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Access to Finance for female entrepreneurs in low-income communities

Desk Research (Summary)

INTRODUCING CARE

CARE is a leading international humanitarian and development organisation, founded in 1945 in the United States. In 2017 the CARE confederation operated in 93 countries, implementing 950 poverty-fighting development and humanitarian aid projects. CARE works around the globe to save lives, defeat poverty and achieve social justice. We put women and girls in the centre because we know that we cannot overcome poverty until all people have equal rights and opportunities.

www.care-international.org / www.carenederland.org

THE PROBLEM

In the world's poorest communities, girls and women bear the brunt of poverty. Women have lower average levels of education and business experience, and fewer professional networks which prevents them from productively utilising their earnings. In many countries, laws, political systems and social norms disadvantage women, for example by prohibiting property ownership. Collectively, all these barriers limit women from participating as equals with men in society.

Many women around the globe, particularly in low-income communities, have turned to self-employment to earn a living. Entrepreneurial and income-generating activities constitute a large proportion of women's paid work, and are therefore an important step towards economic independence and empowerment. Limited access to financial services, remains one of the most challenging barriers for women entrepreneurs.

- **Access:** Globally, 980 million women do not have a bank account.[1] The problem is most acute in sub-Saharan Africa where 73 percent of all women are unbanked (85 per cent in Sierra Leone).[1]
- **Financial Control:** In developing countries, 1 in 10 married women are not consulted about how their *own* cash earnings are spent.[2] Women's financial control is often limited by social norms that restrict women's mobility, independence and decision-making power.
- When women **control financial assets in a household**, they are often more likely than men to invest in the health, education and well-being of their families which in turn improves local communities and wider society.[3]
- **Entrepreneurship:** There are close to 162 million formal micro, small and medium enterprises (MSMEs) in developing countries, of which 141 million are microenterprises, and 21 million are SMEs[4]. 28% of the formal MSMEs are women-owned. The number of informal microenterprises is thought to be much higher, with women over-represented within this group. Access to finance is frequently identified as a critical barrier to growth for MSMEs.

- Although women's access to microfinance has grown exponentially in the last twenty years[11], in developing countries the **MSME finance gap** is gaping. 80 per cent of women owned businesses with credit needs are either unserved or underserved **–** a 1.7 trillion USD financing gap.[9]
- **Male by Design:** Because financial service providers' de facto business model is based primarily on the needs and preferences of men, treating women and men the same means *treating women like men*.[6] Women have different needs than men, for example they want: more detailed information, time-saving access to services, easy to navigate websites, easier access to staff and peers.[6] Women are calculated risk-takers, are more likely to save money and they are more cost-conscious around banking fees.[7]
- **Mobile Phones:** 390 million women in lower-middle-income countries still do not own a mobile phone, while over 1.2 billion women do not use mobile internet – a major barrier to pursuing and benefiting from economic opportunities.[8]

THE BUSINESS CASE

Women represent half the population, yet their ability to access financial services continues to be a challenge, particularly in low-income communities. It has been repeatedly shown that women represent a huge opportunity for financial service providers (FSPs) and that they outpace men in saving and repaying loans. Women also represent a lower risk than men and are sustainable clients.[9]

Giving women better access to financial products and services could unlock $330 billion in annual global revenue.[10]

Because financial products and services have traditionally been designed by men, the needs of women are continually overlooked. 'Pink marketing' does not work and is best viewed as tokenistic. In order to tap into the women's market, FSPs need to create gender specific products and services that genuinely meet everyone's needs. The potential of women speaks for itself:

- Women are good customers. Data from banks serving 22 million customers in 18 countries shows that:
  - Women outpace men in overall growth in volume of credit (15% vs. 10%) and volume of deposits (17% vs. 14%)[9]
  - Women are strong savers, with lower loan-to-deposit ratios than men (66% vs. 115%)[9]
  - Women are prudent borrowers, with lower nonperforming loans than men (2.9% vs. 4.2%)[9]
  - Companies that do well in the women's market also do well for investors (5.9% Internal Rate of Return (IRR) vs. 1.6% IRR)[9]

THE SOLUTION

Much is being done to improve women's access to financial services worldwide. Through CARE's extensive work with women living in low-income communities, we know that increasing access to credit must be accompanied by financial and business education, as well as access to savings and insurance products.

Village Savings & Loans Associations:

In 1991, CARE harnessed the ancient practice of group savings in a new concept called the Village Savings & Loans Associations (VSLA). Focusing on women, they provide a safe way to save money, access loans and obtain emergency insurance. Without outside capital, VSLAs were introduced as a tool to bring financial services to rural areas of low-income countries, where access is typically very limited. VSLAs enable women to work with what they have - the women are their own investors. The interest they pay on their loans comes back to them as profit.

A VSLA is a self-managed group of 20-30 members: they select their own members; elect their own management committees; set their own rates and fees; make their own decisions on whom to lend to and how much; and are entirely independent, informal associations. CARE supports VSLAs by providing a series of training and coaching sessions over nine to 12 months to support their success and sustainability.

As of December 2017, CARE had directly supported nearly 7 million members across 45 countries to join VSLAs, while influencing others to replicate the group model, with a total reach exceeding 15 million globally. Nearly 1 million members in twelve countries opened their **first bank account**, substantially increasing women's **control over income** while also improving VSLA performance. VSLAs have informed national policies and billion-dollar development programmes. CARE has engaged with Ministries of Finance, Gender, Agriculture and Health, and we have partnered with Central Banks and major national programmes to support the integration of VSLA methodology in their programmes. Today, more than 60 government initiatives across sub-Saharan Africa promote VSLAs or groups like them.

CARE has identified the ingredients for success of linking savings groups, such as VSLAs, with FSPs. Many of the aspects that make a VSLA successful also make a linkage successful: trust, financial knowledge, and social cohesion. To set groups up for success CARE, FSPs and Village Agent/Coordination networks must work closely with VSLAs.

www.care.org/vsla

Women in Enterprise Programme:

CARE has been running the Women in Enterprise programme since 2014, supported by H&M Foundation. The programme supports women living in low-income communities to set up and run their own businesses by providing support including training, skills development and funding. The focus is on ensuring equal rights for women, through economic empowerment.

Enterprise development is a proven mechanism to lift women out of poverty. Where CARE has supported poor women to improve their livelihoods through enterprise, our support does not stop here. Through this programme, CARE offers those women the opportunity to continue growing. At the same time these women act as role models to other women living in poverty and many become the employers of women in their communities. This cycle is both scalable and sustainable and allows for the continuous opportunity for women living in poverty to become economically independent.

Phase One of the programme ran from 2014-2017 and reached 100,000 women from low-income communities in eleven countries to start their own enterprises. In Burundi, all 10,000 women who participated in the project increased their income, on average by 203%. In Zambia over 82% of women said their life had improved through the project. In Burundi, CARE facilitated a link with Kenyan Central Bank so that 50 women could take out loans under favourable and secure conditions.

Phase Two of the programme runs from 2017-2020 and will reach 100,000 women from low-income communities in seven countries worldwide, ensuring they have adequate conditions to become successful and empowered entrepreneurs. Men and boys and other local stakeholders will be involved to change gender norms. The seven countries are: Peru, Guatemala, Sierra Leone, Ivory Coast, Jordan, Yemen and Sri Lanka. This phase is focused on developing mechanisms to take success to scale and multiply the impact. This will include developing enterprise models for different country contexts; action-based research to see what works well; and mobilizing stakeholders to further empower women.

The partnership extended into Ethiopia from 2015-2018. In Addis Ababa, the project supported 5,000 women who increased their income by 500%. Approximately 70% of the target group did not have any savings in the beginning of the project - this number was reduced to 3.6% in 2018.

In a number of different countries, CARE is developing partnerships, with FSPs to open up access to loans for women entrepreneurs, for example with Premiere Agence de Microfinance in Ivory Coast.

www.skillpower.net

LINK Up - Kenya and Tanzania:

LINK Up was initiated by CARE in June 2014, with the objective to link savings groups in Kenya and Tanzania to FSPs over a 3-year period. The ultimate goal was to demonstrate the business case for FSPs to serve informal savings groups, while measuring the impact of access to formal financial services on VSLA performance, member wellbeing and women's economic empowerment.

Three FSPs chose to participate in the programme: Equity Bank in Kenya, and National Microfinance Bank (NMB) and Access Bank in Tanzania. Each FSP worked with CARE to design an appropriate group savings product that could effectively support the VSLA model. All three FSPs offered group savings accounts in addition to low-cost individual accounts. In the case of Equity Bank, a loan pilot was undertaken with 50 VSLA groups using a distinctive lending model that reinforced group cohesion.

CARE and the partner FSPs were able to link over 12,000 savings groups in Kenya and Tanzania. In addition, this generated an estimated 81,000 individual accounts through direct cross-selling. **All three partner FSPs acknowledged the business potential and financial inclusion opportunity provided by savings groups (VSLAs in particular).** As a result, the partner FSPs will continue to target these savings group customers and continue linking savings groups after LINK Up, with varying degrees of focus.

The value proposition for the FSPs of these customers includes a boost to liquidity with sustainable and predictable deposits from the savings groups, and an opportunity to engage otherwise underserved individuals often located in rural areas. Over the course of the LINK Up project, FSPs mobilized up to 780,000 USD in group savings deposits and up to 2.4 million USD in total deposits when linked individual account deposits are factored in. This strong performance led one LINK Up partner, NMB, to make savings groups a pillar in their bank-wide strategy.

The proportion of women in a savings group made a difference to outcomes. A group with more than 85% women is 200% more likely to have an active account than a group with a lower proportion of women. Additionally, groups with more than 85% women have 13% higher bank account balances.

http://www.careevaluations.org/wp-content/uploads/evaluations/linkup-final-report-march-2017-vf.pdf

CARE's RECOMMENDATIONS FOR FINANCIAL SERVICE PROVIDERS

Staffing:

- Train and employ more women in customer-facing roles within the industry.
- Improve training for male staff on working with women, listening to and interpreting their needs.

Products:

- Involve women in the development of products and services, including marketing and financial management materials.
- Offer alternative solutions to collateral requirements for women who need loans, such as:
  - (Legal) assistance in securing property rights
  - Loans to buy land
  - Loans based on cash flow, savings group history (e.g. from VSLAs), mobile phone transaction history or track record of enterprise performance
  - Group guarantee (VSLA approach)
  - Accepting moveable assets (like jewellery)
- Introduce loans with more flexible repayment terms, for example; delaying repayment until a business is more established; recognising cycles of income e.g. in agriculture; and maternity leave on loans. Evidence from India shows that more flexible repayment schedules can benefit clients and significantly lower transaction costs without increasing default rates.[11]
- Offer low or no-cost savings and credit products.
- Introduce mobile money/digital financial services bespoke to women to improve access.
- Provide non-financial services e.g. financial literacy training, business mentoring/coaching and legal aid.
- Stop 'pink marketing'.

Distribution:

- Introduce more flexible opening hours that fit with the multiple tasks and limited time of women.
- Increase field agents who can reach women in marginalized communities. There is increasing evidence that employing women as banking and network agents in their own communities may be especially effective for commercial banks or mobile network operators seeking to expand access to and knowledge about financial services to underserved women.

Other:

- Separate men and women when reviewing data to better understand their bespoke needs.
- Partner with development organisations (who specialise in enterprise and financial training for women) to design products tailored to the bespoke needs of marginalized and low-income women.

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For a copy of the full report please email: vanMuijlwijk@carenederland.org

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