

Financial Access and Taxation on Performance of Women-Owned Enterprises in the Manufacturing Sector

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Abstract

There has been a low involvement of women in the manufacturing sector over a period of time as compared to the male counterparts in Kenya. According to the 2020 Kenya Association of Manufacturers' Report, only 17 percent of women are engaged in manufacturing. The low participation and poor performance of women owned enterprises emanates from the challenges that women face when engaging in manufacturing activities; majorly financial access and taxation. The objective of the paper is therefore to explore the effects of financial accessibility and taxation on the performance of women owned enterprises in the manufacturing sector, and the way forward for women economic empowerment. Data was collected by administering a questionnaire to women entrepreneurs identified through purposive sampling. The study findings show that women obtain initial source of capital from spouses, friends, Chamas, Savings and Credit Cooperative Organizations, and banks. In cases of shortage, 63 percent of respondents preferred borrowing funds from Chamas, and Savings and Credit Cooperative Organizations. Moreover, 84 percent of the respondents highlighted that high taxation affect the performance of their businesses. They advocate for specific changes on taxation policies: all tax rates should be less than 30 percent, low tax rates for startup businesses, reduction of Value Added Tax, and change of taxation act in favor of women-owned businesses. Limited financial sources is experienced despite the initiatives of the government in disbursing funds to promote the engagement of women in manufacturing. The government need to offer avenues such as direct channeling of funds to business owners to ease their capital access. High taxation can be curbed through introduction of different tax thresholds based on business size, and giving tax holidays to new enterprises.

Keywords: *financial access, taxation, women owned enterprises, manufacturing sector, performance*

Introduction

Women are recognized as potential drivers of economic growth when they fully engage in the workforce. There exists positive relationship between involvement of women in the labour force and increase in the Gross Domestic Product (GDP). It is estimated that global GDP would rise to more than \$4 trillion when gender gap reduces by 25 percent all over the world by 2025. Globally, women contribute to more than 50 percent of the labour force, however, their involvement in the manufacturing sector rates is below 23 percent. A replica of the case is observed in Kenya where women in the labour force constituted 72 percent by 2019 yet only 61,100 were employed in the manufacturing firms (Mugenyi, Nduta, Ajema, Afifu, Wanjohi, Bomett, Mutuku and Yegon,

2020). Limited participation of women in manufacturing businesses indicates that there are hurdles constraining their full venture into the sector.

Kenyan government recognizes the critical role that manufacturing sector plays in the economy. Inclusive of the roles are creation of employment and economic growth. Since independence the government has adopted different initiatives to improve manufacturing businesses owned by women. The Sessional Paper No 1 of 1986, Sessional Paper No 2 of 1992, and 2012 Industrialization policy highlighted key issues, including, increase in financial access, conducive regulatory framework, and provision of training for women entrepreneurs (Republic of Kenya, 2020). Kenyan Vision 2030 targets an annual increase in contribution of the manufacturing sector to the GDP by 10 percent. One of the strategies towards achieving Vision 2030 goals is through engaging women in manufacturing enterprises (Republic of Kenya, 2020). However, women are still under presented in the sector, with only 17 percent employed or owning manufacturing firms (Mugenyi et al., 2020). Financial access and taxation are among the key issues identified as hindrance to performance of women owned enterprises in the manufacturing sector.

Financial access profoundly affects the engagement of women in the manufacturing sector. Female entrepreneurs are hindered from borrowing finances from lending institutions due to unaffordable collaterals. Moreover, the lending institutions categorize women-owned enterprises as risky businesses following their limited scope of operation. Therefore, high payment rates are attached to the loans, which hinders accessibility of finance to operate businesses. In addition, creditworthiness of owners of the enterprises are not accessible to the banking institutions, thereby, translating to high bank charges (Cheong, Lee and Weissmann, 2020). Majority of banking institutions are also inconsiderate on equating good business idea to better output from the business. As a result, they are reluctant in lending to women entrepreneurs who lack collaterals yet have good business ideas that can translate to high returns. Most women have limited access to properties such as land which can be used as collateral for obtaining capitals for their enterprises (Mugenyi et al., 2020). Expensive nature of loans makes women resolve into borrowing from informal sectors which have affordable rates.

The government of Kenya has been employing various strategies to increase credit accessibility by women-owned enterprises. For instance, establishment of Women Enterprise Fund (WEF) in 2007 aimed at providing financial support for expansion of women-owned enterprises. Furthermore, *Uwezo* Fund was established in 2013 to avail finances easily to female entrepreneurs. The funds are instrumental in promoting startups, efficient operation and expansion of the businesses. However, financial access is still a critical barrier to the performance of women in the manufacturing sector (Mugenyi et al., 2020).

Tax system has a significant effect on the performance of the women owned enterprises in the manufacturing sector. According to Mbugua and Moronge (2016), a good tax system enhances high business output while unconducive one has a counterintuitive result. Conducive tax system incorporates minimization of tax burden while ensuring tax compliance; administration of mono

taxes. Complexities in licensing and registration requirements fosters high costs within the businesses, which constrain women from venturing in manufacturing activities. High licensing costs also make women entrepreneurs to channel funds away from business activities that could otherwise be invested to expand the enterprises. Moreover, decentralization of the requirements for registering a business firm creates extra expenses beyond what the manufacturer needs to incur for operational activities, deeming it expensive (Mbugua and Moronge, 2016). Promotion of a conducive environment in tax system is essential in enhancing performance of the enterprises.

Financial access and taxation play a critical role on the performance of the women owned enterprises. Ease in accessing finance and conducive taxation issues have a positive impact on the performance of the enterprises. The government of Kenya has been on the forefront in increasing financial accessibility through establishments of various funds such as *Uwezo* and WEF. Moreover, it has been fostering conducive environment for the women through regulation of proper taxes. However, it is not clear whether the policies have been properly implemented to sustain women entrepreneurs. In this study, we sought to establish effects of financial access and taxation on women owned enterprises in the manufacturing sector.

Research objectives

The general objective of the study is to analyze the effect of financial access and taxation on performance of women-owned enterprises in the manufacturing sector.

The specific objectives are to:

1. Examine the effect of financial access on the performance of Women-owned enterprises in the manufacturing sector.
2. Analyse how taxation influences the performance of Women-owned enterprises in manufacturing sector.

Theoretical Orientation

Pecking Order Theory

Pecking Order Theory stipulates that enterprises prefer internal sources of finance and consider external funding as the last option. Women entrepreneurs are prone to challenges while accessing finance from lending institutions. The size of businesses predisposes them to high urgency costs and information asymmetry that limits their access to credits. Based on the high cost associated with borrowing, they have high preference for internal financing rather than external (Mbugua and Moronge, 2016). Lending institution tend to charge extra cost to cater for the risk associated with the enterprises. Additional cost translates to increase in the interest rate making charges on borrowed funds too expensive to afford by micro, small and medium enterprises. The enterprises would prefer internal funding as a primary source and look for external avenues on exhaustion (Mbugua and Moronge, 2016). Pecking Order Theory is based on the assumption that a firm has no capital structure target, but source for funds depending on its preferences. Thus, the theory does not apply in conditions where an enterprise has established its capital structure. Pecking Order

Theory is critical for the study in justifying why women would prefer informal borrowing rather than obtaining funds from banks institutions.

Resource Based Theory

The resource-based theory emphasizes that enterprises should consider internal resources to establish competitive advantage by utilizing them for production. Business owners need to exploit proper strategic management in enhancing their competition in the market. Both internal and external environment impacts the performance of the business firms (Rakhmawati, Kusumawati, Rahardjo and Muhammad, 2020). Profit generation from entrepreneurial activities are based on the ability to produce unique commodities that cannot be imitated. Favourable government regulatory framework is instrumental in enhancing profitability of the firms. Taxation rate need to be curtailed in a manner that spur various women to engage in the manufacturing sector. Subjection to high tax rates reduces the resources that would be invested for business expansion. The theory is grounded on heterogeneity of a product which may not be the case, limiting its role. It is vital to the study in analyzing whether the government regulations translate to increase or reduction in performance of women owned enterprises in manufacturing sector (Mbugua and Moronge, 2016).

Access to finances and enterprise performance

Difficulties in obtaining credit and insufficient capital are believed to be major obstacles to business growth. Among the women entrepreneurs in Kenya, less than 10 percent have access to available loans from financial institutions (Mwathi, 2018). Others are unable to get 1 million shillings and above from banks and other lenders due to collateral demands which they lack. Consequently, the business owners are limited to micro-credit borrowing, which in turn deprives them from obtaining appropriate technologies for efficient operation. In some cases, credit terms may demand the purchase of certain equipment that can be used as security for the borrowed funds (Mwathi, 2018). Therefore, inaccessibility of finances is a major concern while investing efforts towards engaging women in entrepreneurial activities within the manufacturing sector.

Alene (2020) did a study in Ethiopia to explore the determinants of performance of women enterprises. Explanatory research design was adopted for the study with selection of 180 respondents through random sampling technique. The data collected from 100 percent response rate was analyzed through binary logical regression analysis. Findings indicated that financial access has a positive relationship with the performance of the enterprise. Women performance is enhanced when there is financial access as compared to when there are constraints. Financial access facilitates high survival rate and profitability of the business. The study is significant in exploring the importance of financial access on the performance of the enterprise. However, there is no clear distinction on which source is highly preferred and promotes performance that current study sought to establish.

Taxation influence on women owned enterprises

Aondo (2019) carried out a study in Kitengela town to establish effectiveness of education on tax compliance among the enterprises. Data was collected from 140 respondents identified through stratified sampling technique. Analysis was done through inferential and descriptive statistics using SPSS software. Findings indicated that government demands have an influence on tax rates. Tax rates impacts on the businesses and circulation of money. Progressive tax reduces the profitability since more is deducted on marginal profit. Tax rates have a negative impact on the performance of the firms in that as it increases, profitability will decrease. The study established that educating people on tax rates, penalties, fines and PAYE translate to tax compliance among individuals. However, it is not clear whether the taxes levied on the women owned enterprises are favourable to their performance. The current study determines the effect of taxation on performance of the enterprises and advocates for specific changes to promote growth of women owned enterprises in the manufacturing sector.

According to Mugenyi et al., 2020 report, taxation negatively impacts on the performance of women owned enterprises in the manufacturing sector. Exposure to taxation creates fear among the entrepreneurs limiting their involvement in manufacturing activities. Female entrepreneurs face traumatized experiences from tax agencies when they are unable to settle tax liabilities. High taxation costs increase cost of production when operating the business. Thus, making majority of women to shun away from involving in manufacturing activities.

Methodology

The study adopted survey research design to examine the effect of financial access and taxation on the performance of women owned enterprises in the manufacturing sector. The study targeted women who are purely involved in the manufacturing sector in Kiambu County. Purposive sampling technique was used to obtain 19 women engaged in manufacturing activities through a list from Kenya Association of Manufacturers (KAM). Questionnaires were administered to the respondents through a one-on-one interview. Focus group discussion and conference meeting for women in the manufacturing sector was also used to gather data for the study. Prior to data collection, permit was obtained from National Council for Science and Technology (NACOSTI). Collection of data from any respondent was initiated upon signing the consent form. Survey-To-Go software was used for feeding information obtained from the respondents and later synchronized to the main server. Further all the data were transmitted to the STATA software for the purposes of clean up and analysis.

Key Findings

Table 1: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Age	19	41.73684	16.80226	26	69
Experience	19	7.052632	6.381167	1	25
Loan	19	3419211	9109427	0	3.70e+07
Performance	16	2049813	7987029	0	3.20e+07

Table 1 shows that the minimum age among the respondents was 26 while the maximum age was 69. Majority of women in manufacturing sector in Kiambu County are 41 years old. The highest level of experience among the respondent is 25 years with the minimum experience level at 1, majority have 7 years of experience. The highest loan borrowed within a year was KSH 9,109,427 while other respondents did not borrow at all with majority borrowing KSH3, 419,213. The profit earned by highest performing respondent was KSH 32,000,000 with the lowest having no profit. Majority of women owners made annual profit amounting to KSH2, 049,813.

Table 2: Regression Analysis

Lnper	Coef.	Std. Err.	T	P> t	[95% Conf. Interval]
LnLoan	.9260045	.3395839	2.73	0.072	-.1547031 2.006712
Experience	-.21751	.6555717	-0.33	0.762	-2.303832 1.868812
Age	-.0687454	.1175187	-0.58	0.600	-.4427424 .3052515
_cons	4.405409	4.028985	1.09	0.354	-8.416621 17.22744

Table 2 shows that experience and age are insignificant in explaining performance of women owned enterprises in the manufacturing sector since their P-Value is greater than 0.05. However, credit accessed by the businesses positively impacts on the performance. An increase in the amount borrowed by 1 percent translate to performance increase by 0.926 percent.

Table 3: ANOVA on Performance and Taxation

Source	SS	Df	MS	F	Prob > F
Between groups	5.0447e+13	2	2.5224e+13	0.36	0.7032
Within groups	9.0644e+14	13	6.9726e+13		
Total			9.5689e+14	15	6.3793e+13

Bartlett's test for equal variances: $\chi^2(2) = 39.5490$ Prob> $\chi^2 = 0.000$

The analysis of variance in table 3 was used to determine whether there is variation in performance based on tax change that the respondents advocated for. The P-Value is less than 0.05 implying that there is variation in performance across different recommendation for tax change.

Figure 1: Performance, Over Taxation to be changed

Figure 1 shows that majority of women operating manufacturing activities are advocating for tax exemptions from the government to enhance their performance. Profit taxation are insignificant in affecting their profitability thereby no need of reforms.

Table 4: ANOVA on Performance and Financial Sources

Source	SS	df	MS	F	Prob > F
Between groups	5.0447e+13	2	2.5224e+13	0.36	0.7032
Within groups	9.0644e+14	13	6.9726e+13		
Total			9.5689e+14	15	6.3793e+13

Bartlett's test for equal variances: $\chi^2(2) = 39.5490$ Prob> $\chi^2 = 0.000$

Table 4 shows that there is variation in performance across different sources of funds since the P-Value is less than 0.05.

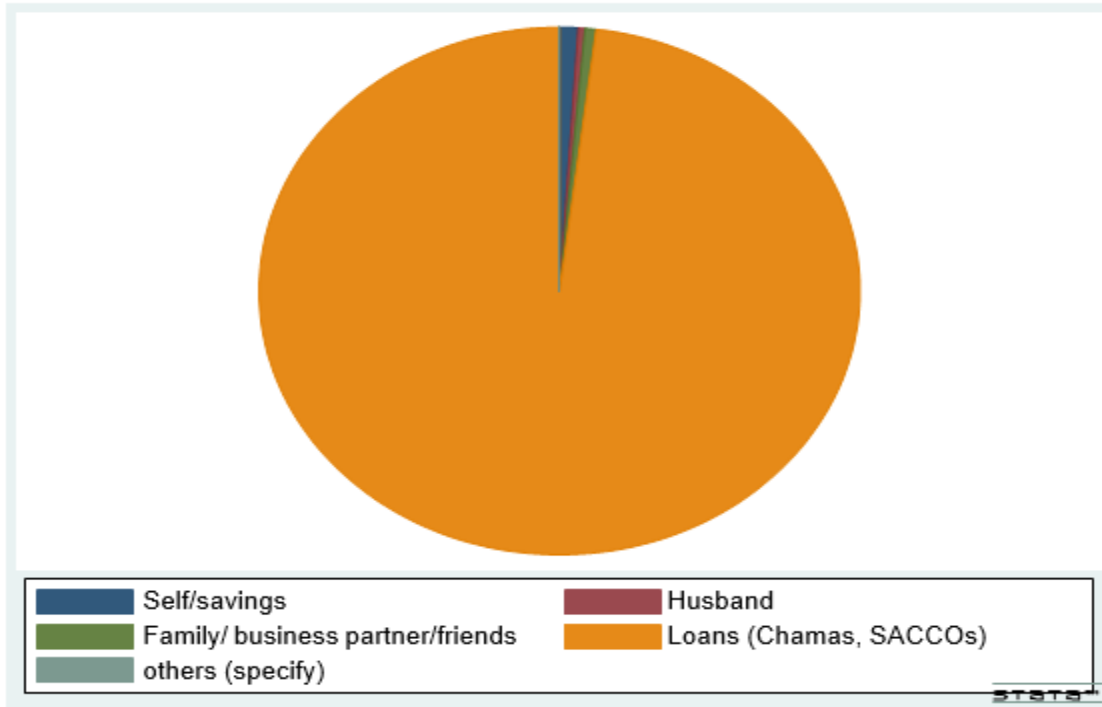


Figure 2: Performance, Over Finance Source

Figure 2 Shows that the performance of women who obtain finance from Chamas and SACCOs are very high. Individuals have high preference for loans from SACCOs and *Chamas* rather as shown in figure 2.

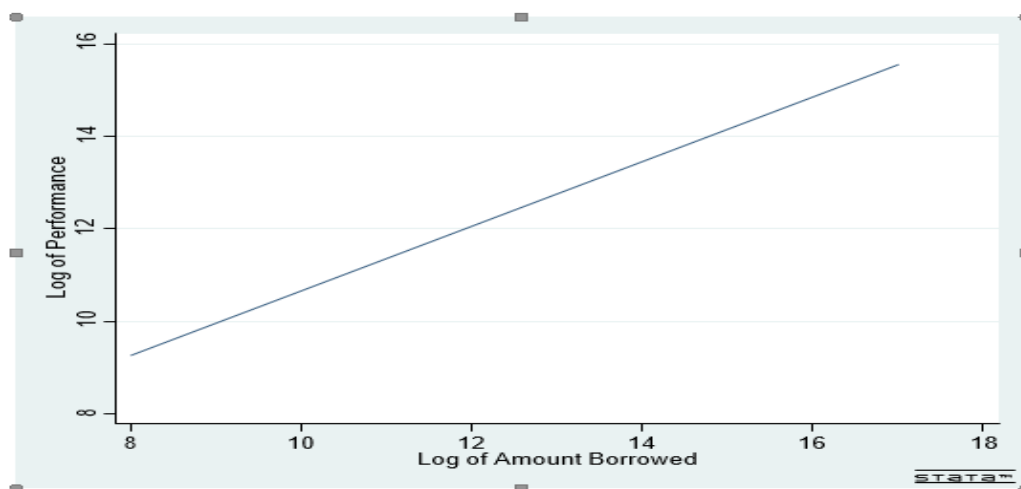


Figure 3: Relationship between performance and amount borrowed

Figure 3 shows that performance is positively related to amount of loan borrowed. As the women entrepreneur increases the credit, performance will also increase.

Discussions

Financial access affects the performance of women-owned enterprises in the manufacturing sector. Businesses realize more profits when they access more credits. The loans obtained are used for operation and expanding the enterprise, thus, translating to profit increment. Performance of women owned enterprises varies based on sources of fund. Eighty-four (84) percent of respondents have preference of borrowing from *Chamas* and SACCOs rather than other sources. It conforms (Mwathi, 2018 and Aondo, 2019) when they point that individuals would not prefer accessing bank loans that are associated with expensive collaterals and defaulting rate risks. Entrepreneurs are unable to afford the collaterals making them opt for *Chamas* and SACCOs whose loans are not attached to security. Business owners shun away from giving their property as collaterals due to the fear of losing in case they default. The premium charged by lending institution due to fear among the enterprises translates to high interest rate on loans. The loans become expensive making the entrepreneurs seek for other alternatives that are affordable. *Chamas* and SACCOs that are characterized with no collateral attachment, becomes the preference for majority of women owned enterprises in the manufacturing sector.

Unfavorable tax rates hinder the performance of women owned enterprises in the manufacturing sector. All the respondents (100%) indicated that their performance have been affected by taxation and government need to address some changes on tax system. Majority of the respondents advocates for tax exemption to promote their performance on the sector. Government should either offer tax exemptions on certain products or during certain period of time to enhance their performance. Tax exemption incentive attracts many entrepreneurs to the manufacturing sector. Tax liabilities among the entrepreneurs is reduced and the extra earning that could have been allocated for tax is channeled for reinvestment opportunities.

A greater percentage (84% of the respondents) of women in the manufacturing sector believe that income tax act should be amended to favor the development of women owned enterprises. Government imposes income tax on all business for the purpose of economic growth and development. The income tax rate is progressive depending on how much an individual earns or a business generates from its activities. Women entrepreneurs believe that high income tax rates are detrimental to the performance of businesses since substantial amount of the generated profit would be taken to the government instead of being channeled into enterprise expansion. Moreover, many complicated rules within the taxation act entices the entrepreneurs to evade tax remission to the government.

Conclusion and Recommendation

Financial access affects the performance of women owned enterprises in the manufacturing sector. Increase in the accessibility of finance improves the profitability of the businesses. There is high

preference for obtaining loans from *Chamas* and SACCOs rather than financial institutions. Taxation negatively impacts on the performance of the enterprises in that the fund that could have been otherwise allocated for reinvestment is taxed. High tax rates increase the cost of operation which limits the performance of women owned enterprises in the manufacturing sector.

Since credit accessibility have positive effect on performance of the enterprises, additional funds should be allocated to the enterprises. The funds should be channeled to the SACCOs and *Chamas* where majority of women entrepreneurs have high preference. Government funds meant for supporting women owned enterprises should not be disbursed in banks which demands high collateral. The funds should be disbursed through avenues that are affordable to the entrepreneurs for instance *Chamas*, SACCOs, or direct deposit through MPESA. Government should offer tax exemptions to women owned enterprises in the manufacturing sector to improve their performance. Tax rates should be reduced to curb the high cost of operation within the business. The government should ensure that all tax rates charged on a given business does not exceed 30 percent. Income tax should be tailored in favour of female owned business to enhance their performance.

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