T20 Policy Brief

Task Force 1
**Macroeconomics, Trade, and Livelihoods: Policy Coherence and International Coordination**

# ENSURING ACCESS TO FINANCE FOR WOMEN ENTREPRENEURS

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# Abstract

Relatively few financial institutions consider women-led businesses an attractive and profitable target segment, while others often struggle to understand the needs of women-led businesses and thus miss potentially profitable opportunities to develop and deliver women customer-centric services. Impediments to more inclusive financial products, services and support include: the paucity of gender-disaggregated data; incorrect or misaligned incentives for policy implementation; absence of a gendered approach to designing products, services and delivery mechanisms; and gaps in regulatory or legal frameworks that inhibit women entrepreneurs' access to finance. This Policy Brief argues for an integrated approach to ensuring that service providers understand the value of this market segment and provide women entrepreneurs appropriate products and services that fit their specific needs. It suggests using a gender lens and following a process of stakeholder consultation to ensure that the policies adopted are evidence-based and contextualised appropriately, drawing on an integrated and multilevel view of the ecosystem within which they operate. It also draws on evidence from various countries to support policy recommendations designed to promote more equitable access to finance.

# The Context

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The gender-finance gap persists globally despite women entrepreneurs making significant contributions to economic growth and social development. Supporting women entrepreneurs helps create new jobs while generating societal benefits. Expanding financial inclusion for growth-oriented, women-owned small and medium enterprises (SMEs) is critical for sustained economic success. Evidence shows that women-led firms are more likely to have sound management practices in place and are more willing to introduce new products and innovative solutions, particularly in developing economies.[1] Moreover, research suggests that women-led companies often have higher environmental, social and governance scores, which improve firms' evaluations and how these are perceived by investors and clients.[2]

Investment in women-led businesses can have significant spillover effects. For instance, women-led firms have been found to invest more in human capital and attract (and retain) more women, positively impacting women's employment,[3] reducing gender disparities and promoting more inclusive growth. This is particularly relevant in the aftermath of various global shocks. Failing to fully leverage women's potential comes at economic and social costs for all.

Banks in some countries are stepping up efforts to increase access to finance for women. Seventy percent of the banks surveyed by the European Investment Bank (EIB),[4] have gender strategies in place and sponsor women- and gender-focused initiatives in the community—10 percentage points higher than the previous year's EIB's survey results. Furthermore, 59 percent of the banks offer financial services and products that focus on women. Needless to say, banking on women can be profitable for financial institutions. The 2022 Finance in Africa[5] survey dispels misconceptions related to women and asset quality – almost 30 percent of the banks surveyed observed no difference in default and non-performing loan rates (NPL) between men's and women's portfolios. In addition, 40 percent of the banks found that non-performing loan rates for women-led businesses were lower than the average NPL rates of their loan portfolios.

Experience in the microfinance sector, which has a portfolio size of nearly US$133 billion,[6] has proven that women are creditworthy. Devising pathways for their graduation into the SME sector can create significant business potential for the financial institution (FI) ecosystem and strengthen the triple bottom line significantly.

Despite this evidence, women entrepreneurs face constraints to starting and growing their businesses due to limited access to working capital and business loans. According to the World Bank's 2021 FINDEX:[7]

- Women are 15 percent less likely than men to have bank accounts at formal financial institutions (Findex).
- Women are 20 percent less likely than men to have borrowed formally from financial institutions (World Bank).
- It is estimated that 68 percent of women-owned SMEs with credit needs are unserved or underserved (IFC).
- The finance gap for women-owned micro, small and medium enterprises (MSMEs) is valued at roughly US$11.7 trillion (the World Bank).

Research conducted by the European Investment Bank confirms that women-led start-ups and scale-ups are still rare globally.[8] Evidence from advanced economies highlights the disparity between male and female entrepreneurs. Women entrepreneurs account for 23 percent of the founders in the US, 20 percent in the UK, and 11 percent in the EU. Moreover, financing sources for women entrepreneurship are less diverse when compared to those available to men. Women-owned companies tend to rely more on financial support from family and friends. Although, at start-ups, women entrepreneurs may have access to finance via grants to get businesses started, such support tends to dwindle with time.[9] Access to venture capital is also limited; all-male founding teams received 93 percent of all the capital invested.[10]

Despite constituting over 60 percent of the agricultural labour force in India, women own only 14 percent of agricultural land.[11] The credit-to-deposit ratio for women is often lower (27 percent) than that for men (52 percent); perhaps, this is because women seek less credit or that regardless of their savings, access to credit is restricted due to lack of collateral. A vicious cycle ensues as women may not demand more credit because they will not receive it, and they may not get more credit because they do not demand it. Even adding credit from microfinance institutions (MFIs), which primarily target women, loans to women represent only 28 percent of the total credit from banks and MFIs to individuals.[12] A US$42 billion gender gap in access to finance in the labour market costs sub-Saharan Africa US$95 million each year.[13] Lower levels of financial inclusion for women also prevail in the Indian economy: women not only lag behind in basic indicators, such as percentage of men and women using deposit accounts, but also face a wider gap when it comes to debit card ownership. Borrowings are low despite various targeted interventions from both government and FIs.

# The Challenge

# 2

Closing the global gender finance gap for entrepreneurs will require a range of policy and market adjustments, including tackling demand- and supply-side issues.

**Demand-side factors** include women's limited financial knowledge and literacy. Studies in France found that 10 percent of women entrepreneurs approach banks for support, about one-third less than their male counterparts.[14] Moreover, social and cultural norms can limit women's access to financial services. These include: lack of access to affordable childcare; disproportionate roles and responsibilities in households which increase time poverty; lack of (women) role models and generally, smaller business networks of women.

**Supply-side factors** include financial institutions' limited understanding of the business case; limited knowledge and technical knowhow to better serve the unserved and underserved women's market; and lack of suitable products that respond to the specific needs of women entrepreneurs. Moreover, too many leaders in the financial services sector believe that there is no difference between men and women when it comes to accessing financial services. Women are also typically under-represented in the leadership of financial service providers.[15]

Research conducted in the Western,[16] sub-Saharan African (SSA),[17] South and East Asian[18] economies have found that the challenges are particularly acute for women-owned businesses in places where systemic economic and social factors perpetuate women entrepreneurs' limited access to finance. These factors include:

a. Lack of product design, based on gendered market research carried out by FIs, leads to general products that are not necessarily suited for women-owned SMEs.

b. Lack of gender-disaggregated data makes it difficult for FIs to track financial inclusion metrics, such as asset ownership and credit access. Gaps in data impede identification of existing gender disparities and formulation of policies and products to close the inclusion gap. Even FIs that collect data about customer gender lack information about the types of products accessed, behaviours exhibited in various product categories or what types of financial services (e.g. branch visits, digital banking and ATMs) are used by whom. This makes it difficult for FIs to design both products and channels suited to meet the unique needs of women entrepreneurs.

c. There is general awareness among South African FIs that financial inclusion is a catalyst for advancing women's economic empowerment; yet this does not translate into development of financial service value propositions, targeting women. This may be attributed to the paucity of data on women's economic empowerment (WEE) and poor understanding of how WEE is linked to financial inclusion in practice. Also, South African FIs claim to have gender quotas and capacity-building incentives in place, but these often do not have dedicated women's financial inclusion policies since they are not required by the regulatory framework.[19]

d. Inappropriate risk assessment model: Research reveals that most FIs – while acknowledging that women are better risk candidates when applying assessment models – assign greater risk to women-led businesses. Research has found a number of reasons for this:[20]

   i. Most women did not own collaterals in their own names and needed co-signees or guarantors, which added an extra element of risk. While the Reserve Bank of India (RBI) does not specifically mandate male co-signees, property owners tend to be men.

   ii. While it appears to be largely believed that women are generally more risk-averse than men and thus better at repayment, the flip side is that women may be more likely than men to use the loans, meant for income-generating purposes, for consumption needs, as they are the ones primarily responsible for looking after home.

   iii. FIs also found that it was relatively harder to obtain credit scores for women. Women have proven savings ability and creditworthiness through self-help groups (SHGs), many of which are informal. However, since SHGs do not report individual credit data, women are not able to use this information to their own advantage to obtain credit in the absence of proxy creditworthiness data collection and assessment.

e. Internal process barriers faced by financial institutions:

   i. Banks must meet regulations on collateral and guarantee requirements.

ii. Banks use traditional evaluation and assessment processes instead of qualitative ones; these can be disadvantageous to women-owned businesses because of built-in social biases. For example, they often do not factor in the differential loan amounts or repayment terms that women-led businesses may need or they may have minimum ticket sizes that are too high and therefore, not profitable for women. New-age fintech can help, but such channels need to be checked for biases as well.

f. Lack of staff sensitisation and gender budgets: Often, staff at FIs do not receive gender sensitivity training, which is important in countries where traditional social structures demand a gender-sensitive approach. This can make it difficult for women as individuals to access finance. Research indicates that in sub-Saharan Africa, FIs are often still struggling to place women in managerial positions, which will most likely have an effect on their gender policies.

g. Communications are, generally, not gender-responsive and media and materials feature fewer women role models. Furthermore, banking procedures and technology can be complicated and not user-friendly. This can discourage users, especially women, who may feel intimidated or embarrassed by their inability to navigate these systems.

i. Most FIs interviewed as part of a study by Sampark[21] did not appear to have strategies to understand or design systems or products to account for these realities. Apart from institutions that work only, or largely with women clients, most FIs appear to have a limited understanding of the differences between male and female enterprise clients' outreach needs.

h. Non-financial support: Research conducted in India[22] highlights the need for networks to support women entrepreneurs in the areas of supply chains, branding, market discovery, etc., as women often do not have the same access as men to networks.

# The Role of G20

# 3

SMEs account for about 90 percent of businesses and more than 50 percent of employment worldwide and are, therefore, crucial for the recovery of the world's economy. In 2015, the G20 leaders endorsed the G20 Action Plan on SME Financing and encouraged non-G20 countries to fully develop credit infrastructure for SMEs and improve SME financial capability through targeted learning and support interventions that promote competition in an enabling regulatory environment.[23] Therefore, while responding to the far-reaching impact of the COVID-19 pandemic on the global economy, particularly on sectors where women are under-represented and face significant barriers to accessing business financing, the G20 has a huge opportunity to demonstrate its commitment and leadership by implementing the Action Plan.

# Recommendations to the G20

# 4

## Policy – The Finance Ecosystem

Based on a report on supply-side challenges,[24] widespread evidence shows that the design and implementation of innovative financial services to meet the financing requirements of women-owned SMEs require concerted policy incentives and concrete steps to:

- acknowledge and account for the profitability and economic viability of women-owned SMEs and recognise the fact that the financial composition and requirements of corporate clients vary; therefore, innovations in services and products must respond to client needs by:

  a. developing innovative products that leverage the SHG model for servicing certain categories of women-owned enterprises;

  b. training and incentivising SME relationship managers to promote and deliver more inclusive products and services that reflect the value/needs of women-owned businesses as clients; and

  c. increasing women's representation in senior banking roles and on boards;

- develop diversity training and criteria for accreditation of SME bankers to promote a more inclusive understanding of client needs and service delivery, informing product options (loans, investments, insurance, digitisation) suited for women;

- work with women SME entrepreneurs to expand their access to equity, angel and venture capital financing;

- collect gender-disaggregated data – this is especially critical for initiatives, such as the financial inclusion index, and will require strong advocacy campaigns with key nodal agencies to ensure routine data collection;

- collaborate across financial and non-financial institutions to create a supportive network for women in business throughout the process – business research, strategy, finance, marketing, etc; this should be formalised as women often do not have access to the informal networks that men have access to; and

- diversify business intelligence networks and incorporate mechanisms to facilitate data-sharing – for example, build a repository of systematic credit history information that FIs may use for borrower risk assessments.

## Policy – Government's Role in the Ecosystem

Government policies for ensuring access to finance play a very important role in channelling loans towards women-owned enterprises. If governments encourage banks to lend to women, -including through (real) risk appropriate interest rates, blended finance and provision of guarantees/risk sharing facilities and low-cost, longer duration refinance to formal financial institutions, then banks will be incentivised to extend more loans to women-owned and women-led enterprises. In the absence of such incentives, bank processes and systems may remain gender-blind. However, these incentives can only be implemented alongside rigorous monitoring of gender-disaggregated data, which needs to be prioritised for evidence-based policy formulation.

If FIs are to be encouraged to lend more to women entrepreneurs, the relevant ministries and nodal agencies will also need to allocate funds to support institutions extending non-financial services to women and to set up guarantee schemes to support FIs. FIs can also be encouraged to support non-financial services via corporate social responsibility (CSR) initiatives. Putting in place a holistic ecosystem can lead to a mutually beneficial situation for all stakeholders. Governments will be able to target their schemes more effectively, the risks for FIs will be reduced, and women entrepreneurs will have access to increased credit.

## Policy – Building on Success Stories

Annex 1 provides an example of how incentives built into policy led to an exponential rise in women's financial literacy, access to finance and business growth through SHGs.

The success of SHGs in India, in terms of extending loans to women's enterprises using a group methodology, can be largely attributed to the government policy to promote the groups and their bank linkages.[25] In 1991, the Reserve Bank of India mandated the eligibility of low-income women SHGs. Over the past 30 years, this has resulted in India having the largest SHG-bank linkage model in the world, with over 11 million SHGs linked to banking services.

Other developing countries can follow this example to promote a model that offers affordable finance to low-income women. The SHG model may be adapted to suit the needs of a country and the context.

Women's access to business financing covers a spectrum, from group-based finance to individual nano, micro, small and medium women's enterprises. FIs face internal and external barriers as well as significant variations in cost efficiency while extending formal enterprise finance to women in MSMEs. Changes are needed at the structural, policy and organisational levels to overcome these barriers, increase incentives, and enhance the provision of finance to women MSME entrepreneurs. Proven good internal practices and learnings need to be adapted and mainstreamed for wider acceptance and implementation. For this to be effective, the needs of FIs and their clients must be taken into account. Stakeholders need to be sensitised through dissemination of research and participatory dialogue.

# Appendices

## ANNEX 1

### Self Help Groups (SHGs) - A success story from India - an example of how incentives built into policy led to an exponential growth in women's financial literacy, access to finance and business growth

Recognizing the potential of Self-Help Groups (SHGs) to promote small savings, access to basic and formal financial services, and protect the vulnerablefrom informal lending, NABARD (National Bank for Agriculture and Rural Development) initiated and formalized the SHG-Bank Linkage (SBLP) Programme in the 1990s. This contributed to a significant rise in the number of SHGs from 637 in 1994 to 11.2 million in 2023.. Of these, over 86.6% are all-female SHGs and about 51% have formal loans outstanding with financial institutions. Research suggests that as income improves, business grows and there is a transition from self-help group loans to individual loans. This is often facilitated by NGOs or women-focused banks, and it is unclear if this transition will take place without their support. Besides, female ownership of enterprises starkly reduces in prevalence as the scale of the enterprise increases. For female members of SHGs, the transition to individual loans, with or without collateral, continues to be largely non-existent. Some exceptions are from SHPIs (Self Help Group Promoting Institution, India), such as the SEWA (Self Employed Women's Association),) where staff make a special effort to help women obtain bank loans as individuals, not just as SHG members.[25]

## Endnotes

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