Chapter 1

Overview

1.1 Introduction

One of the main aims of the Ninth Commonwealth Women's Affairs Ministers Meeting (9WAMM), held in Barbados in 2010, was to highlight and explore the links between securing gender equality and economic development. The need to research and document best practices and modalities on gender responsive investment (GRI) was emphasised in order for gender equitable access to finance to become an effective tool for women's economic empowerment.

In the decade prior to 9WAMM, governments and international institutions had become increasingly aware of the pressing need to develop inclusive financial sectors, widening the opportunity for marginalised poor people to access finance. In particular the Monterrey Consensus, adopted by Heads of State and Government at the International Conference on Financing for Development in March 2002, declared a new global commitment to collective coherent action on the interconnected policy challenges that shape financing for development. UN Secretary-General Kofi Annan stated in December 2003 that 'The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together we can and must build inclusive financial sectors that help people improve their lives' (quoted in Microcredit Summit 2004).

During the global economic crisis of 2008–2009, credit services suffered the most; liquidity began to disappear and the worldwide volume of deposits and loans shrank (CGAP and World Bank 2010). In light of the crisis, governments are seeking new sources of economic growth and development. Financial access is a critical element of this; the bulk of empirical evidence suggests that developing the financial sector and improving access to finance is likely not only to accelerate economic growth but also to reduce income inequality and poverty (World Bank 2008). The Commonwealth Secretariat recognises that sustainable post-crisis recovery can only happen when all parts of society contribute to, participate in and benefit from economic growth.

According to the International Finance Corporation (IFC), 8 to 10 million small and medium-sized enterprises (SMEs) are owned by women in emerging market economies (IFC 2011a). And yet high numbers of women are unbanked and receive a low proportion of credit. Worldwide, 35 per cent of firms have female participation in ownership but only 5 to 10 per cent of women-run SMEs have access to credit and their businesses grow more slowly, on average, then those owned by men (IFC 2011a).[1] While the combined earnings potential of women-run businesses is significant for long-term macroeconomic growth rates, the relatively low levels of enterprise development can be attributed to a number of interconnected issues: lack or minimal access to financial services; low levels of financial literacy; regulatory issues; institutional issues exacerbated by relatively fewer years of formal education and/or work experience; the burden of domestic work, compounded by its exclusion from traditional economic assessments; and the fact the these type of businesses are usually confined to slow-growth sectors. For example, in Malaysia, women-run businesses grow at a rate of 7.83 per cent compared with 9.7 per cent for male-run SMEs (McKinsey-IFC database, based on 2008 data).

Clearly, for GRI to become mainstream governments will require support to identify the policies, laws and regulations that hinder access to finance for women, and financial services providers may also require support to identify and explore opportunities to deliver inclusive products and services for women.

This Handbook seeks to take forward the 9WAMM outcomes and deepen work on GRI.

1.2 Gender responsive investment

GRI is a process of ensuring gender-equitable access to financial services and ancillary investment resources through rigorous assessment of the differing needs of women and men. It is a strategy for ensuring that financial products, policies and programmes are neither gender blind nor biased in their design, implementation, monitoring or evaluation at all levels of engagement in order that women and men benefit equitably and that inequality in the provision of financial services is eliminated.

Additionally, it is recognised that a more equitable allocation of productive resources – including finance – will have greater long-term impacts on sustainable economic development, with long-term benefits for the whole economy. GRI contributes to women's economic empowerment and supports the narrowing of gender gaps generally, particularly in employment and entrepreneurship.

Governments have a critical role to play in creating an enabling environment that supports financial inclusivity for women, while financial institutions can achieve greater outreach to women by understanding the women's market and providing innovative products and services that meet the unique needs of businesswomen.

Research by the World Bank and the IFC supports the premise that the development of small firms bolsters economic development (World Bank 2011b). In order to bridge the gap and foster GRI, there is a need for the establishment of indicators, the collection of sex-disaggregated data and wide-ranging research. An enhancement of skills through capacity building for the broad range of financial sector players and government agencies is also necessary given the historical lack of focus on gender equity as an economic imperative.

1.3 Scope of the Handbook

Women make a significant contribution to the economy but access a substantially lower level of financial services relative to their male counterparts. This has an impact on poverty reduction and growth in gross domestic product (GDP) (given the link between access to financial services and economic growth) and represents a missed opportunity for financial institutions. The key objective of this Handbook is to support policy-makers, financial institutions and business support organisations in Commonwealth countries to formulate policies and initiatives to address the issue by:

i. facilitating dialogue and engagement;

ii. creating an understanding of the barriers women face in accessing financial services;

iii. sharing best practice initiatives through the use of case studies;

iv. putting forward recommendations; and

v. providing broad indicators on how to institute GRI.

The Handbook will also help parliamentarians, high-level policy-makers and financial services providers place GRI initiatives in a broader context. This is an essential element to ensure that the spread of GRI is deepened and widened, resulting in long-term sustainable opportunities for women.

1.3.1 Structure of the Handbook

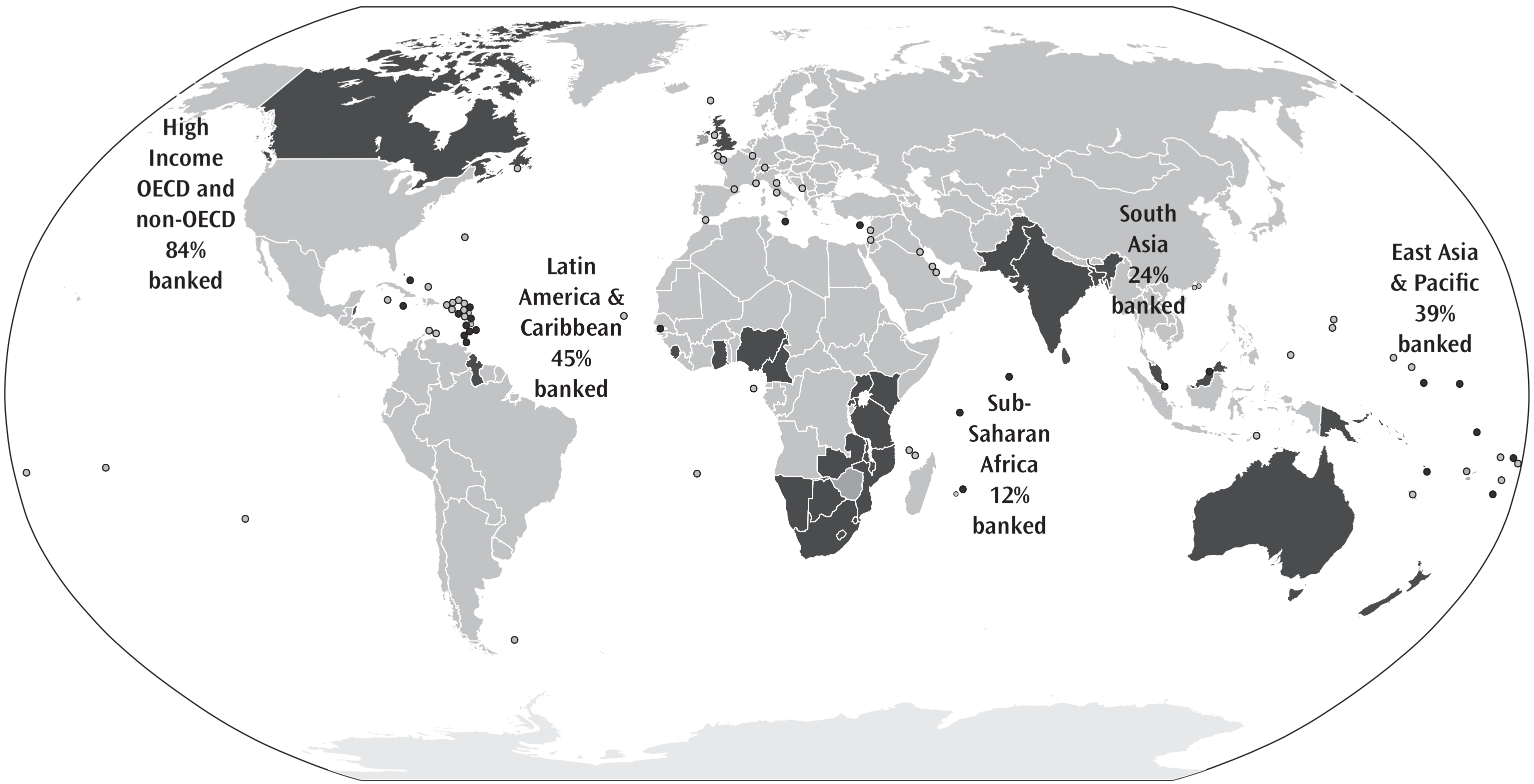
The following section 1.4 establishes the narrative and background to GRI and the rationale for dedicated support to women entrepreneurs. Chapter 2 looks at the state of the policy environment while chapter 3, on the business environment, is targeted at policy-makers and explores the gender dimensions of financial services infrastructure as well as the regulatory barriers that women entrepreneurs face in accessing finance by identifying priority areas, diagnosing the issues and making recommendations to address them. Chapter 4 delves into the role of financial institutions and the interventions they can implement to improve financial access for women's enterprise – from training and internal restructuring to the types of products and services that can be developed.

The Handbook does not focus solely on access to credit but covers access to the broad range of financial services required by SMEs and individuals. This is because credit products are a narrow (and not necessarily mandatory) aspect of financial services needs and non-credit products can be an important entry point into the formal financial sector.

1.3.2 What's not included in the Handbook

The Handbook features limited coverage of microfinance. Microfinance has played a major role in empowering poor women to access basic financial services, with women accounting for 83.4 per cent of the 106.6 million of the world's poorest people now being served by microfinance institutions (Daley-Harris 2009). Indeed there are a multitude of microfinance initiatives within the Commonwealth that have had varying degrees of success. However, consensus has yet to be reached as to the efficacy of microfinance in poverty reduction, with the bulk going towards consumption as opposed to investment. Furthermore, much of the industry relies on grants and subsidies to sustain it; funds that, if invested in other critical sectors such as health and education, may (or may not) deliver a comparatively greater impact. Poor management of

Figure 1.1 Percentage of population within each region that is banked (Commonwealth countries)



Source: Map from en.wikipedia.org/wiki/File:Commonwealth_of_Nations.svg and financial data from World Bank 2009 microfinance services delivered in Andhra Pradesh, India, has resulted in 9.2 million poor women being considered delinquent in their loan repayments. These women now form the largest bloc of blacklisted borrowers in the world; with their credit histories recorded by the credit bureau, they will find it nearly impossible to access credit for the rest of their lives (Legatum Limited 2012). This highlights the high stakes and signals the need for careful regulation of the industry.

Yet, microfinance has helped women entrepreneurs support what are generally low-revenue generating informal sector firms and helped them weather economic downturns. The major challenge to microfinance projects remains scale of coverage. Microfinance institutions often lack commercial viability and, like SMEs, face a restrictive investment climate for sustained growth that is limited in scale to the demands of enterprise development. According to the IFC (2011b), in 2010 microfinance projects were able to address the needs of about 10 per cent of the world's potential 1.2 billion clients.

The financing of large, established firms is also not addressed in this Handbook since the majority of women-owned businesses are SMEs. Research shows that SMEs drive job creation; in a study of 54 economies where SMEs were defined to have circa 200–300 employees, they were found to contribute to approximately 17 per cent of employment in low-income countries and 57 per cent in high-income countries and, similarly, 16 per cent of GDP in low-income countries and 51 per cent of GDP in high-income countries (Ayyagari et al. 2003). It is important to note that the definition of SMEs differs from country to country, is correlated with the size of the economy and is predicated on various parameters including number of employees, turnover and total net assets. One universal characteristic of SMEs is that they are formal businesses.

A 2005 study found that financing constraints reduced the growth of larger firms by 6 per cent on average but by 10 per cent for smaller firms (Beck et al. 2005). More than 40 per cent of large firms in World Bank Enterprise Surveys and Investment Climate Surveys report the use of external finance compared to just over 20 per cent of small firms (Kuntchev, et al. 2012). In addition, SMEs in developing countries are 30 per cent more likely than

Box 1.1 Gender responsive investments, gender responsive budgets and microfinance

The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (2008) established the principle of utilising country systems as the first line of support for efforts aimed at linking aid programmes to the public sector, thus ensuring countries and development partners implement policies in accordance with international commitments on poverty reduction, human rights and gender equality, among other responsibilities.

As a result, public sector financial management and national budgeting processes have become increasingly gender responsive, allocating public resources more efficiently to recognise the differing priorities of women and men.

Microfinance institutions have enabled women to access formal channels of credit finance. Gender responsive budget initiatives, with their focus on gender equality and the principles of non-discrimination, provide a favourable climate for rethinking economic policy by integrating gender analysis into fiscal policies and national budget planning. Together, both initiatives testify to the strong working partnerships needed among governments, civil society, donors, non-governmental organisations (NGOs) and policy-makers to address the financial and resource constraints of vulnerable groups.

However, as women entrepreneurs grow in number, they need financial products and services beyond micro-credit that will allow them to expand their businesses. Also, as governments look to develop their economies and build on their commitments to gender equality and other international protocols, the need to facilitate financial inclusion is now a necessary component of the development agenda.

Well-functioning financial markets develop in countries with strong investment climates, necessitating government and policy support. GRI recognises not just the potential of SMEs for overall economic growth but also the vital role of women as participants in working towards the achievement of gender equality and development.

large firms to rate financing concerns as a major obstacle to growth (Beck 2007). Addressing the financial access issues of the SME segment should have a positive effect on the ability of larger firms to access services as well.

1.4 Rationale for GRI

1.4.1 Women are an economic force

Women make significant contributions to the economy. Worldwide, 35 per cent of micro, small and medium-sized enterprises are wholly or partly owned by women. In the Commonwealth, at the top end of the spectrum this figure can range from 90.6 per cent female-run enterprises in Botswana to 80.9 per cent in Guyana and 73.5 per cent in Antigua and Barbuda in 2010.[2] The most significant obstacle to business development and growth cited is lack of access to finance and land. Yet, there is considerable understanding that women's entrepreneurship is an untapped source of economic growth.

1.4.2 Access to financial services directly impacts GDP growth

The bulk of empirical evidence suggests that developing the financial sector and improving access to finance is likely not only to accelerate economic growth but also to reduce income inequality and poverty. Stronger financial systems can, among other things, promote business start-up, enterprise growth and innovation thereby improving aggregate economic performance (World Bank 2008).

1.4.3 A large proportion of women are unbanked

This means that women receive a substantially lower proportion of credit (see Box 1.2). Research shows that despite women starting and running businesses in record numbers, they remain under-represented in the formal banking system. The Commonwealth is largely comprised of developing countries (41 of the 54 member countries), where a substantial segment of the population is unbanked. In sub-Saharan Africa, only 13 per cent of the bottom 40 per cent of the population in terms of income have an account at a formal financial institution compared with 25 per cent in Latin America and the Caribbean and 26 per cent in South Asia.[3] Regardless of regional disparities, women continue to be disproportionately affected and experience specific legal and institutional barriers as well as cultural and social obstacles. The structure of financial systems and provision of products and services also affect women's ability to access finance.

Box 1.2 Women access a low proportion of credit

Kenya: Women represent 48 per cent of business owners but receive only 7 per cent of formal credit (IFC 2006).

Pakistan: Women's entrepreneurship is on the rise; however, only 5 per cent of women business owners access credit from formal sources (Niethammer et al. 2007).

Tanzania: 8 per cent of women-owned businesses have access to bank finance compared to 27 per cent of businesses owned by their male counterparts (World Bank 2005).

Uganda: Women contribute 50 per cent of GDP and own 39 per cent of registered businesses with premises, yet they receive only 9 per cent of available bank credit (Ellis et al. 2005).

1.4.4 Legislative barriers exist for women entrepreneurs

Many countries retain legislation that treats women and men differently in ways that may affect their opportunities as entrepreneurs and workers (World Bank 2010). Of the 25 Commonwealth countries covered in the World Bank's 'Women, business and the law' report, only four – Botswana, Canada, New Zealand and the United Kingdom – set equal rights for women and men in nine key areas examined. This includes ownership of and inheritance rights to assets that are required by banks as collateral for credit, working hours and age of retirement in the private sector (see Appendix C).

Women's access to financial services is further constrained by 'gender-blind' legislative and structural barriers. Key elements of the financial services infrastructure that disproportionately affect women include:

a. A paucity of historical credit data, leading to the inability of lenders to make informed decisions about creditworthiness and use reputation as a form of collateral. While evidence shows that better credit information systems result in greater access to loans, the minimum loan threshold required by private credit bureaus and public credit registries also matters for women-owned businesses as these are on average smaller than businesses owned by men and take out smaller loans. Twenty-four Commonwealth countries have the lowest rating of 0.4

b. Weak secured transaction regulations mean that financial institutions are limited in the range of collateral they will accept as security for loans because of ambiguity in the priority of creditors in the event of default. In fact, data reveal that in emerging markets, 78 per cent of assets held by firms are movable and include stocks, machinery and equipment and debtors, while only 22 per cent are immovable assets such as property (Alvarez de la Campa 2011). Gender matters because in developing countries women are less likely to own and control property often required as collateral for loans.

c. Non-possession of formal identity documentation can create eligibility barriers to accessing financial services. In many developing economies, there might be limited types of formal identity documents and only a small proportion of the population may possess these. Often financial institutions require identity cards or passports, proof of address (a serious constraint in countries where the addressing systems are for all intents and purposes not functioning), wage slips and so on. Women, who are largely in the informal sector, are less likely to possess these documents.

d. Physical access to services, especially in developing countries, is another key barrier that disproportionately affects women who, due to their domestic responsibilities, are more likely to be time constrained. In all regions women spend at least twice as much time as men on unpaid domestic work (United Nations 2010). Women are also more likely to have concerns for their personal safety when faced with travelling long distances for financial services.

e. The high cost of credit, account fees and relatively large minimum balances, or the requirement of periodic deposit amounts in relation to GDP per capita, represent a significant barrier to entry, rendering the formal banking sector difficult to access for small businesses in general and more so for women, whose businesses are smaller on average.

f. Reliance on past evidence of employment in the sector in which businesses operate, or of formal employment at all, precludes many women from accessing finance for SME development in the formal economy.

1.4.5 Women take a different approach to the use of financial services

Research has shown that women have different attitudes towards finance and risk and are less likely to switch providers of financial services (Global Entrepreneurship Monitor 2007). It is also interesting to note that women tend to be better prepared by the time they approach a bank and are therefore less likely to be declined on application than their male counterparts (Global Entrepreneurship Monitor 2007). In the UK, research commissioned by the Financial Services Authority revealed that 6 per cent of women had no financial products at all compared to 4 per cent of men; they owned slightly fewer products and preferred different distribution and delivery channels to men – having a much stronger preference for more traditional face-to-face transactions (Financial Services Authority 2001). Women's businesses in the UK tend to be undercapitalised at the start up stage, seeking less external finance in general and equity finance in particular (Women's Enterprise Task Force 2009). In the past, financial services providers have traditionally delivered the same offerings to women and men. With the unambiguous difference in the two consumer segments and the increasing economic significance of women, it follows logically that not only are tailored products and services required, but it also makes economic sense to provide these.

1.4.6 Enterprise support services are crucial

Women are less likely to have experience dealing with formal financial institutions, less financial knowledge and education, lower confidence and a relative lack of established professional networks. Business support services are therefore of even greater importance to women entrepreneurs, providing essential training and business information and thus helping them prepare bankable proposals and equipping them with the know-how to establish broad business skills and negotiate for critical financial services from providers.

1.4.7 Women are an untapped opportunity

The 2008–2009 global economic crisis and the ongoing sovereign debt crisis continue to have an unfavourable impact on poverty reduction and economic growth, spurring governments to consider ways in which to respond to the resulting challenges. Supporting GRI can be a key potential source of growth for economies across the world. GRI recognises women's economic participation as entrepreneurs, employees and decision-makers in the wider macroeconomic context. Although women's economic participation is on the rise, addressing the significant disparities that exist would enable them to establish and grow their own businesses, access financial resources and have the full scope of their productivity – including domestic labour, childrearing and informal sector activities – formally recognised.

In the emerging markets, the number of formal micro, small and medium-sized enterprises with all, or partial, female ownership stands at between 8 and 10 million (IFC 2011a). This represents not only income generation potential but also a significant share of employment creation. This potential cannot be realised without closing the gender gap on key indicators such as health, education, political empowerment and economic participation, all of which are tied to the achievement of Millennium Development Goal 3 on the promotion of gender equality.

It is a common misconception to characterise women and other vulnerable populations in situations of crises as victims. The active role women are now acknowledged to take in such situations has led to new understandings of how to support that role and utilise the opportunities generated by crises, such as the breakdown of traditional social barriers and gender discriminatory practices, to construct equitable social and institutional frameworks that promote and enforce new mechanisms and legislation upholding women's political, socio-economic and cultural rights.

'By 2020, 53% of millionaires in the UK will be female.'

– *Barclays Wealth 2007*

The notion of wealth gained by inheritance or marriage is becoming outdated, according to a study by Barclays Wealth (2007).

Commonwealth countries have felt – and have dealt with – the most recent global financial crises in different ways. The recovery phase is a critical period for transforming gender and social relations and thus providing opportunities for eliminating pervasive gender-based discrimination and inequality. The global financial crisis pushed many people into unemployment, and the informal economy is often the only viable livelihoods option.

Evidence-based research suggests economic hardship has an adverse effect on the stability of household structures (Elson 1993; World Bank 2011a). Women and men – and, as a result, social and gender relations – are influenced by many elements of identity such as race, ethnicity, religion, sexuality, politics and socio-economic class; overwhelmingly, however, women's overall access to decision-making, livelihoods and civic engagement is blighted by gender inequality.

The benefits to promoting and sustaining a favourable investment climate for the growth of small-scale business activity and entrepreneurialism is favourable to governments and financial institutions over the long term through private-sector development, wealth creation and investment in human capital. Empirical evidence has shown women re-invest in the home and their family's health, nutrition and education (World Bank 2008). Apart from improvements in individual well-being, at the macroeconomic level there is an improvement in human capital, labour productivity and stimulation of economic growth.

The benefits to financial institutions that pursue GRI include profit growth by increasing the pipeline of new, profitable customers; portfolio diversification through adoption of a women's market strategy to broaden the client base and even possibly enter into new segments; lower risk as experience has shown that repayment is higher among female borrowers due to more conservative investments and lower moral hazard risk (World Bank 2008); increased customer loyalty; innovation; greater social license to operate and improved reputation in the community in which the financial institution operates; and differentiation from competitors. Women are more likely to share their customer experiences, good and bad, and therefore represent an opportunity for 'word of mouth' marketing.