The Commonwealth

Inputs for the Elements Paper on Financing for Development –

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Policy framework and financial products designed specifically for Women-owned MSMEs

The deficiency of financing for development is deeply rooted as a shortcoming of the global financing system. Today, one of the major challenges to the growth and development of women-owned MSMEs is their limited access to finance.

Women-owned MSMEs and women entrepreneurs significantly contribute to the socio-economic growth of developing countries improving through trade. In turn enhancing to human development indicators such in healthcare, education and the standard of living. A case in point - the cotton textile industry in sub-Saharan Africa that is dominated by women, generates US$31 billion annually.[1] This is just one sector, in most developing countries women have built thriving businesses in certain sectors that are typically for women – namely food processing, skincare, fashion and design, restaurants to mention but a few. In the UK for instance women led businesses are concentrated in the well-being and social care sector[2].

Although women account for one-half of the world's population, their contribution to global GDP is limited to about 37% conversely, their inclusion in the global value chains across sectors can boost countries' GDP by nearly 15%.[3] According to [1] World Economic Forum (2019), women entrepreneurs are said to own 22% of micro-enterprises and 32% of small and medium enterprises globally.[4] In East Asia and the Pacific for example, the International Finance Corporation has reported that women own about 50% of the MSMEs (ADB and The Asia Foundation, 2018)[5], a market share too substantial to ignore for economic development.

However, a significant proportion of women-owned MSMEs operate in the informal economy-considering that around 80% of all businesses globally are informal in nature.[6] This hinders their ability to access available finance and government support schemes to start or scale-up their businesses or to meet public procurement requirements. According to ITC (2024), only 1 percent of women owned businesses get government contracts.[7]

Women-owned businesses tend to be concentrated in sectors that have low barriers to entry and do not require large upfront capital investments. For example, in Africa, Asia, and Latin

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[1] IMF (2020). Africa's Gender Gap in Access to Finance for Women, IMF F&D

[2] Women in business statistics: 2024

[3] World Bank (2019). Trade, Gender, Women (worldbank.org)

[4] World Economic Forum (2019). To improve women's access to finance, stop asking them for collateral | World Economic Forum (weforum.org)

[5] ADB and The Asia Foundation (2018). Emerging Lessons on Women's Entrepreneurship in Asia and the Pacific Case Studies from the Asian Development Bank and The Asia Foundation'.

[6] UNCTAD (2022). 'The Covid-19 Pandemic Impact on Micro, Small and Medium Sized Enterprises Market Access Challenges and Competition Policy'.

[7] ITC 2024. ITC-UN Women: Global Campaign on Gender-Responsive Public Procurement | ITC (intracen.org)

America and the Caribbean, around 75% of female entrepreneurs are in consumer-oriented sectors as against 45% of male entrepreneurs.[8] This means that the average growth rate of women-owned enterprises is significantly lower than those MSMEs run by men. One of the major reasons is the limited financing options for women-led businesses seeking larger than microfinance but smaller than small business finance provided by commercial banks or equity type investments. The IFC estimates the global unmet credit gap for women-owned small and medium enterprises as between US$ 1.4 trillion to US$1.7 trillion [9] while the Asian Development Bank has estimated the unmet annual credit for Fijian women-owned MSMEs to be US$ 111 million.[10]

While women- owned MSMEs in developing countries in general do not have much access to formal credit in comparison to their counterparts in the developed countries, they further face several gender-specific constraints both financial and non-financial, that negatively impact their ability to do business. While some of these barriers can broadly be attributed to age-old societal norms that exist in many cultures and societies where women are perceived to only be caregivers and incompetent to start a business. There are also more specific barriers to access to finance and business development that needs a collective global attention and approach.

Some of the barriers that women-led businesses have in accessing finance are:

- Lack of collateral in the form of land or property, which disqualifies women to access affordable loan products. Most women do not possess ownership of land or property either because legal structures do not allow for it or due to customary beliefs. In some cases land tenure system of ownership does not qualify land as a collateral because the ownership is unregistered, so they lack the appropriate title deed to qualify for loans.

- Lack of requisite business development skills including lack of knowledge of business strategy or structure, preparation of business plans, accounting and bookkeeping, pitching to investors etc.

- Financial illiteracy resulting in poor understanding of financial jargon and lack of awareness of microfinance, local bank lending schemes and other financial products available in their regions. This can often lead to women being excluded from the formal financial sector and remain unbanked. According to the World Bank Global Findex Report, in 2021, only 68% of women in developing economies owned a bank account in comparison to 74% of men worldwide (Demirgüç-Kunt et al, 2022).[11]

- Geographical remoteness can result in increased distance to physical banks and other financial institutions or lack of point of access to distribution channels such as cash or banking agents.

[8] women_led_msme_compressed.pdf (mfw4a.org)

[9] Closing the Gender Finance Gap Through the Use of Blended Finance (Accesses 22/10/2024)

[10] Asian Development Bank (2023). Women-Owned Micro, Small, and Medium-Sized Enterprises in Fiji Opportunities and Challenges for Private Sector Financial Institutions'.

[11] These figures exclude the Pacific islands due to the unavailability of gender disaggregated financial data.

- Weak digital infrastructure and low digital technology penetration in rural communities can hinder access to digital financial services. Women are less likely to own smartphones and use the internet as compared to male users.

- Absence or lack of formal identification such as know-your-customer (KYC) documents, lack of business or credit history for new businesses and nascent startups owned by women. Similarly, informal businesses owned by women have weak management structures where operations are untraceable and uncertain, consequently women are often considered as high-risk borrowers.

- In some cultures, Women and girls are not in control of their income and must depend on their fathers or husbands to take financial decision or for permission to open bank accounts. Certain countries might have discriminatory banking requirements to have a male co-signatory while opening accounts.

- Time-consuming and stringent processes to secure a loan discourages a lot of women entrepreneurs.

- Most financial institutions have strong risk aversion to microenterprises, while for some it is a case of underdeveloped financial systems – lacking the capacity to deal in addition to weak credit bureaus, lack of gender-inclusive credit reporting system and gender biasness among loan officers of financial institutions.

To address these issues, policy frameworks should focus specifically on access to finance for women-owned MSMEs rather than a gender-neutral finance policy. International Finance Institutions need to review their architecture to become more responsive to issues affecting women while commercial banks should review their credit policies to be more gender inclusive.

Here are some of the non-exhaustive policy recommendations:

1. **Mainstreaming gender in national trade and financial policies and strategies** including monetary, fiscal and other sector specific policies. This can improve business opportunities to women and encourage women entrepreneur's participation. One of the ways is to include more women in decision-making bodies and in legislative procedures across industries in public administration, public and private financial services.

2. **Incentivise financial institutions to invest in women-owned MSMEs –** In this case governments and state-owned financial institutions will play a major role in developing financial products and services that cater to the needs of women entrepreneurs and that can be channelled through other private sector players. The scope of assets that can be used as collateral must be broadened to non-land assets as most women lack ownership of land or accept smaller and more movable assets and traditional wealth storage mediums such as livestock and gold as collateral. New performance indicators such as percentage of clientele can be used to build business cases and credit history for loan applications. Digital tools and AI can also assist in determining behavioural and consumption patterns and help to identify women who are most likely to repay their loans. In 2011, in Rwanda, mobile phone companies and an electricity and gas company shared information with the country's credit bureau.

3. **Improve access to digital technology and digital financial services** with affordable digital technologies and digitally delivered financial services. The success of Kenya's Mpesa and India's Unified Payment Interface is worthy of study and replication where necessary. Similarly, simplifying and digitalising business registration processes can encourage more women entrepreneurs to formalise their businesses. It is important to make sure that the laws and regulations that govern the financial services industry are robust enough to protect users from any digital financial frauds and gain their trust in going digital.

4. **Imparting financial education** to address the issue of financial literacy among women and girls, financial education must be introduced in school curriculums from a young age. Similarly, women entrepreneurs must be supported with the appropriate financial knowledge and skills to encourage them to open bank accounts and boost their effective engagement in the credit market through financial literacy programs and online business toolkits. Malawi's Pafupi encouraged small savings deposits through banking agents and Nigeria's BETA served as an affordable savings account for low-income women entrepreneurs. With climate change affecting the industries and sectors that women-owned businesses are concentrated in, they should be educated about climate financing as well.

5. **Collection of gender disaggregated data** on MSMEs can increase tailor-made financial services and financial products that can be made available to women-owned MSMEs. Additionally, national policies and strategies can be better implemented.

6. **Supporting women entrepreneurs with skills and training.** Breaking out of the cultural norms will require educating the society about the benefits that women's participation in the economy can bring to their families and overall standard of living. Digital and business development trainings and toolkits, advisory services that are tailored for women and are region or country specific can build the capacity of women entrepreneurs and help them manage and grow their businesses. Incubation centres, accelerator and seed funding programs can go a long way. Women-only financial skills programs can be more effective in certain societies where women might be more comfortable participating when it is women only and are not accustomed to interacting with men outside of their family.

7. **A knowledge and networking platform** such as the Commonwealth Pacific Women's Network, for women-owned MSMEs to serve as a one stop hub for accessing all information related to access to finance.

Overall, trade and investment can indeed improve the social and economic conditions of women, but this entirely depends on the efforts to eliminate the existing barriers that exclude women from contributing to economic activities and the implementation of gender inclusive national policies and strategies.