the transition from informality through integrated policy approaches that balance enterprise development, decent work, social protection and regulatory reform. The Recommendation provides an important normative foundation for this Policy.
United Nations Sustainable Development Goals (SDGs)	The Policy contributes directly to SDGs 1 (No Poverty), 5 (Gender Equality), 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure), 10 (Reduced Inequalities) and 16 (Peace, Justice and Strong Institutions) by promoting inclusive enterprise development, productive employment and sustainable economic growth.

Legislative Review

Implementation of this Policy may require periodic review of existing legislation and regulations to ensure continued consistency with the Policy objectives and evolving business environment.

Where gaps, inconsistencies or regulatory barriers are identified during implementation, the responsible institutions shall undertake appropriate legislative or regulatory review in accordance with established Government procedures. Any legislative proposals arising from this Policy shall be developed through the relevant Government processes, including stakeholder consultation, public participation and Cabinet approval, as appropriate.

4.3 Funding Arrangements

Implementation of this Policy shall be financed through existing Government planning and budgeting processes. The National Government, County Governments and implementing institutions shall mobilise and allocate adequate financial, human and technical resources to support implementation of the Policy within their respective mandates.

Resources for implementation may be mobilised from:

Table 9, Sources of Financing for the Policy

SOURCE	PURPOSE
National Government budget allocations	Policy coordination, implementation and national programmes
County Government budgets	Local implementation and enterprise support
Existing institutional resources	Mainstreaming policy interventions within institutional mandates
Development partners	Technical assistance, innovation, research and catalytic funding
Public-private partnerships	Leveraging private investment and enterprise support initiatives
Other lawful sources	Additional financing consistent with Government policy and legislation

Where appropriate, implementing institutions shall strengthen collaboration with the private sector, financial institutions, business membership organisations, civil society organisations and development partners to leverage technical expertise, innovation and additional resources in support of MSME formalisation.

Where implementation of specific interventions requires the establishment of dedicated funding mechanisms, such arrangements shall be developed in accordance with the provisions of the **Public Finance Management Act, 2012**, and other applicable public finance legislation.

Implementation of this Policy shall be operationalised through a **Policy Implementation Matrix**, which shall identify strategic interventions, responsible institutions, implementation timelines, performance indicators and resource requirements. Implementing institutions shall integrate relevant policy interventions into their annual work plans, institutional strategic plans, County Integrated Development Plans (CIDPs), performance contracts and other applicable planning and budgeting frameworks.

5 MONITORING AND EVALUATION

Effective monitoring and evaluation are essential to ensure that implementation of this Policy remains responsive, accountable and results-oriented. Monitoring and evaluation shall provide Government and stakeholders with timely information on implementation progress, policy outcomes and emerging challenges, thereby supporting evidence-based decision-making and continuous improvement.

Monitoring and evaluation shall be undertaken using existing Government monitoring systems, complemented by sector-specific data generated by implementing institutions and other stakeholders. The framework shall be guided by measurable performance indicators, regular reporting, stakeholder feedback and periodic evaluations.

5.1 Monitoring

Monitoring shall provide continuous assessment of implementation progress against the objectives, policy statements and strategic interventions contained in this Policy.

The monitoring framework shall:

- track implementation of strategic interventions against approved work plans and implementation timelines;
- track changes in MSME formalisation status and progression across applicable dimensions;
- monitor utilisation of financial and other resources allocated for implementation;
- assess progress towards agreed performance indicators and targets;
- identify implementation bottlenecks and emerging risks;
- support timely corrective action by implementing institutions.

Monitoring shall be based on data generated through existing administrative systems, institutional reports, surveys, regulatory databases and other approved sources of official statistics.

Primary data sources shall include:administrative data generated by implementing institutions; KNBS; MSEA; BRS; KRA; County Governments; institutions responsible for co-operative and community-group registration and recognition; sector regulators; relevant labour and social protection institutions; stakeholder consultations and periodic enterprise surveys; and other relevant national data systems.

Measurement of MSME formalisation shall reflect its progressive and multidimensional nature. Formalisation outcomes shall therefore not be assessed solely through business registration or any other single indicator, but through appropriate indicators of enterprise recognition, compliance and progression across the dimensions applicable to different categories of MSMEs. The detailed indicators, baselines, targets, responsible institutions and implementation timelines are contained in the **Policy Implementation Matrix** and **Monitoring and Evaluation Matrix** annexed to this Policy.

5.2 Evaluation

Periodic evaluations shall be undertaken to determine the effectiveness, efficiency, relevance, coherence, sustainability and impact of the Policy.

Evaluations shall assess, among other areas:

- progress towards achievement of policy objectives;
- effectiveness of policy interventions;
- changes in MSME formalisation status and progression across applicable dimensions;;
- improvements in the business environment;
- enterprise perceptions regarding the value of formalisation;
- effectiveness of institutional coordination arrangements; and
- intended and unintended policy outcomes.

Evaluation shall utilise both quantitative and qualitative methods, including administrative data analysis, enterprise surveys, stakeholder consultations, case studies and independent assessments, where appropriate.

A mid-term evaluation shall be undertaken to assess implementation progress and recommend any adjustments necessary to improve implementation. A comprehensive end-term evaluation shall assess overall policy performance and inform future policy review.

5.3 Reporting

Implementing institutions shall prepare and submit periodic reports on implementation of the Policy in accordance with Government reporting requirements.

Reporting shall support transparency, accountability and evidence-based policy management.

The reporting framework shall include:

Table 10, Reporting framework

REPORT	PURPOSE	RESPONSIBLE INSTITUTION	FREQUENCY
Implementation Progress Reports	Monitor implementation of strategic interventions	Implementing institutions	Quarterly
Consolidated Policy Implementation Report	Assess overall implementation progress	State Department responsible for MSME Development	Annually
Mid-Term Evaluation Report	Assess implementation performance and recommend improvements	State Department responsible for MSME Development	Mid-term
End-Term Evaluation Report	Assess overall policy impact and inform policy review	State Department responsible for MSME Development	End of Policy Period

Reports shall be shared with relevant Government institutions, County Governments and stakeholders to promote accountability, facilitate coordinated implementation and support continuous policy improvement.

5.4 Learning and Continuous Improvement

Implementation of this Policy shall adopt a continuous learning approach to strengthen policy effectiveness over time. Lessons emerging from implementation, monitoring, evaluations, stakeholder engagement and research shall be documented and disseminated to inform future policy decisions and institutional practice.

Implementing institutions shall:

- document and share good practices and successful implementation approaches;
- identify implementation challenges and corrective actions;
- encourage innovation and adaptive management;
- strengthen knowledge sharing across institutions and counties; and
- promote continuous stakeholder engagement to improve policy implementation.

The monitoring and evaluation process shall therefore function not only as an accountability mechanism, but also as a platform for institutional learning and continuous improvement.

5.5 Policy Review Interval

This Policy shall remain in force for a period of **ten (10) years** from the date of its approval, unless reviewed earlier.

A comprehensive review shall normally be undertaken after ten years to assess the continued relevance, effectiveness and responsiveness of the Policy in light of changing economic, institutional and social circumstances.

An earlier review may be undertaken where necessary to:

- respond to significant constitutional, legislative or institutional changes;
- address major economic disruptions, national emergencies or other exceptional circumstances;
- align the Policy with emerging national priorities or regional and international commitments; or
- respond to evidence generated through monitoring and evaluation indicating the need for substantive policy revision.

Recommendations arising from policy reviews shall inform revision of the Policy and development of subsequent implementation frameworks.

6 ANNEXES

6.1 Policy

NOTES ON IMPLEMENTATION

- Policy Statements, Objectives and Interventions are aligned with those proposed in the August 2026 Draft MSME Formalisation Policy.
- Key activities, institutional assignments, timelines, outputs, KPIs/targets and budgets are indicative and should be validated with responsible institutions during finalisation.
- Budget estimates are indicative planning figures and remain subject to annual MTEF, national and county budgeting and institutional work-planning processes.
- Formalisation KPIs should not equate business registration alone with formalisation. Progress should be assessed across applicable dimensions and stages, consistent with the Policy definition.
- Implementation should use existing institutional mandates and coordination mechanisms and avoid creating new structures unless a demonstrated implementation gap requires otherwise.
- All beneficiary and outcome data should, where feasible, be disaggregated by enterprise size, sector, county, gender, youth, disability status and other relevant inclusion variables.

POLICY STATEMENT 1: ESTABLISH PROGRESSIVE AND DIFFERENTIATED FORMALISATION PATHWAYS

OBJECTIVE: To establish clear, progressive and differentiated pathways through which MSMEs can obtain appropriate recognition and progressively meet the formalisation requirements applicable to their activities and circumstances, taking account of enterprise size, sector, location, capacity and stage of development.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
1.1	Develop progressive and	Map applicable requirements and existing	State Department	BRS; KRA; County Governmen	Y1–2	Differentiated formalisation framework;	Framework approved;	KSh 120M	National and/or County	Institutional disagreement; mitigate through technical

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	differentiated formalisation pathways that identify the forms of recognition and compliance requirements applicable to different categories of MSMEs.	recognition mechanisms; develop MSME typologies; design and validate differentiated pathways; pilot in selected sectors/counties and refine.	responsible for MSME Development / MSEA	ts; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions; BMOs		pathway guides; pilot report	priority categories mapped; pilots completed		budgets; institutional budgets; development partners/private sector, as applicable	validation and mandate review.
1.2	Introduce simplified and proportionate registration, licensing and compliance arrangements for micro, start-up and other enterprises requiring facilitated entry into formal systems.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	BRS; KRA; County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
1.3	Establish	Undertake	State	BRS; KRA;	Y1–5	Baseline/diagnos	Interventio	KSh	National	Coordination/capacity

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	graduated transition mechanisms that enable enterprises to progress towards greater formality as their scale, activities, operating circumstances and applicable regulatory obligations evolve.	baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	Department responsible for MSME Development / MSEA	County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions; BMOs		tic; implementation guidelines/tools; pilot and scale-up outputs	n operational within timeline; participating institutions; measurable improvement from baseline	100M	and/or County budgets; institutional budgets; development partners/private sector, as applicable	constraints; mitigate through phased implementation and periodic review.
1.4	Promote sector-specific formalisation approaches that reflect differing business models, operating environments, and compliance	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	BRS; KRA; County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	requirements.			institutions; BMOs			baseline			
1.5	Strengthen enterprise advisory, mentorship, and compliance support services to guide MSMEs through formalisation processes.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	BRS; KRA; County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
1.6	Establish clear progression mechanisms that build on existing forms of registration and institutional recognition, identify applicable requirements	Map existing registration/recognition entry points; develop progression and referral protocols; enable reuse of existing information where lawful; pilot cross-institution progression	State Department responsible for MSME Development / MSEA	BRS; KRA; County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions;	Y1–3	Entry-point map; progression/referral protocols; pilots	Recognition systems linked to pathways; reduced repeat submissions; enterprises completing next applicable step	KSh 90M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Data-sharing constraints; mitigate through lawful protocols and privacy safeguards.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	and next steps, and enable enterprises to transition progressively towards greater formality.	mechanisms.		BMOs						

POLICY STATEMENT 2: REDUCE THE COST AND COMPLEXITY OF FORMALISATION THROUGH REGULATORY SIMPLIFICATION AND INTEGRATED SERVICE DELIVERY

OBJECTIVE: To reduce the financial, administrative, and regulatory burden associated with formalisation by simplifying regulatory requirements, improving institutional coordination, and enhancing integrated service delivery across national and county governments.

No	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
2.1	Undertake a systematic review and rationalization of licensing requirements at national	Develop national-county licensing inventory; identify obsolete, duplicative or disproportionate requirements; implement rationalisation	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC;	Y1–5	Licensing inventory; rationalisation plans; reforms implemented	Requirements reviewed/reformed; reduced compliance time/cost	KSh 180M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Revenue/mandate resistance; mitigate through consultation and phased reform.

No	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	and county levels.	plans; publish regulatory burden assessments.		BMOs						
2.2	Review and simplify taxation frameworks applicable to MSMEs, including consideration of phased and graduated compliance approaches.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
2.3	Reduce duplicative regulatory requirements and administrative	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators;	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	procedures across institutions.	institutional protocols; pilot priority actions; scale and monitor results.		ICT Authority; KLRC; BMOs					applicable	
2.4	Harmonise licensing practices, fee structures, and regulatory requirements across counties, where appropriate.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
2.5	Develop integrated and interoperable systems linking relevant business registration and recognitio	Map priority formalisation processes and institutional service journeys; identify opportunities for integrating and sequencing services across institutions;	State Department responsible for MSME Development / relevant institutions	BRS; MSEA; KRA; County Governments; CoG; sector regulators; ICT Authority; relevant enterprise-support	Y1–5	Integrated service-delivery framework; common referral and service workflows; priority services integrated	Priority formalisation services integrated; reduced number of separate institutional interactions; reduced time required to complete priority formalisation	KSh 300M	National and/or County budgets; institutional budgets; development partners, as applicable	Institutional fragmentation and incompatible service processes; mitigate through joint process redesign, phased integration and clear institutional responsibilities.

No	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	n systems, licensing, taxation, and enterprise support services.	develop common referral and service-delivery workflows; integrate priority registration, licensing, taxation and enterprise-support services; pilot and progressively scale integrated service delivery.		institutions			processes; increased use of integrated services			
2.6	Establish one-stop and digital service delivery mechanisms to simplify MSME interaction with government.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
2.7	Strengthen transparency, predictability, and accountability in regulatory administration and service delivery.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
2.8	Promote affordable and accessible formalisation processes, particularly for start-up and micro enterprises.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / relevant regulator	Relevant MDAs; County Governments; CoG; BRS; MSEA; KRA; sector regulators; ICT Authority; KLRC; BMOs	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

POLICY STATEMENT 3: STRENGTHEN THE VALUE PROPOSITION AND INCENTIVE FRAMEWORK FOR MSME FORMALISATION

OBJECTIVE: To enhance the attractiveness, relevance, and economic value of formalisation by ensuring that MSMEs can access meaningful, accessible, and measurable benefits that support enterprise growth, productivity, competitiveness, resilience, and long-term sustainability.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
3.1	Strengthen linkages between progression towards formalisation and access to appropriate government support programmes.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
3.2	Expand access to public procurement opportunities for MSMEs that meet applicable	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improveme	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	procurement eligibility and compliance requirements.	institutional protocols; pilot priority actions; scale and monitor results.		Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners			nt from baseline		applicable	
3.3	Improve access to affordable finance, credit enhancement mechanisms, and financial services for MSMEs at different stages of formalisation.	Map finance products by formalisation stage; strengthen referrals; develop graduation pathways from public/digital funds to larger finance; expand credit enhancement linkages; track uptake.	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners	Y1–6	Finance progression map; referral/graduation mechanisms	MSMEs accessing appropriate finance; graduation to larger products	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Credit risk/exclusion; mitigate through guarantees, appropriate underwriting and capability support.
3.4	Strengthen access to	Undertake baseline/mappin	State Department	National Treasury;	Y1–5	Baseline/diagnostic; implementation	Intervention operational	KSh 100M	National and/or County	Coordination/capacity constraints;

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	business development services, market linkages, enterprise upgrading programmes, and export opportunities.	g and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	responsible for MSME Development / MSEA	MSEA; County Governments; public funds; Financial Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners		guidelines/tools; pilot and scale-up outputs	within timeline; participating institutions; measurable improvement from baseline		budgets; institutional budgets; development partners/private sector, as applicable	mitigate through phased implementation and periodic review.
3.5	Establish targeted incentive packages for priority MSME sectors and categories.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs;	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
				private sector; development partners						
3.6	Improve awareness, communication, and uptake of existing incentives and opportunities available to MSMEs at different stages of formalisation.	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional protocols; pilot priority actions; scale and monitor results.	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial Inclusion Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from baseline	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.
3.7	Promote partnerships with business membership organisations, financial institutions, development partners, and	Undertake baseline/mapping and stakeholder consultation; develop implementation guidelines and institutional	State Department responsible for MSME Development / MSEA	National Treasury; MSEA; County Governments; public funds; Financial Inclusion	Y1–5	Baseline/diagnostic; implementation guidelines/tools; pilot and scale-up outputs	Intervention operational within timeline; participating institutions; measurable improvement from	KSh 100M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Coordination/capacity constraints; mitigate through phased implementation and periodic review.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	private sector actors to expand the benefits associated with formalisation.	protocols; pilot priority actions; scale and monitor results.		Fund; PPRA; KIE; KIRDI; KEPROBA; financial institutions; BMOs; private sector; development partners			baseline			

POLICY STATEMENT 4: PROMOTE INCLUSIVE MSME FORMALISATION

OBJECTIVE: To ensure that formalisation pathways are equitable, accessible, and responsive to the needs of women, youth, persons with disabilities, enterprises in marginalised regions, and other underserved MSME segments.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
4.1	Develop targeted formalisation programmes for women-owned enterprises.	Undertake targeted barrier assessment; co-design accessible support; deliver outreach,	State Department responsible for MSME Development / MSEA / County Governments	County Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial	Y1–10	Targeted support programme; accessible delivery arrangements	Target beneficiaries reached; share completing applicable formalisation steps	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low reach/exclusion; mitigate through co-design and accessible local delivery.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
		advisory and relevant service linkages; track participation and progression using disaggregated data.		institutions; BMOs; development partners						
4.2	Strengthen support for youth-led enterprises to transition into the formal economy.	Undertake targeted barrier assessment; co-design accessible support; deliver outreach, advisory and relevant service linkages; track participation and progression using disaggregated data.	State Department responsible for MSME Development / MSEA / County Governments	County Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners	Y1–10	Targeted support programme; accessible delivery arrangements	Target beneficiaries reached; share completing applicable formalisation steps	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low reach/exclusion; mitigate through co-design and accessible local delivery.
4.3	Promote	Undertake	State	County	Y1–10	Targeted	Target	KSh	National and/or	Low

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	accessible and inclusive formalisation pathways for PWDs.	targeted barrier assessment; co-design accessible support; deliver outreach, advisory and relevant service linkages; track participation and progression using disaggregated data.	Department responsible for MSME Development / MSEA / County Governments	Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners		support programme; accessible delivery arrangements	beneficiaries reached; share completing applicable formalisation steps	150M	County budgets; institutional budgets; development partners/private sector, as applicable	reach/exclusion; mitigate through co-design and accessible local delivery.
4.4	Expand formalisation support services in marginalised and underserved regions, including ASALs.	Undertake targeted barrier assessment; co-design accessible support; deliver outreach, advisory and relevant service linkages;	State Department responsible for MSME Development / MSEA / County Governments	County Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners	Y1–10	Targeted support programme; accessible delivery arrangements	Target beneficiaries reached; share completing applicable formalisation steps	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low reach/exclusion; mitigate through co-design and accessible local delivery.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
		track participation and progression using disaggregated data.								
4.5	Improve access to infrastructure, workspaces, industrial parks, common production facilities, and market infrastructure for MSMEs.	Undertake targeted barrier assessment; co-design accessible support; deliver outreach, advisory and relevant service linkages; track participation and progression using disaggregated data.	State Department responsible for MSME Development / MSEA / County Governments	County Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners	Y1–10	Targeted support programme; accessible delivery arrangements	Target beneficiaries reached; share completing applicable formalisation steps	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low reach/exclusion; mitigate through co-design and accessible local delivery.
4.6	Strengthen access to finance, information, and enterprise support services for	Undertake targeted barrier assessment; co-design	State Department responsible for MSME Development	County Governments; NCPWD; WEF; YEDF; Financial	Y1–10	Targeted support programme; accessible delivery	Target beneficiaries reached; share completing	KSh 150M	National and/or County budgets; institutional budgets;	Low reach/exclusion; mitigate through co-design and accessible local

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	underserved groups.	accessible support; deliver outreach, advisory and relevant service linkages; track participation and progression using disaggregated data.	/ MSEA / County Governments	Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners		arrangements	applicable formalisation steps		development partners/private sector, as applicable	delivery.
4.7	Mainstream inclusion considerations across all formalisation programmes and interventions.	Undertake targeted barrier assessment; co-design accessible support; deliver outreach, advisory and relevant service linkages; track participation and progression	State Department responsible for MSME Development / MSEA / County Governments	County Governments; NCPWD; WEF; YEDF; Financial Inclusion Fund; KIE; KIRDI; financial institutions; BMOs; development partners	Y1–10	Targeted support programme; accessible delivery arrangements	Target beneficiaries reached; share completing applicable formalisation steps	KSh 150M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low reach/exclusion; mitigate through co-design and accessible local delivery.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
		using disaggregated data.								

POLICY STATEMENT 5: STRENGTHEN MSME RESILIENCE, RISK MANAGEMENT AND BUSINESS CONTINUITY

OBJECTIVE: To reduce the risks associated with enterprise formalisation and operation by strengthening MSME access to risk management, business continuity, restructuring, recovery, and enterprise sustainability mechanisms.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
5.1	Promote access to affordable insurance and risk management products	Assess existing mechanisms and access barriers; adapt MSME-appropriate tools/guidance; establish referral	State Department responsible for MSME Development / relevant specialist	MSEA; County Governments; National Treasury; Attorney General;	Y1–10	MSME-accessible mechanism/toolkit; referral arrangements	MSMEs reached/using mechanism; improved uptake and relevant	KSh 120M	National and/or County budgets; institutional budgets; development partners/privat	Low awareness/complexity; mitigate through simplified guidance, referrals and local delivery.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	tailored to MSMEs.	and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	institution	Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners			resilience outcome		e sector, as applicable	
5.2	Strengthen MSME awareness and utilisation of existing insolvency, restructuring, and business recovery frameworks.	Assess existing mechanisms and access barriers; adapt MSME-appropriate tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	State Department responsible for MSME Development / relevant specialist institution	MSEA; County Governments; National Treasury; Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners	Y1–10	MSME-accessible mechanism/toolkit; referral arrangements	MSMEs reached/using mechanism; improved uptake and relevant resilience outcome	KSh 120M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low awareness/complexity; mitigate through simplified guidance, referrals and local delivery.
5.3	Develop simplified and accessible restructuring	Assess existing mechanisms and access barriers; adapt MSME-appropriate	State Department responsible for MSME Developme	MSEA; County Governments; National Treasury;	Y1–10	MSME-accessible mechanism/toolkit; referral arrangements	MSMEs reached/using mechanism; improved	KSh 120M	National and/or County budgets; institutional budgets;	Low awareness/complexity; mitigate through simplified guidance, referrals and local

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	and enterprise recovery mechanisms appropriate for MSMEs.	tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	nt / relevant specialist institution	Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners			uptake and relevant resilience outcome		development partners/private sector, as applicable	delivery.
5.4	Promote business continuity planning and resilience-building initiatives for MSMEs.	Assess existing mechanisms and access barriers; adapt MSME-appropriate tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	State Department responsible for MSME Development / relevant specialist institution	MSEA; County Governments; National Treasury; Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners	Y1–10	MSME-accessible mechanism/toolkit; referral arrangements	MSMEs reached/using mechanism; improved uptake and relevant resilience outcome	KSh 120M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low awareness/complexity; mitigate through simplified guidance, referrals and local delivery.
5.5	Strengthen access to social	Assess existing mechanisms and access barriers;	State Department responsible	MSEA; County Government	Y1–10	MSME-accessible mechanism/toolki	MSMEs reached/using	KSh 120M	National and/or County budgets;	Low awareness/complexity; mitigate through

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	protection mechanisms for entrepreneurs and workers operating within MSMEs.	adapt MSME-appropriate tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	for MSME Development / relevant specialist institution	s; National Treasury; Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners		t; referral arrangements	mechanism; improved uptake and relevant resilience outcome		institutional budgets; development partners/private sector, as applicable	simplified guidance, referrals and local delivery.
5.6	Enhance enterprise preparedness and recovery support during economic shocks, emergencies, and crises.	Assess existing mechanisms and access barriers; adapt MSME-appropriate tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	State Department responsible for MSME Development / relevant specialist institution	MSEA; County Governments; National Treasury; Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners	Y1–10	MSME-accessible mechanism/toolkit; referral arrangements	MSMEs reached/using mechanism; improved uptake and relevant resilience outcome	KSh 120M	National and/or County budgets; institutional budgets; development partners/private sector, as applicable	Low awareness/complexity; mitigate through simplified guidance, referrals and local delivery.
5.7	Promote a	Assess existing	State	MSEA;	Y1–10	MSME-	MSMEs	KSh	National	Low

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	supportive environment that enables entrepreneurs to restart, recover, and re-enter economic activity following business distress or failure.	mechanisms and access barriers; adapt MSME-appropriate tools/guidance; establish referral and delivery arrangements; pilot/scale; monitor uptake and resilience/recovery outcomes.	Department responsible for MSME Development / relevant specialist institution	County Governments; National Treasury; Attorney General; Official Receiver; Judiciary; IRA; NSSF; SHA; financial institutions; BMOs; development partners		accessible mechanism/toolkit; referral arrangements	reached/using mechanism; improved uptake and relevant resilience outcome	120M	and/or County budgets; institutional budgets; development partners/private sector, as applicable	awareness/complexity; mitigate through simplified guidance, referrals and local delivery.

POLICY STATEMENT 6: STRENGTHEN MSME DATA, IDENTIFICATION AND EVIDENCE SYSTEMS

OBJECTIVE: To strengthen MSME identification, data integration and evidence systems to support progressive formalisation, targeted service delivery, enterprise progression and effective policy monitoring.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
6.1	Establish	Map existing	**State**	MSEA;	**Y1–5**	MSME data	Priority MSME	**KSh**	National	Fragmented and

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	an integrated and interoperable national MSME data platform linking relevant data held across Government institutions and programmes.	MSME databases and systems; assess interoperability and data gaps; develop platform architecture and governance arrangements; integrate priority systems in phases; pilot and progressively scale the platform.	**Department responsible for MSME Development / ICT Authority**	BRS; KRA; KNBS; County Governments; CoG; public enterprise funds; sector regulators; labour/social protection institutions; ODPC		ecosystem map; platform architecture and governance framework; integrated national MSME data platform	datasets mapped; platform operational by Y3; priority Government MSME systems progressively integrated	**450M**	and/or County budgets; institutional budgets; development partners, as applicable	incompatible systems; privacy/cybersecurity risks; mitigate through phased integration, common standards and privacy-by-design.
6.2	Develop common MSME data standards, identifiers and data-sharing protocols across relevant institutions.	Review existing MSME definitions, classifications, identifiers and data standards; develop common minimum data standards and interoperability protocols; establish lawful data-sharing arrangements; develop institutional guidance for implementation.	**State Department responsible for MSME Development / KNBS**	ICT Authority; MSEA; BRS; KRA; County Governments; CoG; public enterprise funds; sector regulators; ODPC	**Y1–2**	Common MSME data standards; agreed identifier framework; data-sharing and interoperability protocols	Common data standards adopted; priority institutions applying agreed standards; data-sharing protocols operational	**KSh 80M**	National Budget; institutional budgets; development partners, as applicable	Institutional differences in definitions and data practices; mitigate through common standards developed jointly with data custodians and aligned with applicable law.
6.3	Leverage existing	Map MSME data held by	**State Departme**	Financial Inclusion	**Y1–4**	Administrative-data inventory;	Priority programme	**KSh 100M**	National and/or	Data silos, privacy

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	administrative and programme data to identify MSMEs and support referral, targeting and progression towards greater formality.	Government programmes and institutions; establish mechanisms for lawful data linkage and referral; develop enterprise profiling and referral criteria; pilot referrals from selected programmes to formalisation, finance and enterprise-support services; track progression.	**nt responsible for MSME Development / MSEA**	Fund; Uwezo Fund; WEF; YEDF; BRS; KRA; County Governments; public enterprise funds; financial institutions; relevant MDAs		enterprise profiling and referral framework; programme-to-programme referral mechanisms	datasets linked to referral mechanisms; MSMEs referred to appropriate services; proportion of referred MSMEs completing identified progression steps		County budgets; institutional budgets; development partners, as applicable	constraints and inconsistent data quality; mitigate through lawful sharing protocols, minimum data standards and data-quality controls.
6.4	Establish a national MSME formalisation baseline and measurement framework, with mechanisms for periodic updating.	Develop methodology for measuring formalisation across the dimensions established by the Policy; undertake national baseline assessment; establish indicators for formalisation status and progression; disaggregate baseline by relevant enterprise and inclusion	**State Department responsible for MSME Development / KNBS**	MSEA; BRS; KRA; County Governments; CoG; Co-operatives; Social Development; sector regulators; labour/social protection institutions; BMOs; research institutions	**Y1; periodic updating thereafter**	Formalisation measurement methodology; National MSME Formalisation Baseline; baseline dataset and report	Measurement methodology approved; national baseline completed in Y1; baseline disaggregated by agreed characteristics; periodic updates undertaken	**KSh 100M**	National Budget; institutional budgets; development partners, as applicable	Fragmented data and inconsistent classifications; mitigate through common methodology, agreed data standards and triangulation of administrative and survey data.

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
		characteristics; establish mechanisms for periodic updating.								
6.5	Strengthen identification and recognition of micro and informal enterprises through appropriate individual and collective mechanisms.	Map existing mechanisms through which micro and informal enterprises interact with Government; identify gaps in enterprise visibility and recognition; develop appropriate individual and collective identification/recognition approaches; pilot through selected counties, sectors and enterprise groupings; link recognised enterprises to relevant services and formalisation pathways.	**State Department responsible for MSME Development / MSEA**	County Governments; CoG; Co-operatives; Social Development; BRS; sector regulators; BMOs; market and trader associations	**Y1–5**	Recognition framework for micro and informal enterprises; identification/recognition mechanisms; pilot models	Priority recognition mechanisms mapped; pilots implemented; number of previously unidentified enterprises/economic units brought within appropriate recognition systems	**KSh 120M**	National and/or County budgets; institutional budgets; development partners, as applicable	Recognition may be mistaken for comprehensive formalisation; mitigate through clear recognition categories and linkage to differentiated formalisation pathways.
6.6	Promote cluster-based approaches for recognising,	Map existing MSME clusters and concentrations; develop criteria and models for cluster recognition and organisation;	**State Department responsible for MSME Developm**	County Governments; KIE; KIRDI; Co-operatives; Social Developme	**Y1–10**	MSME cluster framework; recognised/organised pilot clusters; cluster-based shared services and support	Priority clusters mapped; clusters formally organised/recognised; MSMEs accessing shared services through	**KSh 300M**	National and/or County budgets; institutional budgets; developmen	Weak cluster governance or exclusion of individual enterprises; mitigate through transparent

No.	Intervention	Key Activities	Lead Institution	Supporting Institutions	Timeline	Expected Outputs	KPIs / Targets	Budget Est. (KSh)	Funding Source	Risks & Mitigation
	organising and supporting micro and informal enterprises.	strengthen cluster associations/collective structures; deliver shared formalisation, infrastructure, technology, compliance and enterprise-support services through selected clusters; pilot and scale successful models.	**ent / MSEA**	nt; sector regulators; BMOs; financial institutions; development partners		programmes	clusters; progression among participating enterprises		t partners/private sector, as applicable	participation criteria, representative governance and voluntary participation.
6.7	Strengthen institutional capacity for MSME data management, analysis, reporting and evidence-based decision-making.	Assess institutional data and analytical capacity; develop data-management and reporting guidelines; train relevant institutions; establish routine MSME data analysis and reporting mechanisms; strengthen use of evidence in programme targeting, monitoring and policy review.	**State Department responsible for MSME Development / KNBS**	MSEA; ICT Authority; County Governments; BRS; KRA; public enterprise funds; sector regulators; research institutions; development partners	**Y1–10**	Institutional data-capacity framework; trained personnel; standard reporting tools; periodic MSME analytical reports	Priority institutions using standard reporting tools; personnel trained; annual MSME/formalisation analytical report produced; evidence used in programme and policy reviews	**KSh 120M**	National and/or County budgets; institutional budgets; development partners, as applicable	Uneven institutional capacity and weak data-use culture; mitigate through standard tools, sustained capacity building and integration into routine planning and reporting.

7 REFERENCES

Business Registration Service (BRS). (2026a). *Business Registration Service*. Government of Kenya. https://brs.go.ke/

Business Registration Service (BRS). (2026b). *Entities registered under the Business Registration Service*. Government of Kenya. https://brs.go.ke/entities-registered/

Cruz, M., & Hernandez Uriz, Z. (2022). *Entrepreneurship ecosystems and MSMEs in Kenya: Strengthening businesses in the aftermath of the pandemic*. World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099450007122219877/p1778950b7e0fa0d60b8e90b4c6e9c3b77e

European Commission. (2019). *Directive (EU) 2019/1023 on restructuring and insolvency.* https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019L1023

Government of Brazil. (2023). *Portal do Empreendedor – Microempreendedor Individual (MEI).* https://www.gov.br/empresas-e-negocios/pt-br/empreendedor

Government of India, Ministry of Micro, Small and Medium Enterprises. (2026). *Annual report 2025–26.* Government of India. https://msme.gov.in/sites/default/files/MSMEANNUALREPORT2025-26ENGLISH_0.pdf

Government of India, Ministry of Micro, Small and Medium Enterprises. (n.d.). *Micro and Small Enterprises Cluster Development Programme (MSE-CDP).* Government of India. https://www.msme.gov.in/offerings/schemes-and-services/details/micro-small-enterprises-cluster-development-mse-cdp-kTNxMTMtQWa

Government of India, Ministry of Micro, Small and Medium Enterprises. (n.d.). *Udyam Registration.* Government of India. https://udyamregistration.gov.in/

Government of India, Ministry of Micro, Small and Medium Enterprises. (n.d.). *Udyam Assist Platform.* Government of India. https://udyamassist.gov.in/

Government of India. (2020). *Udyam Registration Portal* https://udyamregistration.gov.in

Government of India. (2023). *Annual Report 2022–2023: Ministry of Micro, Small and Medium Enterprises.* https://msme.gov.in

Government of Kenya. (2012). *Micro and Small Enterprises Act*. http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/MicroandSmallEnterprisesAct_No55of2012.pdf

Government of Kenya. (2023). *Bottom-Up Economic Transformation Agenda (BETA)*. https://www.treasury.go.ke

Government of Kenya. (2026). *Revised Micro, Small and Medium Enterprises (MSME) Policy 2026*. Government Printer.

Government of Rwanda. (2022). *Rwanda Development Board – Business registration and investment services.* https://rdb.rw

International Labour Organization (ILO). (2015). *Transition from the informal to the formal economy recommendation, 2015 (No. 204).* https://www.ilo.org/global/topics/employment-promotion/informal-economy/WCMS_377774/lang--en/index.htm

International Labour Organization (ILO). (2018). *Women and men in the informal economy: A statistical picture (3rd ed.).* https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm

International Labour Organization (ILO). (2019). *Formalisation strategies in Africa*. https://www.ilo.org

International Labour Organization (ILO). (2021). *Enterprise formalization: An introduction.* International Labour Organization. https://www.ilo.org/publications/enterprise-formalization-introduction

Ipsos Kenya, Safaricom Plc, & FSD Kenya. (2024). *Transforming the MSME industry in Kenya* https://www.ipsos.com/en-ke/transforming-msme-industry-kenya

Kenya Association of Manufacturers (KAM). (2025). *Regulatory Audit Report 2025*. Nairobi: Kenya Association of Manufacturers.

Kenya Bankers Association (KBA), & Japan International Cooperation Agency (JICA). (2021). *Micro, Small and Medium Enterprises (MSMEs) survey report*. https://www.kba.co.ke/wp-content/uploads/2021/08/KBA-MSME-Survey-Report-2021.pdf

Kenya Institute for Public Policy Research and Analysis (KIPPRA). (2023). *Kenya economic report 2023.* https://kippra.or.ke/kenya-economic-report-2023/

Kenya National Bureau of Statistics (KNBS). (2016). *Micro, Small and Medium Establishments (MSME) Survey 2016*. https://www.knbs.or.ke

Kenya National Bureau of Statistics (KNBS). (2024). *Economic Survey 2024*. https://www.knbs.or.ke

Kenya National Bureau of Statistics (KNBS). (2026). Economic Survey 2026. https://www.knbs.or.ke

Kenya Revenue Authority. (2023). *Annual revenue performance report*. https://www.kra.go.ke/en/about-kra/publications

Kenya Revenue Authority. (2023). *KRA statements on informal sector taxation and compliance*. https://www.kra.go.ke/news-center

Kenya Revenue Authority. (2024). Annual Revenue Performance Report. https://www.kra.go.ke/en/about-kra/publications

Kenya Revenue Authority. (2024). Presumptive Tax and Informal Sector Compliance – Official Statements and FAQs. https://www.kra.go.ke

Kenya Revenue Authority. (2024). Statements on Informal Sector Taxation and Compliance. https://www.kra.go.ke/news-center

La Porta, R., & Shleifer, A. (2014). *Informality and development*. *Journal of Economic Perspectives, 28*(3), 109–126. https://doi.org/10.1257/jep.28.3.109

Loayza, N. V. (2016). *Informality in Peru: Facts, causes, and consequences*. World Bank. https://www.worldbank.org

Maloney, W. F., Beylis, G., Gonzalez-Prieto, N., & Zambrano, A. (2026). Rationalizing Informality: Social Protection, Job Quality, and Growth. World Bank. https://hdl.handle.net/10986/44847

Medina, L., Jonelis, A., & Cangul, M. (2017). *The informal economy in sub-Saharan Africa: Size and determinants*. International Monetary Fund. https://www.imf.org/en/Publications/WP/Issues/2017/09/29/The-Informal-Economy-in-Sub-Saharan-Africa-Size-and-Determinants-45221

Micro and Small Enterprises Authority (MSEA). (2026a). *CS Hon. Wycliffe Oparanya champions MSME formalization and access to finance*. Micro and Small Enterprises Authority. https://msea.go.ke/cs-hon-wycliffe-oparanya-champions-msme-formalization-and-access-to-finance-26-01-2026/

Micro and Small Enterprises Authority (MSEA). (2026b). *Kenya Jobs and Economic Transformation Project (KJET): Frequently asked questions.* Micro and Small Enterprises Authority. https://msea.go.ke/kjet-faqs/

Ministry of Investments, Trade and Industry. (2023). *Buy Kenya Build Kenya Initiative*. https://www.miti.go.ke

National Treasury. (2024). *Credit Guarantee Scheme Framework*. National Treasury. https://www.treasury.go.ke

Organisation for Economic Co-operation and Development (OECD), CAF Development Bank of Latin America and the Caribbean, & Latin American and Caribbean Economic System (SELA). (2024). *SME policy index: Latin America and the Caribbean 2024: Towards an inclusive, resilient, and sustainable recovery.* OECD Publishing. https://www.oecd.org/en/publications/sme-policy-index-latin-america-and-the-caribbean-2024_ba028c1d-en.html

Organisation for Economic Co-operation and Development (OECD). (2017). *Designing insolvency regimes for SMEs.* https://www.oecd.org

Organisation for Economic Co-operation and Development (OECD). (2021). *SME and entrepreneurship policy in Rwanda.* https://www.oecd.org

Organisation for Economic Co-operation and Development (OECD). (2021). *SME and entrepreneurship policy in India.* https://www.oecd.org

Organisation for Economic Co-operation and Development (OECD). (2021). *SME and entrepreneurship policy in Brazil.* https://www.oecd.org/industry/smes/sme-and-entrepreneurship-policy-in-brazil.htm

Organisation for Economic Co-operation and Development (OECD). (2023). *The design of presumptive tax regimes*. OECD Publishing. https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/02/the-design-of-presumptive-tax-regimes_15e01885/141239bb-en.pdf

Organisation for Economic Co-operation and Development (OECD). (2026). *SME policy index for Western Balkans and Türkiye 2026: Regional profile.* OECD Publishing. https://doi.org/10.1787/dc98f701-en

Perry, G. E., Maloney, W. F., Arias, O. S., Fajnzylber, P., Mason, A. D., & Saavedra-Chanduvi, J. (2007). Informality: Exit and Exclusion. World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/326611468163756420/informality-exit-and-exclusion

Public Procurement Regulatory Authority (PPRA). (2024). *Access to Government Procurement Opportunities (AGPO) Programme. https://www.ppra.go.ke*

Republic of Kenya. (1997). *Co-operative Societies Act, No. 12 of 1997.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/1997/12/

Republic of Kenya. (2010). *Constitution of Kenya, 2010.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2010/constitution/

Republic of Kenya. (2012a). *Micro and Small Enterprises Act, No. 55 of 2012.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2012/55/

Republic of Kenya. (2012b). *County Governments Act, No. 17 of 2012.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2012/17/

Republic of Kenya. (2013). *Crops Act, No. 16 of 2013.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2013/16/

Republic of Kenya. (2014). *Public Finance Management (Uwezo Fund) Regulations, 2014.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/ln/2014/21/

Republic of Kenya. (2015). *Business Registration Service Act, No. 15 of 2015.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2015/15/

Republic of Kenya. (2022). *Community Groups Registration Act, No. 30 of 2022.* Kenya Law. https://new.kenyalaw.org/akn/ke/act/2022/30/

State Department for Co-operatives. (n.d.). *Registration of co-operatives.* Ministry of Co-operatives and Micro, Small and Medium Enterprises Development. https://www.ushirika.go.ke/registration-co-operatives

State Department for MSMEs Development. (2026). *Revised Micro, Small and Medium Enterprises (MSME) Policy 2026.* Ministry of Co-operatives and Micro, Small and Medium Enterprises Development.

State Department for Social Protection and Senior Citizen Affairs. (2026). *Registration of self-help groups and community-based organisations.* Government of Kenya. https://www.socialprotection.go.ke/

UNCITRAL. (2021). *Legislative recommendations on insolvency of micro and small enterprises.* https://uncitral.un.org/en/texts/insolvency/modellaw/mse

Uwezo Fund. (n.d.). *Frequently asked questions.* Government of Kenya. https://www.uwezo.go.ke/faqs

World Bank. (2014). *Peru: Tackling informality.* https://www.worldbank.org

World Bank. (2019). *Informality and tax reform in Latin America*. https://www.worldbank.org

World Bank. (2020). *Doing Business 2020: Comparing business regulation in 190 economies*. https://www.worldbank.org/en/publication/doing-business

World Bank. (2020). *Re-thinking the approach to informal businesses: Typologies, evidence and future exploration*. https://documents1.worldbank.org/curated/en/642101607539592355/pdf/Re-thinking-the-Approach-to-Informal-Businesses-Typologies-Evidence-and-Future-Exploration.pdf

World Bank. (2020). Saving entrepreneurs, saving enterprises: Proposals on the treatment of MSME insolvency. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/575151600561703595/saving-entrepreneurs-saving-enterprises-proposals-on-the-treatment-of-msme-insolvency

World Bank. (2022). *Kenya Economic Update*. https://www.worldbank.org/en/country/kenya/publication/kenya-economic-update