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Thinking Policy Together

Enhancing Domestic Trade Participation by Female and Male-owned Firms in Kenya

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Introduction

Domestic trade in Kenya is critical for job creation, improving household livelihoods, and ensuring economic resilience. The Kenya Vision 2030 emphasizes the importance of promoting gender-responsive trade policies that enable disadvantaged populations, such as women, to participate in domestic trade. The participation of male and female-owned firms in domestic trade is guaranteed under the Constitution, Article 27 (3), which provides for equal economic treatment and opportunities for men and women.

The participation of female-owned firms in domestic trade has been identified as a regional concern. Majority of female-owned firms in East Africa face obstacles such as business registration, licensing, and lack of access to credit (UNDP, 2019). Furthermore, the World Bank (2016) found that female-owned businesses receive less than 10% of available loans for trade. Notably, these characteristics have a disproportionate effect on both men's and women's ability to start a business and engage in meaningful domestic trade. A study done by KIPPRA in 2021 on factors influencing participation in domestic trade by female- and male-owned firms in Kenya found that male-owned businesses are more likely to engage in domestic trade than female-owned businesses. Further, KIPPRA in 2021 on assessing the effects of regulatory framework on growth of wholesale and retail firms in Kenya found that growth of MSMEs in Kenya is affected by business registration, which is a requirement to engage in formal business.

Based on the 2019 National Population and Housing Census by KNBS, Kenya has a total population of 47.6 million persons, with majority being women at (50.49%) compared to men who are (49.51%). Data from the 2016 MSME Survey shows that out of the 24,164 firms surveyed, 49.38% were male-owned, 26.94% were female-owned, while 23.68% were owned jointly by males and females. Further, it shows that among the female-owned firms 35.4% participate in domestic trade compared to 64.6% of male-owned firms. This clearly indicates that most of the firms that participate in domestic trade in the country are male-owned. This raises the question as to what limits women engagement in domestic trade.

Policy Issues

Analysis of the 2016 MSME survey data reveals that women-owned businesses have more difficulty registering their businesses and obtaining credit than businesses owned by men. These factors limit the ability of women-owned businesses to participate equally in domestic trade in Kenya. The low domestic trade participation of female-owned firms in Kenya as compared to male-owned firms can be attributed to business registration requirements, credit availability and the ability to embrace innovations.

Business registration

To conduct formal business in the space of domestic trade, business registration is very critical, especially if the firm wants to take advantage of business opportunities provided by the government and other public institutions. The analysis demonstrates that female-owned firms were less likely to be formally registered (16.52%) compared to male-owned firms (26.73%). The fact that there are few women-owned businesses that are officially registered leads to the conclusion that most women-owned businesses cannot take advantage of government opportunities in domestic trade. As such women owned firms would eventually miss out on the 30% procurement opportunities allocated to women, youth, and other disadvantaged groups since they require the business to be formally registered. This higher likelihood of having majority of female-owned firms not formally registered could eventually lead to lower participation in domestic trade.

In addition, women are less likely than men to participate in formal trade engagements and opportunities to do business with government and other public institutions. For example, data shows that male-owned businesses were more likely to do business with the government than female-owned businesses. Empirical studies show that registration of firms unlocks access to better trading equipment, expansion of operation scale, and makes the trading environment more competitive (Demenet et al., 2016). However, higher registration costs may hinder formalization of firms and consequently disincentivize domestic trade participation.

As a result of failure to register their businesses, women-owned businesses encounter challenges in accessing government business opportunities. This is consistent with the analysis where only a few (16.52%) formally registered women-owned businesses were identified. Notably, despite the government efforts to improve access to government procurement opportunities for women through the Access to Government Procurement Opportunities - AGPO, registration of the firm is a requirement to gain access to government procurement and business opportunities. Most female-owned businesses miss this business opportunity due to the requirement that women-owned businesses need to have a certificate of registration to transact with the government.

Access to credit

Access to credit has been a challenge for businesses run by women. Businesses with a female owner have a lower likelihood of obtaining credit than businesses with a male owner operating in the same sector. Most female-owned businesses are not formally registered, and this limits their ability to raise the necessary collateral for credit access.

Further, the analysis of MSME survey data of 2016 shows that access to credit had a significant effect on domestic trade participation among firms owned by women. Indeed, access to credit matters more for both female-owned and male-owned firms to grow and participate fully in domestic trade. It was noted that female-owned firms were less likely to secure credit compared to male-owned firms operating in the same industry. Particularly, a female-owned firm is 0.49% more likely to participate in domestic trade if the firm had access to credit. This demonstrates that if credit is made available, women are much more willing to access available trade finance to support their businesses.

While appreciating government programmes such as the Women Enterprise Fund (WEF) in providing subsidized credit to women entrepreneurs for business development, WEF loans have limited access because they require women to be members of a registered group to access credit. Women who own businesses but are not members of registered women's groups may be excluded because of this requirement. This demonstrates the importance of making trade finance more accessible and affordable to support women participation in domestic trade.

Innovation

The degree to which a firm implements or develops product and technological changes or improvements is a critical factor in determining a firm's productivity and competitive advantage in the domestic market. Globally, female-owned firms have low innovation potential compared to male-owned firms. The World Bank (2019) found that majority of female-owned firms tend to engage in roles that have minimal utilization of technology, such as hairstyling, restaurants, hotels, retail shops, and wholesale outlets while male-owned firms are more likely to be in manufacturing where innovation is prevalent. This claim by the World Bank is supported by data showing that female-owned firms in Kenya spend approximately 0.1% of their sales on process innovation and approximately 0.2% on product innovation, whereas male-owned firms spend slightly more on process (0.7%) and product (0.3%) innovation. As a result, evidence shows that 64.6% of male-owned firms own their goods and services in the domestic market, while only 35.4% of female-owned businesses sell to the domestic market. This disparity in domestic trade participation can be explained in part by the difference in levels of innovation between firms owned by men and those owned by women.

Conclusions and Policy Implications

There is evidence that women-owned enterprises participate less in domestic trade than male-owned firms. Participation of women owned firms in domestic trade is significantly explained by their ability to formalize their businesses and access credit. In addition, innovation plays a key role in enhancing the ability to effectively participate in the domestic market. While the cost of business registration may be a deterrent for women-owned businesses, failure to formalize their enterprises prevents them from fully participating in domestic trade and from doing business with certain consumers, such as public institutions, and miss out opportunities under the AGPO. Access to credit is another factor that explains women-owned businesses engaging in domestic trade. While it is evident that women-owned businesses are more likely to use trade financing, the inability of these businesses to access credit because they do not have necessary collateral and their legal status is not clear has prevented them from taking full advantage of domestic trade opportunities. Furthermore, innovation could enhance viability of these businesses and, in effect, improve their creditworthiness and enhanced market access.

In light of this, the following policy recommendations are made:

1. There is need for the National government through the ministry in charge of trade and enterprise development, business registration agency and county governments to fast-track the implementation of business registration reforms provided on ease of doing business. The full implementation of business registration reforms will benefit women-owned businesses and increase their participation in domestic trade because they are targeted at easing the doing of business.

2. To unlock credit accessibility, it is important that women-targeted credit programmes have flexible and affordable collateral to facilitate securing credit. To meet the financial needs of women-owned firms, the scope of loan products offered by the Women Enterprise Fund also needs to be reviewed.

3. There is need for targeted incentives to support innovations among female-owned firms that could support development of new and attractive products for the domestic market. This will not only help female-owned firms embrace innovation, but also address the gender innovation disparity in Kenya between firms with male and female owners.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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