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# PROFESSIONAL INSIGHTS

## Strengthening access to finance for women-owned SMEs in developing countries

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### Abstract

**Purpose** – The purpose of this paper is to highlight key trends, challenges, and opportunities for advancing women's entrepreneurship and increasing their access to finance.

**Design/methodology/approach** – Due to their high-growth potential, women-owned SMEs in developing countries are of particular interest. The International Financial Corporation and McKinsey built a detailed database for micro-, small-, and medium-sized enterprises. The data derived from the readily available global data sets provide coverage of a large number of countries and national statistics.

**Findings** – Since financing is an important means by which to pursue growth opportunities, addressing the specific needs of women entrepreneurs (WE) in accessing finance must be part of the development agenda.

**Practical implications** – This paper offers valuable practical insights to policy makers to establish a supportive, enabling environment that will facilitate access to financial services for WE in their respective countries; lead efforts to identify, evaluate, and support the replication of successful models for expanding financial services to WE; and lead efforts to gather gender-disaggregated data on small-, and medium-sized enterprise finance in a coordinated fashion.

**Originality/value** – The value of this paper is that it offers insightful information about key trends, challenges, and opportunities for advancing women's entrepreneurship and increasing their access to finance.

**Keywords** Gender, Entrepreneurs, Finance, Developing countries, Women-owned SMEs

**Paper type** General review

### Rationale

The rationale for highlighting the issue on the access to finance of women entrepreneurs (WE) is that while there are about 8-10 million formal women-owned small-, and medium-sized enterprises (SMEs)[1] in emerging markets (representing 31-38 per cent of all SMEs in emerging markets), the average growth rate of women's enterprises is significantly lower than the average growth rate for SMEs run by men (Bardasi *et al.*, 2011; Nichter and Goldmark, 2009; Mead and Carl, 1998). Access to finance is repeatedly



identified as a major constraint to WE (Bardasi *et al.*, 2011; Blanchard *et al.*, 2005), and, therefore, the issues involved in improving access to finance for women-owned businesses is the central issue highlighted in this paper. It also aims to identify scalable financing models that can be replicated in emerging countries looking to increase the opportunities of women-owned businesses as those nations further develop their private sector.

### **Why WE matter**

WE make significant contributions to their economies. In developed and developing economies, women are starting businesses at a faster rate than their male counterparts and are making significant contributions to job creation and economic growth. It is estimated that there are about 8-10 million formal SMEs with at least one woman owner in developing countries (International Finance Corporation (IFC), 2011). Although these numbers are impressive, WE are constrained by barriers such as limited access to finance, which impedes both growth and development. In addition, women tend to face issues of rights and voice. Such barriers create distortion and often result in a situation where women's economic activities are under-resourced and undercapitalised, thereby reducing the overall aggregate output and inhibiting economic growth. Understanding the barriers women's businesses face and providing solutions to address them is necessary for countries to further leverage the economic power of women in order to promote growth and the attainment of development goals.

### **Importance of WE access to finance**

Access to and cost of finance is often ranked as one of the most constraining features of the business environment by SMEs (Beck, 2007). Several recent studies find evidence that minority- and women-owned businesses face discrimination in loan approval and interest rates (Asiedu *et al.*, 2012; Blanchard *et al.*, 2008; Blanchflower *et al.*, 2003). It is also suggested that women are being asked for more collateral than men for loans, being charged higher interest rates, and being refused loans more frequently than men (Hertz, 2011).

Financial access enables existing firms to expand by helping them to exploit growth and investment opportunities. In particular, access to finance contributes to growth through the entry of new firms and the creation of a thriving private sector with efficient distribution of resources, and is particularly good for firm growth, especially for small businesses. Increasing access to finance for women business owners is a sound strategy for financial institutions as they look to increase their business with SMEs. The response to women's lack of access to finance has largely been focused on increasing women's access to microcredit. However, as WE grow, they need financial products and services that go beyond microcredit.

### **Financial barriers to the access of WE to finance**

The businesses of WE appear restricted in their growth paths. Among the characteristics of WE and their enterprises are:

- (1) women's entrepreneurship is high, but it is skewed towards smaller firms (Hundley, 2001);
- (2) the choice of enterprise/economic activity tends to be concentrated in less profitable and traditional industries in lower value-added sectors;
- (3) WE are more likely to be in the informal sector, running smaller firms; and
- (4) women are more likely to be home-based and operate within the household.

### **The way forward through innovative approaches**

Too often, financial institutions in less developed and less competitive markets do not know enough about the market opportunities that low-income clients and WE could present to them. The following highlights successful ways of targeting WE and the potential markets they represent. Examples include:

- (1) Training combined with expanded access to finance.
- (2) Programmes that promote and increase joint property registration to benefit women borrowers.
- (3) Public sector initiatives that encourage private sector lending to WE and equity funds, to address the constraints women face when starting up a new business.
- (4) Initiatives that address financial institutions risks in serving the women's market. Initiatives that have proven profitable and successful for financial institutions include credit lines, and partial credit guarantees that are combined with capacity building to enhance the skills of WE in running their businesses, and education of commercial banks on the needs of WE.
- (5) Modern collateral provisions, which significantly increase lending secured by movable assets, thus benefiting women disproportionately.

With access to finance a significant barrier to SME growth, particularly for women-owned businesses, expanding financial inclusion is an important policy goal. Women continue to be underserved by financial institutions. The impact of more limited access to finance not only impedes women's ability to grow their businesses; it can also restrict the type of business they begin in the first place and thus their future potential.

### **Suggested actions and policy recommendations**

To ensure that the access of WE to finance is given due attention within the broader SME financial agenda, a threefold action plan is set out:

- (1) Endorse a set of recommendations for policy makers in the developing world to establish a supportive, enabling environment that will facilitate the access of WE to financial services in their respective countries. Among the suggestions are:
  - develop country-specific diagnostics and strategies to include gender dimensions in the financial inclusion agenda;
  - develop supportive legal and regulatory environment framework;
  - increase women's legal access to property, improve access to collateral and control over assets, strengthening their incentives, and ability to grow a business;
  - encourage formalisation by simplifying the procedures and reduce the time and cost needed to register a business, which is associated with the increasing numbers of firms being registered;
  - expand financial infrastructure, such as credit bureaus and collateral registries that can increase access and reduce the costs of borrowing;

- strengthen SME access to small claims courts and alternative dispute resolution mechanisms;
  - build capacity of financial institutions to better serve WE;
  - expand research into the most effective ways to combine access to finance and business training;
  - design effective government support mechanisms;
  - appoint a national leader/champion for women SMEs;
  - build more inclusive public-private dialogue processes by empowering women's networks and associations to actively participate in the policy dialogue;
  - strengthen WE' human capital by developing entrepreneurial education and training opportunities that are better aligned with the specific needs of WE; and
  - consider providing incentives and specific goals for increased procurement by government of goods and services for women-owned enterprises within their countries.
- (2) Lead efforts to identify, evaluate, and support the replication of successful models for expanding financial services to WE.
- (3) Lead efforts to gather gender-disaggregated data on SME finance in a coordinated fashion. This can be done through:
- building consistent and reliable gender-disaggregated data sources on women's businesses and access to finance;
  - collecting gender-disaggregated data on access to finance, national financial authorities should differentiate among types of financial services;
  - facilitate computerisation and online registration of businesses; and
  - include gender-disaggregated questions on access to finance in national surveys.

### Concluding remarks

The study reveals that funds are not easily available to WE. This is in line with many studies of WE in developed and developing nations (e.g. Coleman, 2002; Carter *et al.*, 2006; Roomi and Parrott, 2008; Ahmad, 2011). Financial institutions should not discriminate against women business owners solely because they are women. Specific requirements for eligibility and procedure for application and approval of financial assistance need to be reengineered to encourage and promote the development of the businesses of WE. There is a major need for structural reform to create a situation where flexibility exists. The issue can be reduced by establishing good rapport and proper coordination among WE and financial institutions. This indicates that the role of interpersonal behaviour could be significant in dealing with such issues. Building an environment of business and personal networks, awareness, and trust is necessary to make progress in this regard.

Future details and further explanation can be found on the organisation's web site at: [www1.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/home](http://www1.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/home)

## Note

1. The definition of a women-owned SME is based on the enterprise survey definition, which asks whether at least one of the owners is female, or whether any of the females are owners.

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