Financing Women's Enterprise in Africa

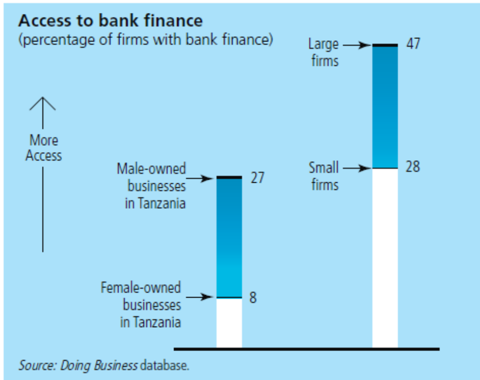
Briefing Note

Author: Vanessa T Erogbogbo
Tel: +447981962556 Email: Vanessa_tadria@yahoo.co.uk

More than 50 countries and over 1bn inhabitants; Africa's financial markets are diverse. Nonetheless, this briefing note attempts to provide a succinct overview of the trends and status of financing for women owned businesses on the continent.

The Status of Women's Access to Credit

Access to finance is critical for private sector growth and yet remains a key constraint for Small and Medium Enterprises (SMEs) in developing countries. According to the World Bank, more than half of private firms in emerging markets have no access to credit, with up to 80% of firms in the Middle East and sub-Saharan Africa unable to access credit.

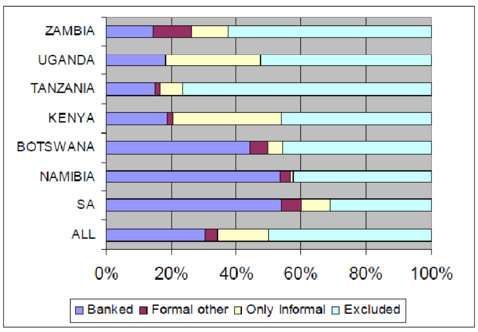


(Doing Business in 2005; Removing Obstacles to Growth, 2005)

Women entrepreneurs make a significant contribution to GDP, comprise a large proportion of SMEs and yet receive a substantially lower proportion of credit. In Uganda for example, where women contribute 50% of GDP and own 39% of registered businesses with premises, they only receive 9% of available bank credit[1].

Empirical evidence shows that women reinvest more of their income on family welfare (nutrition, health and education) than men, therefore directly impacting poverty reduction[2]. Furthermore, experience of Microfinance Institutions and anecdotal evidence from financial institutions demonstrates that women are a comparatively good credit risk. As such it is clear that improving women's access to finance is more than an important development imperative, but is also a business opportunity.

Finscope Surveys – Cross country comparison (2007)



What Are the Key Issues

Financial Institutions are seeking portfolio growth and to maximise their profit opportunities; and SMEs require credit. So why are so many women owned SMEs unable to access commercial finance; where is the disconnect?

Only one country in sub-Saharan Africa (Botswana) affords women equal legal rights, the lack of which directly affects their opportunities as entrepreneurs

[1] Ellis, Amanda, Mark Blackden, and Clare Manuel. 2005. *Gender and Economic Growth in Uganda; Unleashing the Power of Women*
[2] Coleman and Carsky (1996); Coleman (2000); Orser, Hogarth-Scott and Riding (2000).

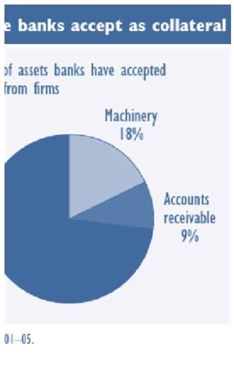
and employees[3]. Women are disproportionately affected in their ability to access finance because in some countries they have less ownership and inheritance rights over movable and immovable assets that can be used as collateral. They are also likely to have less experience dealing with banks, less knowledge and education, lower confidence, a relative lack of established professional networks, limitations to accessing services and in some cases are deterred by cultural norms.

"Relationship lending is probably the best umbrella term to describe the tailored investment in credit appraisal, the flexibility of response to excusable delinquency, and the imaginative approaches to renegotiation and recovery that are needed to be a successful lender to the middle market in Africa." (Honohan & Beck, 2007)

Some of the key structural elements (simply put) of African financial markets that act as barriers include:

- ***A paucity of historical credit data as a key indicator of credit worthiness***, leading to the inability of lenders to use reputation as an element of collateral.

- ***Weak secured transaction regulations*** leading to limitations to forms of collateral accepted by financial institutions. Weak regulations limit the legal rights of lenders to realise security and enforce contracts



- ***High Cost of capital*** caused by high wholesale rates reflecting macroeconomic uncertainties like exchange rates and inflation; high interest rate spreads that are a factor of high transaction costs and risk premiums

And at the institutional/firm level:

- ***Lack of the collateral required by banks to secure credit***; an issue facing most SMEs and especially women owned businesses
- Focus groups have revealed that there is a ***poor understanding by women entrepreneurs of what the banks require***, and by the banks of how best to serve the women's market.
- ***Weak business and financial management skills*** in keeping with the expectations of financial institutions
- ***Lack of established networks*** and access to business support associations
- ***Limited knowledge of where to access basic information*** to enhance business performance

[3] Women, Business and the Law (2010)

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Women Entrepreneurs Should be Targeted Specifically

Despite contributing around 50% of GDP, women are much underrepresented in the formal banking sector and proffer an untapped opportunity. This coupled with the differences in the way women access financial services would suggest that targeted approaches to the women's market make sense. Furthermore, there is sufficient evidence to demonstrate that banks specifically targeting women have successfully established good quality portfolios.

Research has shown that women have different attitudes towards finance and risk, their use of bank products is different from that of men and that they are less likely to switch providers of financial products.

It is also interesting to note that women tend to be better prepared by the time they approach the bank and are therefore less likely to be declined on application than their male counterparts. They are however less likely to apply for a loan. Data from UK research[4] illustrates this point and is corroborated by anecdotal evidence from bank officers across several countries in Africa including Uganda, Tanzania, Ghana and Nigeria.

The benefits to banks of targeting women include:

- Customer loyalty; women tend to be more loyal and are less likely to switch providers
- Word of mouth marketing; women tend to talk more about their experiences, good and bad
- Lower risk; empirical evidence in microfinance and anecdotal evidence from commercial banks point to better than average repayment rates from women borrowers
- Portfolio growth; by establishing a new segment/business line
- Portfolio diversification
- Innovation; experience has shown that new products and services created for women clients benefit the wider client base
- Social license to operate; enhanced reputation with the community in which the financial institution operates and with policy makers
- Differentiation from competitors

Who Needs To Do What

The issue of financial access is complex and requires the intervention of multiple stakeholders.

- At the centre of it all, financial institutions to innovate new products/services, advocate for better legislation and provide credit services
- Government, to provide adequate infrastructure required to deliver financial services for example by ensuring legislation provides for contract enforcement and property rights, clear financial sector legislation (e.g. leasing laws)
- The private sector to shape the nature of legislation implemented and financial services on offer
- A range of regional/international development organisations to act as honest brokers, undertaking advocacy, providing technical expertise, financial resources and bringing together the efforts of all parties

[4] Global Entrepreneurship Monitor UK adult population survey, 2007

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A mixture of short term and longer term strategies are required. Currently yielding immediate positive results are direct interventions by financial institutions with the support of development organisations. Sustainable programmes combining finance (credit lines, partial credit guarantees etc), capacity building for entrepreneurs and bank officers, service enhancement, new products, partnerships with third party stakeholders like women entrepreneurs associations, peer mentoring, professional networks and various other elements depending on the market and the finance provider have been implemented and have proved successful.

Legal reform is also required to deal with some of the issues at the root of women's inability to access finance; impact of this may take longer to become evident given the nature of reform. First and foremost, to level the playing field between men and women by eliminating inequitable laws that do not afford women the same rights as men. Secondly, (and work is already underway across the continent) to build credit information infrastructure:

- Credit bureaus, to enhance financial institutions ability to assess borrowers and drive down transaction costs. For women entrepreneurs, collection of data from microfinance institutions (the majority of whose clients are women) will have a major impact in terms of their ability to grow and access larger facilities from commercial banks. It should be noted that Africa is the region where the smallest percentage of economies have small claims courts or credit bureaus that collect information from microfinance institutions.
- Collateral registries, to broaden the scope of assets accepted as collateral by financial institutions.

Vanessa T Erogbogbo, is an independent consultant specialising in access to finance and enterprise development for Small & Medium Enterprises, with a focus on women owned businesses. ***vanessa_tadria@yahoo.co.uk, Tel: +447981962556.***