

Women-Owned SMEs: A Business Opportunity for Financial Institutions

A Market and Credit Gap Assessment and
IFC's Portfolio Gender Baseline



© International Finance Corporation 2014. All rights reserved.

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain companies and parties including named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

Photos: World Bank photo library

Women-Owned SMEs: A Business Opportunity for Financial Institutions

A Market and Credit Gap Assessment and
IFC's Portfolio Gender Baseline



Table of Contents

Abbreviations	vii
Acknowledgements.....	ix
Foreword.....	xi
Executive Summary.....	1
Introduction.....	5
Methodology.....	7
Market Assessment and Financing Gap Analysis.....	9
Financial and Non-Financial Constraints Faced by Women-Owned SMEs.....	15
Establishing a Baseline for Lending to Women-Owned SMEs Among IFC Financed Financial Institutions	19
Characteristics of Women-Owned SMEs.....	23
Recommendations.....	31
Annexes.....	35
Annex A: Detailed Methodology for Calculation of Market Assessment and Financing Gap.....	35
Annex B: Detailed Methodology for IFC's SME Gender Baseline.....	38
Annex C: Financial and Non-Financial Constraints Faced by Women-Owned SMEs	41
Bibliography.....	43
Endnotes	45

List of figures and tables

Figures

Figure 1: Relative shares of men and women-owned SMEs, by region: 2003-2010.....	10
Figure 2: Distribution of women-owned SMEs per sector: 2003-2010	11
Figure 3: SME total credit gap by gender, sector and size as per region: 2003-2010.....	13
Figure 4: Business Life Cycle Analysis – Constraints faced by women-owned SMEs.....	15
Figure 5: The shares of loans to women-owned SMEs: 2011-2012	20
Figure 6: Distribution of loans using IFC's expanded proxy definition of women-owned SMEs: 2011-2012	22
Figure 7: Women ownership of SMEs by region: 2011-2012.....	23
Figure 8: Women in management of SMEs, gender-disaggregated basis: 2011-2012	24
Figure 9: Registration status of SMEs, gender-disaggregated basis: 2011-2012	24
Figure 10: Sector of operation of SMEs, gender-disaggregated basis: 2011-2012	25
Figure 11: Purpose of borrowing for formal SMEs, gender-disaggregated basis: 2011-2012.....	27
Figure 12: Type of loan products used by formal SMEs, gender-disaggregated basis: 2011-2012	27
Figure 13: Type of collateral, gender-disaggregated basis: 2011-2012.....	29
Figure 14: Performance of SME loans, gender-disaggregated basis: 2011-2012.....	30

Tables

Table 1: Regions for analysis.....	7
Table 2: Estimated number of SMEs for men and women-owned SMEs by region: 2003-2010	9
Table 3: Total SME credit gap for men and women-owned SMEs by region: 2003-2010	11
Table 4: Total SME credit gap for men and women-owned SMEs by segment: 2003-2010	12
Table 5: Average credit gap per SME by region: 2003-2010	14
Table 6: Number of observations and confidence interval at 95% confidence level by region: 2011-2012	20
Table 7: SME Gender Baseline and number of loans to formal women-owned SMEs in CY12: 2011-2012	21
Table 8: Number of employees working in formal SMEs, gender-disaggregated basis: 2011-2012.....	25
Table 9: Business registration type and number of employees: 2011-2012.....	25
Table 10: Annual sales of formal SMEs, gender-disaggregated basis: 2011-2012.....	26

Table 11: Total assets of formal SMEs, gender-disaggregated basis: 2011-2012.....	26
Table 12: Sector of operation, annual sales & total assets: 2011-2012.....	26
Table 13: Loan amount at origination, gender-disaggregated basis: 2011-2012	28
Table 14: Type of loan product used and loan amount at origination: 2011-2012	28
Table 15: Type of collateral furnished and loan amount at origination: 2011-2012	29
Table 16: Interest rate charged on loans, gender-disaggregated basis: 2011-2012.....	29
Table 17: Tenor of loans borrowed, gender-disaggregated basis: 2011-2012.....	30
Table B1: IFC MSME Definition.....	39
Table B2: Geographic Coverage of the Study.....	40
Table C1: Non-financial Barriers	41
Table C2: Financial Barriers	42

Abbreviations

CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CY	Calendar Year
EAP	East Asia and the Pacific
ECA	Europe and Central Asia
FI	Financial Institution
FIG	IFC's Financial Institutions Group
FY	Fiscal Year
IFC	International Finance Corporation
IFI	International Financial Institution
LAC	Latin America and the Caribbean
MENA	Middle East and North Africa
MSME	Micro, Small and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
SA	South Asia
SME	Small and Medium Enterprise
SSA	Sub Saharan Africa
USD	United States Dollar

Acknowledgements

This report is a collaborative effort among IFC's Gender Secretariat, Financial Institutions Group (FIG), Advisory Department, and Development Impact Department. This report was authored by Marieme Esther Dassanou, Montserrat Ganuza, Anushe A. Khan, Alla Khodakivska, Heather Kipnis, and Akiko Kudo.

IFC would like to acknowledge our donor partners, the Netherlands Minister for Development Cooperation, Netherlands IFC Partnership Program, The World Bank Group Gender Action Plan, and Ernst & Young for their contribution and partnership in the development of IFC's SME Gender Baseline. The analytical support for finance gap estimations in the Market Assessment and Credit Gap analysis was provided by McKinsey & Company.

The core team working on data collection for IFC's SME Gender Baseline included Uloma Aforji Ike, Toyin Adeniji, Alla Khodakivska, Patience Marime-Ball, Montserrat Ganuza, and Rubin Japta. The SME Gender Baseline would not be possible without the collaboration of 34 client banks in 25 countries, which courteously allowed for data collection. IFC's regional investment Portfolio Managers and regional portfolio staff were essential in supporting and facilitating the data collection process.

The authors would like to acknowledge the contributions of Patience Marime-Ball, Henriette Kolb, Andrew McCartney, Roland Michelitsch, Dan Goldblum, and Panayotis Varangis, and Peer Stein. The report was edited by MarkFeige, designed by Amy Quach, and production coordinated by Aichin Lim Jones.

Foreword

Investing in women's entrepreneurship is good for business, and essential for economic growth. As gender equality has become a strategic priority for the World Bank Group (WBG) we realized the importance of establishing a baseline of data for access to funding. This would allow us to start to address the challenge of limited information on women-owned small to medium sized enterprises (SMEs), and provide our clients with more information on this important market opportunity. Through our investment and advisory engagements with client banks interested in serving women entrepreneurs, we have experienced tremendous demand for market research supporting the business opportunity of the women's entrepreneurship market. At IFC, we recognized that we did not have a consolidated view across our portfolio of how many women-owned SMEs we were reaching, the characteristics of these women-owned enterprises, and how our client banks were serving women.

On this basis, in 2011 - 2012, IFC conducted the "SME and Women-Owned SME Baseline Survey" to determine the share of female owned SMEs financed by IFC's client banks worldwide, to establish a baseline, and to learn more about the operational and financial characteristics of these firms. Within the scope of this project, a global and regional market assessment and the credit gap for

formally registered women-owned SMEs was reviewed, as well as common financial and non-financial barriers faced by women entrepreneurs. This report presents the findings of this study, as well as building off of the existing IFC and WBG research on women's entrepreneurship.

IFC is in a crucial, and in many ways unique, position to engage client banks globally to improve funding to women-owned SMEs. This report offers recommendations to support the strategic focus across the WBG. The steps needed to improve financial access for women are clear, and we now have a baseline of crucial data to enroll stakeholders at all levels. This report demonstrates that increasing women-owned SMEs' access to finance is not only good for women, but a growing and profitable opportunity for financial institutions.

Sincerely,



Patience M. Ball

Principal Investment Officer
Banking On Women Program
Financial Institutions Group

Executive Summary



Women-owned small and medium enterprises (SMEs) make significant contributions to the economies in which they operate. However, female entrepreneurs face a range of financial and non-financial challenges in realizing their growth potential, and are more likely than their male counterparts to cite access to finance as a major or severe constraint on their business operations. In addition, financial institutions have not yet realized the business opportunities of meeting the specific financing needs of women entrepreneurs as a distinct customer group.

One of the biggest barriers for increased access to finance for women-owned enterprises is the lack of reliable data disaggregated by gender: this further hinders the opportunity to make the business case to financial institutions on supporting women-owned enterprises. Commercial banks need to have a better understanding of the existing market potential as well as constraints facing women-owned SMEs—at a country and regional level—in order to design strategies and offerings that will allow them to better cater to the unmet financing needs of women entrepreneurs, and thus to profit from the commercial opportunities that this demographic presents.

On this basis and building off of the existing research on women's entrepreneurship, the first section of this report seeks to estimate the global and regional size of the market for financial services represented by women-owned SMEs operating in the formal (registered) sector. It looks at the financing gap they face, as well as common financial and non-financial barriers faced by women entrepreneurs. The second section of the report provides an estimate of IFC's global reach to formal women-owned SMEs including the share of lending to formal women-owned SMEs across IFC's Financial Institutions Group portfolio, while highlighting the financial and

operational characteristics for women-owned SMEs that have received financing from IFC client financial institutions. While the market and credit gap assessment presents a global assessment, IFC's reach is related to IFC's specific experience through its client bank portfolio and not a global representation.

Key findings

Global and regional market presence and credit gap for Women-Owned SMEs:

Based on the findings from the *IFC's Enterprise Finance Gap Assessment Database*, it is estimated that globally there **are roughly 9.34 formal million women-owned SMEs¹ in over 140 assessed countries**, which is approximately one third of all formal SMEs; the findings present that East Asia and the Pacific has the highest overall number, though when weighted by the number of women in the region, Europe and Central Asia have the most. Based on either measure, South Asia has the least.

The credit gap for formal women-owned SMEs across all regions is roughly \$287² billion, which is 30 percent of the total credit gap for SMEs. Latin America and the Caribbean has the largest credit gap, followed by East Asia and the Pacific and Europe and Central Asia. The smallest credit gap for women-owned SMEs is in South Asia, which may be a reflection of the comparatively small number of women-owned SMEs in South Asia.

Common constraints that women-owned SMEs encounter:

Most of the financial and non-financial barriers affecting women-owned SMEs³ occur at the start-up stage of the business life cycle. Although access to finance is one of the major constraints, it cannot be

looked at in isolation from the other barriers which heavily impact women-owned enterprises.

The most significant barriers tend to be non-financial in nature, influencing the degree to which women-owned SMEs can formally access financial products and services and realize the growth potential of their enterprises. In comparison to men, women generally face a disproportionately larger number of challenges when applying financing. Financial barriers include local financial conditions—such as a lack of collateral, inadequate financial infrastructure, or the high cost of funding—while non-financial barriers include the social and cultural norms underlying gender biases, as well as the tendency for women-owned SMEs to be smaller in size, and the limited access to business education opportunities and networks.

IFC's global reach to formal women-owned SMEs⁴:

IFC has established a gender-disaggregated baseline for lending to formal women-owned SMEs among IFC financed financial institutions. An analysis of more than 2,200 enterprises receiving SME loans from 34 IFC client financial institutions in 25 countries showed that, overall, about 16.4-18.5 percent of loans were issued to women-owned SMEs, with regional variations from 5.7 percent to 28.1 percent. This indicates quite a low access to finance for women entrepreneurs. It is estimated that **in CY12, IFC clients had about 813,000-1,105,000 loans issued to women-owned SMEs, or 14-19 percent of 5.8 million SME loans.**

Characteristics of women-owned SMEs in IFC's Financial Institutions Group portfolio:

In the surveyed sample, women-owned SMEs were more likely than their men-owned counterparts to be sole proprietorships, and most often these sole proprietorships are headed and managed by the owner herself. In terms of management, **about 85 percent of women-owned SMEs have women in senior management** compared to approximately 10 percent of men-owned enterprises.

Formal women-owned SMEs are observed to have a similar number of employees as their men-owned counterpart, and their aggregate annual sales and total assets are found to be lower than the corresponding statistics for their men-owned counterparts.

The aggregate loan amount borrowed by formal women-owned SMEs is less than the loan amount borrowed by formal men-owned SMEs. The borrowing pattern for women-owned SMEs is identical to that for men-owned SMEs in that **there is no notable difference between the purposes for borrowing, and, when viewed against their financial abilities, there is no observable difference in the amount women-owned SMEs borrow** vis-à-vis their annual sales.

Women-owned SMEs are an underserved yet profitable potential client group. On average, both women and men-owned SMEs borrow for the same tenor and are able to access funds at the same interest rates. This parity in loan characteristics is maintained during the repayment of loans and women-owned SMEs' ability to repay their loans.

IFC's global reach demonstrates that women-owned SMEs who do have access to finance are treated similarly by IFC client financial institutions; however, much fewer women-owned SMEs are served by these financial institutions than their men counterparts. **The characteristics of women-owned SMEs in the surveyed sample suggest that these are well performing yet overlooked clients, representing a market opportunity for financial institutions to pursue this underserved segment.**

Recommendations

In order to meet the development challenges in emerging markets—and to tap into the enormous potential of the women's market for banks and businesses—the barriers of access to finance for women-owned SMEs need to be addressed urgently. This report recommends the following actions for financial institutions, policymakers, development finance institutions, and private sector stakeholders to actively reduce the financial and non-

financial barriers women-owned SMEs face, thus enabling an ecosystem conducive to women's entrepreneurship.

- Develop a comprehensive framework at the government level to assess country gaps in supporting gender equality, including women's entrepreneurship
- Apply an ecosystem approach to encourage collaboration and enable women's entrepreneurship
- Develop a definition for formal women-owned SMEs and establish a firm knowledge base of gender disaggregated data for SMEs
- Understand women-owned SMEs are a sub-segment of greater SME finance, and therefore develop a specific value proposition to serve them profitably and sustainably
- Engage financial institutions to support women's entrepreneurship

Introduction



Women entrepreneurs running SMEs play a meaningful and significant role in contributing to economic development by creating jobs, promoting greater economic growth, and harnessing the productive capacity of women. There are an estimated 8-10 million formal SMEs across the world fully or partially owned by women.⁵

Increasing women's economic opportunities and entrepreneurship can also boost gender equality, positively contribute to per capita income growth, and reduce poverty. In fact, it is predicted that a failure to achieve the third Millennium Development Goal, on gender equality, will have negative implications on per capita income growth.⁶ Furthermore, investing in women may have higher economic and non-economic returns. Women are more likely to share the rewards of these returns with others, such as their children, benefitting their health, education, and nutrition.⁷

However, there are significant **financial and non-financial barriers** which block women-owned SMEs' potential as economic drivers. The financial barriers that women-owned SMEs face—from unfavorable lending policies to lack of collateral—severely restrict their access to finance. Moreover, non-financial constraints exacerbate this challenge of obtaining credit, further restricting the growth and profitability of women-owned SMEs. While these constraints often affect both men and women SME owners, women tend to experience greater vulnerability compared to their male counterparts.⁸

These financial and non-financial constraints can be impediments to business development for women-owned SMEs at one or more stages of their business life cycle: assessment, start-up, growth, maturity, and decline. While some constraints may be specific to one stage of the business life cycle, others may be contextual

and impede business development throughout the life cycle. These barriers result in a significant credit gap for women who require finance but are unable to obtain it to pursue their business objectives.

Therefore, there is a need to ascertain and address the credit requirements of SMEs in general and specifically of women-owned SMEs as well as the barriers that affect them so that women entrepreneurs are able to fulfill their potential, not only in their businesses, but also in society.

Nevertheless, it is important to highlight that the scarcity of reliable data disaggregated by gender makes it difficult to substantiate the perception that women-owned SMEs are a good business opportunity and a profitable market segment.⁹ Consequently, and in order to establish the scale of the opportunity to finance women-owned SMEs, it is essential to quantify the gap between current supply and estimated demand for credit by women entrepreneurs. This study aims to expose the business opportunity that this untapped market represents for financial institutions (FIs).

Women-Owned SMEs: An untapped business opportunity for financial institutions

SMEs—and specifically women-owned SMEs—have a limited access to finance. For instance, even though formal SMEs in emerging markets face significant financing constraints, formal women-owned SMEs are more likely to cite access to finance as a major or severe constraint: 29 percent compared to 24 percent amongst male-owned SMEs¹⁰. Banks are recognizing that there is significant scope to increase SME lending volumes, and are beginning to grasp the fact that women-owned SMEs in particular are an underserved yet profitable client segment. For example, some client financial

institutions have shared with IFC the observation that female bank clients show more brand loyalty than their male counterparts—which improves cross-selling ratios and retention rates for the banks. In addition, female customers display a higher propensity to save both as business and personal customers, which positively impact the Banks’ self-funding ratios. Also, female customers tend to have lower risk tolerance as both business and personal customers. It is also seen that women have similar repayment rates to men.¹¹ For example, the baseline study of IFC’s Financial Institutions Group (FIG) portfolio (see Chapter 6) reveals that women-owned SMEs are not only able to secure loans at around the same terms as their men-owned counterparts, but they are also able to repay these loans at a similar rate.

Banks and other FIs are beginning to understand that women-owned businesses have different ways of approaching financial decisions. To serve this dynamic segment, banks need to develop a business proposition that caters specifically to the women-owned SME market. Not only will a tailored business offering for women increase their financial access, but it will also contribute to the bank’s long-term business sustainability. Therefore, providing banks with reliable estimates on the numbers of women-owned SMEs, the constraints they face, and the magnitude of their credit gap in the countries where they operate is an important step towards reducing the barriers women face to grow their enterprises, and to realize their potential as economic drivers.

IFC’s role and the objectives of the study

Over the past decade, IFC has played a critical role in helping SMEs worldwide gain greater access to financing. IFC works to increase access to financial services for formal SMEs in developing countries by: providing funding to FIs focusing on SME financing; providing advisory services to build the capacity of FIs

to serve SMEs; and raising awareness on SME banking best practices.

As it has done with SMEs in general, IFC aims to expand the opportunity to support women entrepreneurs’ increased access to financial services. For several years, IFC has been helping banks profitably and sustainably serve women-owned businesses by providing financing for on-lending to women entrepreneurs, as well as advisory services to enhance client financial institutions’ ability to address the needs of the women’s market, and provide the most appropriate products and services for this clientele. Since interventions with a gender focus and component need to be customized to the specific characteristics of the local market and the FIs, gender disaggregated data becomes critical. In this context, IFC realizes that examining the portfolio of its client FIs can provide valuable information not only on the volume of lending to women-owned SMEs, but also on the similarities and differences between women and men-owned SMEs.

Report Objectives:

- Provide a global market and credit gap assessment for formal SMEs disaggregated by gender
- Consider the financial and non-financial barriers for women-owned SMEs that impede business growth
- Estimate the share of lending to formal women-owned SMEs, or “Gender Baseline for SMEs” across IFC’s FIG portfolio
- Highlight the financial and operational characteristics for formal women-owned SMEs that have received financing from client FIs
- In addition, this report seeks to provide recommendations to policy makers, FIs, private sector stakeholders, and development finance institutions.

Methodology



This chapter explains the methodology and sources used to: 1) assess the market size and credit gap for women-owned SMEs at a global and inter-regional level; 2) identify financial and non-financial barriers to financial access; and 3) establish a baseline for lending to women-owned SMEs among IFC's FIG portfolio. It also explains the different definitions applied to women-owned SMEs in the study.

Market Assessment and Financing Gap for Women-Owned SMEs (Chapter 3)

This analysis seeks to understand women-owned SMEs with respect to their prevalence, growth potential, and the financing gap between their need for credit and the supply of credit across six regions (Table 1). The credit-gap for formal SMEs and women-owned SMEs is calculated for each region with data from the *IFC Enterprise Finance Gap Database, 2011* (Finance Gap Database), and the *World Bank Enterprise Surveys* (WBES). The interviews for the relevant WBES used in this study were conducted over 2003-2010 (all tables and figures in Chapter 3 correspond to this time frame). A detailed methodology is presented in Annex A¹².

Table 1: Regions for analysis¹³

Regions
East Asia and the Pacific (EAP)
Europe and Central Asia (ECA)
Latin America and the Caribbean (LAC)
Middle East North Africa (MENA)
South Asia (SA)
Sub Saharan Africa (SSA)

For the analysis in this chapter, a women-owned SME is defined as a formal (registered) enterprise in the non-agricultural private sector with 5 to 250 employees, where at least one owner is a woman.

Financial and Non-Financial Barriers (Chapter 4)

The analysis of financial and non-financial barriers is based on the findings of the report: *Strengthening Access to Finance for Women-Owned SMEs in Developing Countries*¹⁴, 2011 (Strengthening Access), which was commissioned by the Global Partnership for Financial Inclusion (GPFI: of which IFC is lead technical advisor for the SME finance sub-group) to investigate why the average growth rate for women-owned SMEs underperformed firms owned by men. In particular, the report sought to identify the barriers that constrained access to finance by women entrepreneurs. The report reviewed existing literature, as well as data from the *Finance Gap Database* and *WBES* to identify the financial and non-financial barriers which presented the highest hurdles for women-owned SMEs.

For this analysis, a women-owned SME is defined as a formal (registered) enterprise in the non-agricultural private sector with 5 to 250 employees, where at least one owner is a woman.

Women-Owned SME Baseline Survey (Chapters 5 – 6)

This analysis seeks to establish an estimated baseline for lending to women-owned SMEs among IFC's FIG Portfolio, and to understand the operational and financial characteristics of these SMEs compared to their men counterparts. In 2012¹⁵, IFC completed the *SME Gender Baseline Estimation for IFC's Financial Institutions*

Portfolio Survey (SME Gender Baseline) to determine the share of formal female owned SMEs financed by client FIs worldwide, to establish a baseline ('the gender baseline'), and to learn more about the characteristics of these firms. IFC surveyed 34 banks in 25 countries in all six regions, which accounted for about 10 percent of FIG's micro, small, and medium size enterprise (MSME) reach reporting portfolio¹⁶ by number of banks, and represented the regional portfolio distribution at the time of the survey. For each bank surveyed, 90-100 SME loans were randomly selected (with roughly 30 or more in each MSME category¹⁷) and reviewed to get detailed information on the enterprises that received financing. This included the percentage of female ownership, number of employees, annual sales, total assets, women in top management, sector of operations, and other data. A total of 3,157 randomly selected SME loans were reviewed during the portfolio sampling. Out of these, 2,269 were classified as SMEs based on the SME loan size proxy, and had information about owner gender. These 2,269 SMEs allowed for statistically sound estimates, with regional 95 percent confidence intervals within +/- 6 percent, and the overall sample ones within +/-2.5 percent. The portfolio sampling method was utilized after attempts to collect information on women-owned enterprises through a bank questionnaire, which revealed that the banks were unable to provide information on their SME clients on a gender disaggregated basis.

For this analysis, **"Women-owned SMEs" were defined as formally registered firms with 51 percent-plus women's ownership, and which received loans from \$10,000 to \$1 or 2 million¹⁸ at origination** (SME loan size proxy used by IFC for financial institutions). Where specified, an expanded definition, which is a proxy to the current IFC's women-owned SME definition¹⁹, was used. In this case, women-owned SMEs were defined as firms with either more than 51 percent women's ownership, or with 26-50 percent women's ownership in a business that has a woman CEO or COO, and which received loans from \$10,000 to \$1 or 2 million at origination.

Differences in applied "Women-Owned SMEs" definitions

Due to limitations of gender-disaggregated data available for the analysis, absence of a uniformed SME definition and the need to utilize data from different available databases, this report uses a combination of definitions for SMEs and women-owned SMEs as noted above. Caution must therefore be used when comparing the data from Chapters 3 & 4 with data from Chapters 5 & 6²⁰. For detailed descriptions of the definitions used, refer to Annexes A and B.

Market Assessment and Financing Gap Analysis



This chapter examines the market assessment, credit requirement, and trends in access to finance for formal women-owned SMEs at a global and interregional level. It is based on a global assessment that was commissioned by IFC to broadly estimate the value of the financing gap for formal women-owned enterprises. The analytical support for the finance gap estimations was provided by McKinsey & Company. This includes data from more than 148 developing countries from six regions.²¹ However, the analysis is best regarded at an aggregated regional level rather than at an individual country level, and is intended to be viewed as approximate data points, rather than absolute numbers. In fact, these estimates could be presented as a range with a variation of +/- 10 percent. As the broadest study to date²², it offers significant insights into the estimated financing gap which represent opportunities for financial institutions to serve the women-owned SME segment.

Women-Owned SME Market Assessment

The total number of formal women-owned SMEs²³, with **at least one women owner**, in over 140 countries as estimated by IFC is approximately 8 - 10 million, which is about 31 - 38 percent of all SMEs. To simplify the analysis, we have presented the regional estimates as individual data points which represent the mid-point of the range for that region. Based on this approach, EAP has the highest number of estimated women-owned SMEs, numbering over 5 million, while SA has the least number of women-owned SMEs, numbering approximately at 200,000. However, when the number of women-owned SMEs is weighted by the population of women in each region, it emerges that ECA has the largest number of women-owned SMEs per 100,000 women (600) and SA has the least (29). Table 2 lists the estimated number of SMEs and women-owned SMEs in each region.

Table 2: Estimated number of men and women-owned SMEs by region: 2003-2010

Region	Number of SMEs	Number of Women-owned SMEs	Number of Men-owned	Percent of SMEs owned by Women	Percent of SMEs owned by Men	Women population	Number of women owned SMEs per 100,000
EAP	12,455,846	5,321,144	7,134,702	43%	57%	933,050,498	570
ECA	3,056,850	1,291,274	1,765,576	42%	58%	215,317,812	600
LAC	3,407,670	1,313,787	2,093,883	39%	61%	294,999,760	445
MENA	2,124,144	291,966	1,832,178	14%	86%	187,350,564	156
SA	2,385,548	202,169	2,183,379	8%	92%	695,155,754	29
SSA	3,895,340	918,838	2,976,502	24%	76%	195,847,496	469
Global	27,325,399	9,339,178	17,986,221	34%	66%	2,521,721,883	370

Source: IFC Enterprise Finance Gap Assessment Database (2011)

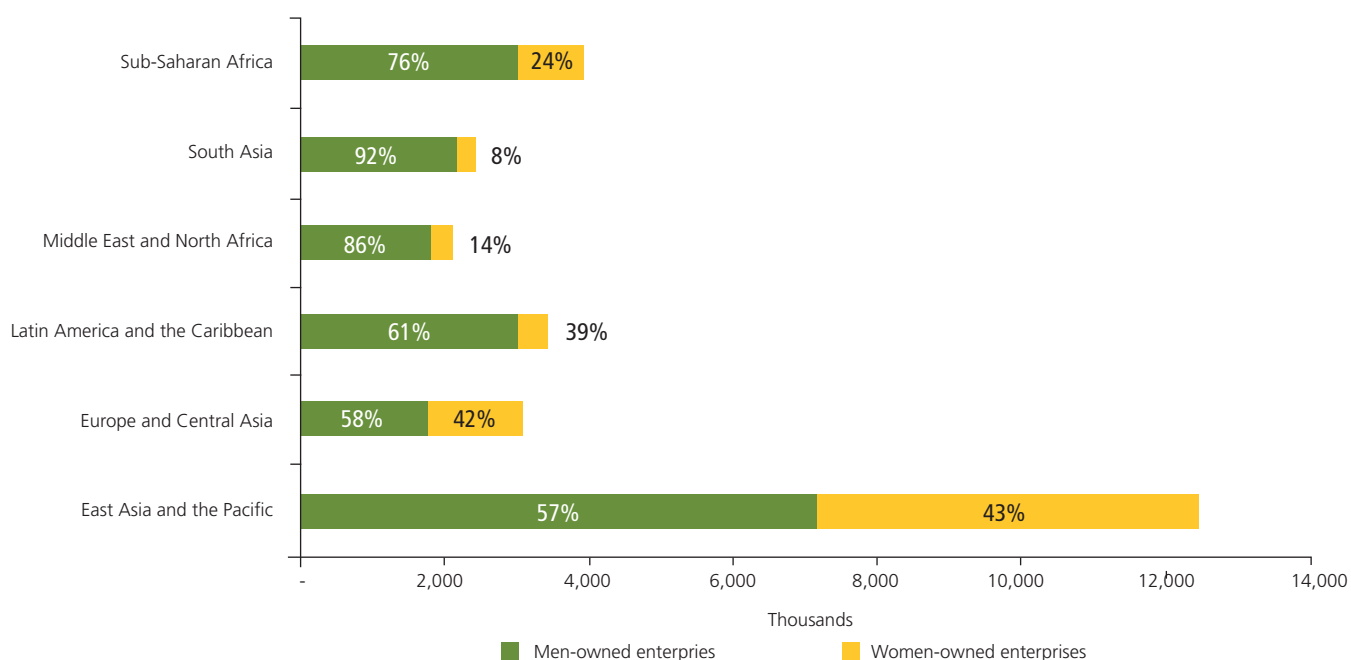
The graph below shows the percentage of formal men and women-owned SMEs in each region. The data reveals an interesting picture. The EAP region has not only the largest number of women-owned SMEs in absolute terms, but also as a share of total SMEs (43 percent)—this ratio is closely followed by ECA and LAC at, respectively, 42 and 39 percent share of total SMEs. The share of women-owned SMEs is the smallest in SA and MENA, where only 8 percent and 14 percent, respectively, of SMEs are owned by women.

The regional distribution of formal women-owned SMEs per 100,000 women reveals that most women-owned SMEs are concentrated in ECA at 26 percent, followed by EAP and SSA, respectively at 25 and 21 percent. South Asia has the least women-owned SMEs per 100,000 women, accounting for one percent of women-owned SMEs per 100,000 women in all the regions.

If we consider the distribution of formal SMEs (including very small) across three broad economic sectors—which are retail, manufacturing and other services—the analysis

estimates that the largest percentage of women-owned formal enterprises is the retail sector, followed by services and manufacturing. This is certainly the trend for EAP and ECA across all three segments of very small, small and medium enterprises. In LAC, this is true for very small and medium sized enterprises, while small enterprises have roughly the same distribution of women-owned formal enterprises across all three sectors. In the remaining three regions, the distribution is about the same across the sectors in the aggregate, with some variations within the very small, small and medium segments. In MENA, the analysis finds a slightly larger representation of women-owned businesses in the manufacturing sector across all segments. In SA, except for the very small segment, where the retail segment has the most women-owned formal enterprises, the small and medium segments have more women-owned businesses in the manufacturing and other services segments. Similarly in SSA, instead of the retail segment, a larger number of formal women-owned businesses are in the manufacturing sector for small and medium sized businesses and in the other services sector for very small businesses.

Figure 1: Relative shares of men and women owned SMEs, by region: 2003-2010



Source: IFC Enterprise Finance Gap Assessment Database (2011)

Figure 2: Distribution of women-owned SMEs per sector: 2003-2010

Source: IFC Enterprise Finance Gap Assessment Database (2011)

Women-Owned SME Credit Gap Assessment

The total credit gap for formal SMEs as estimated by the IFC Enterprise Finance Gap Assessment Database (2011) is approximately \$962 billion. The total credit gap for men and women-owned SMEs across different regions is provided in the table below.

The estimated credit gap for formal women-owned enterprises is estimated to be approximately \$287 billion, or 30 percent of the total SME credit gap. The credit gap for women-owned SMEs is largest for SMEs in LAC, followed by EAP and ECA. The smallest credit gap for women-owned SMEs is in SA. However, this may be a reflection of the comparatively small number of women-owned SMEs in SA. Another perspective that would be

Table 3: Total SME credit gap for men and women-owned SMEs by region: 2003-2010

Total Credit GAP by Region (USD million)							
Region	EAP	ECA	LAC	MENA	SA	SSA	Global
Men-owned Enterprises	100,017	104,061	149,654	244,232	13,318	63,961	675,244
Women-owned Enterprises	67,506	65,999	85,638	49,916	1,567	16,124	286,750
Total SMEs	167,523	170,061	235,292	294,148	14,884	80,085	961,994

Source: IFC Enterprise Finance Gap Assessment Database (2011)

Table 4: Total SME credit gap for men and women-owned SMEs by segment: 2003-2010

Size	Ownership	Total Credit Gap per SME by Region (USD MM)						
		EAP	ECA	LAC	MENA	SA	SSA	Global
Very Small and Small Enterprises	Men-Owned	89,150	69,226	69,406	51,716	12,370	30,334	322,202
	Women-Owned	62,671	46,401	61,185	11,028	1,197	9,373	191,856
	Total Small	151,821	115,627	130,590	62,745	13,567	39,707	514,058
Medium Enterprises	Men-Owned	10,867	34,836	80,249	192,516	947	33,627	353,042
	Women-Owned	4,834	19,598	24,453	38,888	370	6,751	94,894
	Total Medium	15,702	54,434	104,701	231,404	1,317	40,378	447,936
Total Enterprises	Men-Owned	100,017	104,061	149,654	244,232	13,318	63,961	675,244
	Women-Owned	67,506	65,999	85,638	49,916	1,567	16,124	286,750
	Total SME	167,523	170,061	235,292	294,148	14,884	80,085	961,994

Source: IFC Enterprise Finance Gap Assessment Database (2011)

useful for inter-regional comparison would be to see the credit gap for each SME segment (as represented below).

In terms of the credit gap by segment, formal medium sized women-owned enterprises have the largest credit gap in MENA, at approximately \$39 billion, which is about 17 percent of the total credit gap for medium enterprises in the region. LAC and ECA follow, with estimated credit gaps of \$24 billion and \$20 billion respectively. In LAC, the credit gap for women-owned enterprises is about 23 percent of the total credit gap for medium enterprises in the region while in ECA it is 36 percent. The relative difference in credit gap is the lowest in ECA, the credit gap for men owned enterprises is only about 1.8 times higher than the credit gap for women-owned medium enterprises, indicating that in ECA the credit gap is closing for medium enterprises. The lowest credit gap for women-owned medium enterprises is in SA at an estimated \$370 million, which is 39 percent of the total credit gap for male owned counterparts—this narrow gap can perhaps be attributed to the small number of medium sized women-owned enterprises in SA.

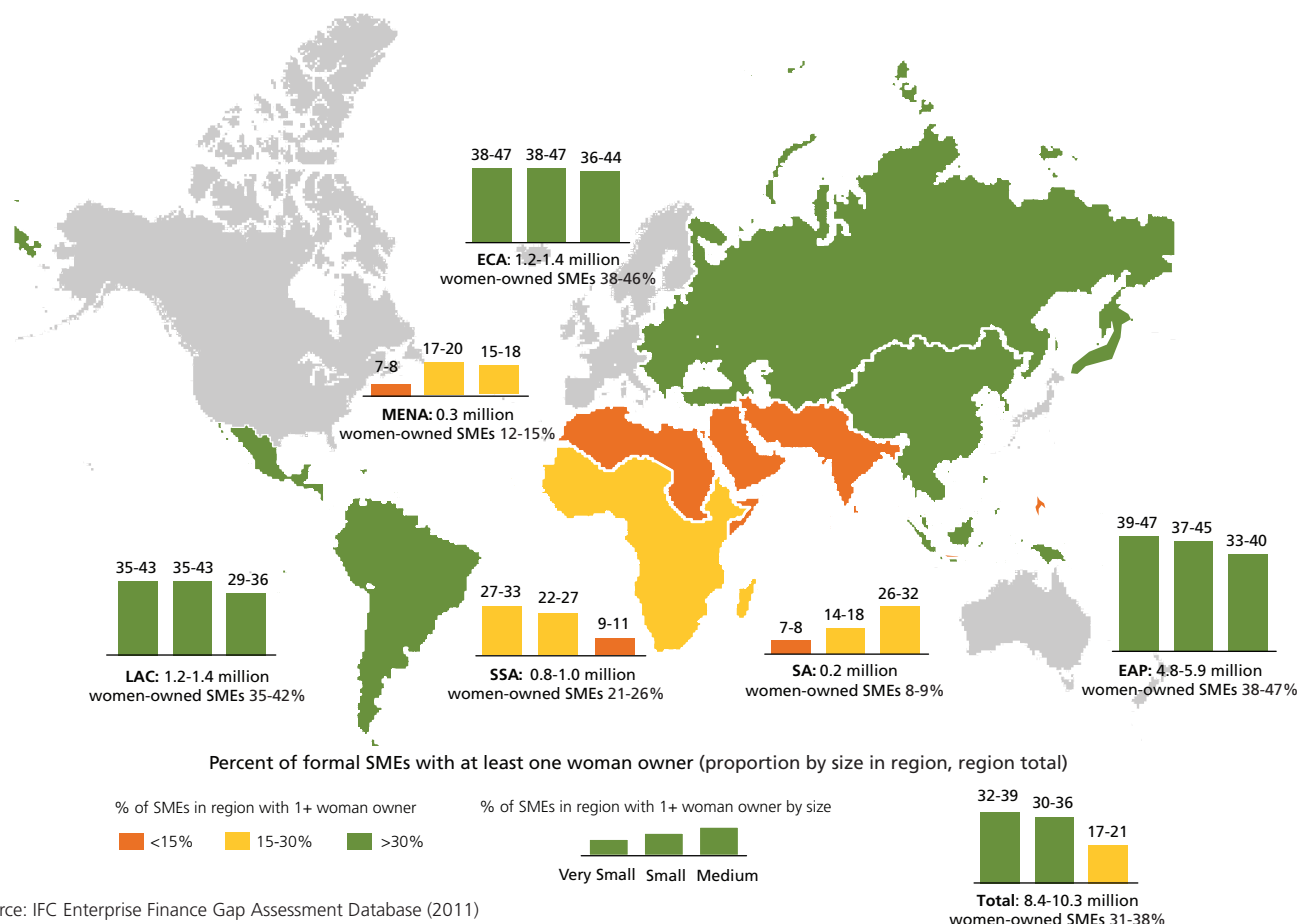
For the very small and small segment, the credit gap for formal women-owned enterprises is highest in EAP at approximately \$63 billion, which is 41 percent of the total credit gap for this segment in the region. LAC follows closely at approximately \$61 billion, representing 47 percent of the total credit gap for this segment LAC. The lowest credit gap again is in SA at about \$1.2 billion,

which is only nine percent of the total credit gap for this segment in the region. The difference in the credit gap between men and women-owned businesses in this segment is the lowest in LAC, where the gap for women-owned enterprises is only about 12 percent smaller than the gap for men owned enterprises. Unlike other regions, this indicates that the total credit gap in LAC, despite being large for both men and women-owned enterprises in this segment, is almost evenly distributed. The largest difference between men and women-owned very small and small enterprises is in SA, where the gap for men owned enterprises is ten times higher than the credit gap for women-owned enterprises, again possibly indicating the low number of formal women-owned enterprises in the region.

The map below shows the credit gap in each region, broken down by size—very small, small and medium—and indicating the relative shares of formal women-owned enterprises (with at least one women owner) of each category.

The average credit gap per formal SME accounts for the difference in number of enterprises across different countries and regions, and perhaps provides an estimate that is more appropriate for inter-regional comparison than the total credit gap.

The average credit gap per formal SME for all regions covered in the IFC Enterprise Finance Gap Assessment Database is estimated at just over \$55,000 (please refer

Figure 3: Formal SME total credit gap by gender, sector and size as per region: 2003-2010

to Table 5). Women-owned SMEs have an estimated average credit gap of a little over \$46,000 per enterprise, about three-quarters of the average credit gap of their men-owned counterparts. When disaggregated by region, the average credit gap is a mixed picture, with women-owned SMEs in MENA and SA having a higher average credit gap compared to men-owned SMEs in the those regions. The range of the average credit gap per women-owned SME is also quite wide—the difference is almost by a factor of 15—with the largest credit gap being in MENA (approximately \$271,000 per women-owned SME), and the smallest in EAP (approximately \$18,700 per women-owned SME). In both the segments, the regional differences are interesting to note. However, when the differences in average credit gap is adjusted by size of enterprise (i.e.: very small, small and medium sized enterprises), the gap is actually slightly larger for women-owned SMEs when compared to men owned enterprises—about 6 percent larger for small and very

small enterprises, and 1 percent larger for medium owned enterprises.

For formal women-owned medium sized enterprises, the average credit gap is the largest in MENA, followed by ECA and LAC. SSA has the lowest value of average credit gap for women-owned medium enterprises; however, in SSA the average credit gap for a women-owned medium enterprise is higher by 29 percent than the average credit gap for men owned enterprise. The only other region where the average credit gap for a women-owned medium enterprise is higher than their male counterpart is in MENA (higher by 10 percent). Hence for medium enterprises, with the exception of SSA and MENA, the average financing gap per men owned enterprise is actually larger than women-owned enterprises, the largest gap being in LAC where the financing gap for men owned medium enterprises is 69 percent higher than women-owned medium enterprises. The larger financing

Table 5: Average credit gap per formal SME²⁴ by region: 2003-2010

Size	Ownership	Average Credit Gap per SME by Region (USD)						
		EAP	ECA	LAC	MENA	SA	SSA	Global
Small and Very Small Enterprises	Men-Owned	18,615	73,152	59,058	59,292	13,586	16,906	30,722
	Women-Owned	17,989	63,495	72,583	81,730	17,390	14,609	32,502
	Total small	18,352	68,944	64,707	62,298	13,853	16,301	31,363
Medium Enterprises	Men-Owned	417,921	643,288	903,749	670,405	307,425	131,516	493,844
	Women-Owned	311,500	559,046	535,164	735,157	223,200	169,846	497,949
	Total Medium	378,146	610,183	778,521	680,477	277,595	136,673	494,708
Total Enterprises	Men-Owned	20,418	103,805	118,570	220,024	14,578	31,122	60,065
	Women-Owned	18,668	86,135	96,450	271,237	22,429	23,491	46,172
	Total SME	19,675	96,150	109,435	227,307	15,136	29,212	55,121

Source: IFC Enterprise Finance Gap Assessment Database (2011)

gap is most likely attributed to the greater presence of men-owned SMEs in these regions.

For small and very small formal enterprises the average financing gap for women-owned small enterprise is higher than their male counterparts in half of the six regions covered in this report. The average gap is highest for MENA followed by LAC, and ECA. The lowest values of the average financing gap for women-owned enterprises are in SSA and SA where in SSA, the average credit gap for women-owned enterprise is 14 percent smaller than their male counterparts. In SA, the situation is the reverse, where the average credit gap is 28 percent higher for women-owned businesses than male owned businesses. The table below provides the average credit gap for formal small and medium-sized men and women-owned enterprises in the region.

Conclusion

This section presents IFC's analysis on the number of formal women-owned SMEs, including very small enterprises, as aggregated estimates across six regions, small and medium segments and across economic sectors that include retail, manufacturing and services. The analysis further extends to estimating an aggregate value of the credit gap that formal women-owned SMEs face. This analysis is useful as it marks one of the first attempts to quantify the value of credit gap at an aggregate global and possibly regional level for women-owned enterprises. Quantifying the size and magnitude of the challenge that women SMEs face in accessing financial services is critical

so that financial institutions, investors and policy makers can take action to address some of these challenges.

The estimated value of the credit gap for formal women-owned enterprises is about \$287 billion, and represents approximately 30 percent of the total credit gap of all SMEs across the six regions. This is a significant untapped market opportunity for financial institutions and other investors to target. The analysis further provides a first indication of what the broad market size could be for each region across broad economic sectors, what could be the estimated value of total credit gap, and what could be the estimated average credit gap for women-owned enterprises for small and medium segments. For instance, ECA and EAP may have the largest number of women-owned enterprises, adjusted for population, while MENA and SA have the lowest. However, the average credit gap per women-owned enterprise is actually the highest in MENA, indicating that the challenge is most acute in the MENA region. Apart from understanding regional distributions, the estimates serve to present to policy makers the impact of unaddressed barriers (detailed in the following chapter) that remain for women when establishing a business, as evidenced by the low numbers of women entrepreneurs in regions such as SA and MENA. It is clear that for individual country level interventions, further country level research and analysis is necessary to more accurately size the market and identify the particular barriers that need to be tackled. However, this analysis is a good start and serves as a broad benchmark for unmet financing needs that remain to be addressed through mobilizing support and targeted actions from both the private and public sectors.

Financial and Non-Financial Constraints Faced by Women-Owned SMEs



This chapter²⁵ describes the financial and non-financial constraints²⁶ faced by women-owned SMEs²⁷ to profitably growing their businesses. Each of these constraints can be analyzed in the context of the business stage in which they occur. It is evident that most of the financial and non-financial barriers affecting women-owned SMEs occur at the start-up stage of the business life cycle as shown below in Figure 4, suggesting that this is possibly the most critical stage where women face challenges. Women-owned SMEs are unable to fulfill their demand for credit, which indicates that various barriers or constraints may affect their access to finance. These barriers could limit the ability of

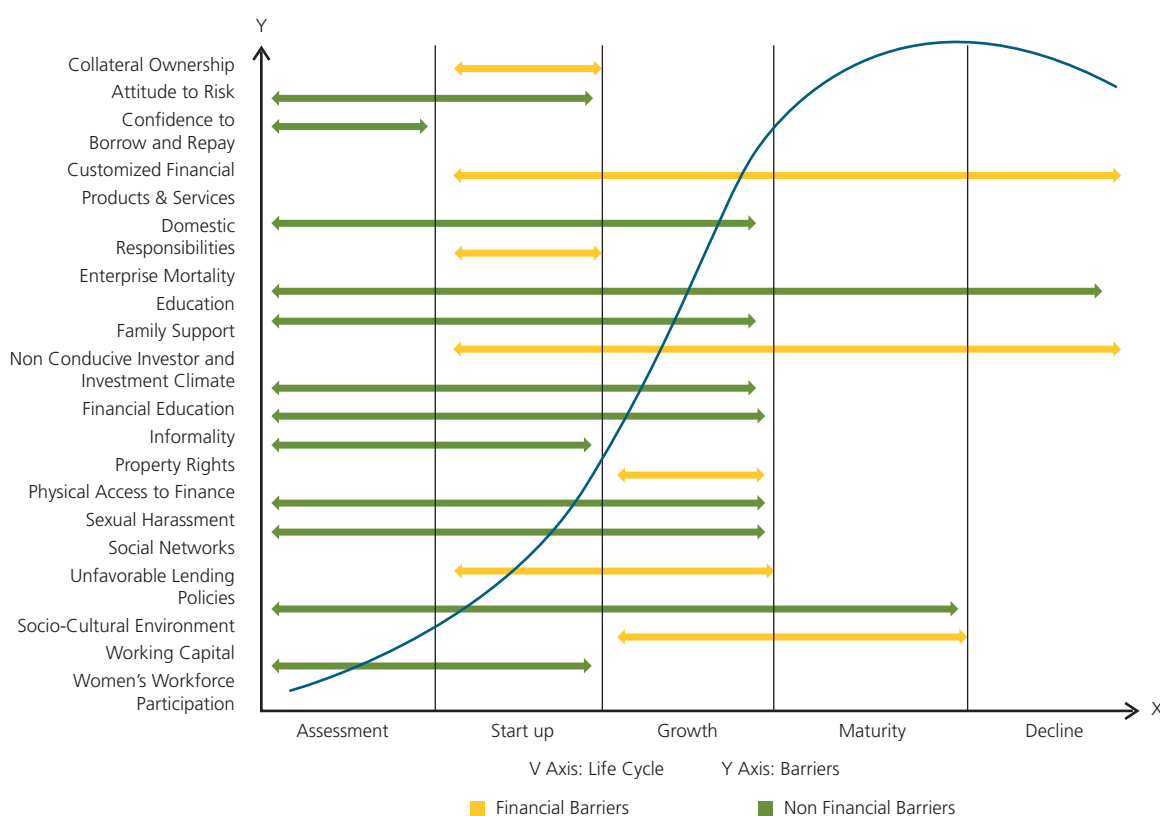
women-owned SMEs to obtain finance. It is important to note that although access to finance is one of the major constraints, it cannot be looked at in isolation of the other barriers which heavily impact women enterprises.

Financial Barriers

Financial barriers for women entrepreneurs gravitate around the following issues:

Lack of Collateral – Most financial institutions require collateral, with the average value taken often being much higher than that of the requested loan. In most cases, the required collateral is a fix asset in form of a land title

Figure 4: Business Life Cycle Analysis – Constraints faced by women-owned SMEs



Source: Ernst & Young Analysis; IFC

or property deed. This form of collateral is usually very difficult for women to provide. It is estimated that women own roughly one percent of registered land titles.²⁸ When women have access to property they are often reluctant to present it as collateral, as losing it would not only impact them, but their family members as well.

Inadequate financial infrastructure – Collateral registries or credit bureaus would facilitate access to finance for women as it would provide alternative credit evaluation and collateral options such as moveable assets, machinery receivables and others, thus enabling them to circumvent the need for title deeds. Furthermore, evidence shows that credit significantly increases in countries where security interests are protected and there is a predictable priority system for creditors in cases of loan default. Credit to the private sector as a percentage of gross domestic product (GDP) averages 60 percent²⁹ compared with only 30 to 32 percent³⁰ on average for countries without these creditor protections.

Inadequate perception and evaluation of risk – Financial institutions perceive women to be riskier, higher cost and/or lower return due to their size³¹. This negatively influences their appetite to lend to women regardless of whether the perception of higher risk is based on facts, experience, or on conjecture. Financial institutions are more likely to lend to clients whom they know well. A more personal dimension to the issue is that credit officers may be risk averse vis-à-vis women entrepreneurs as a client group they know very little about.

Lack of a customized approach and unfavorable lending policies – Most commercial banks don't consider women as a specific market segment with different characteristics to take into account. As a result banks offer generic products and services which are most likely not suitable for the types of businesses women are running. Banks perceive the majority of women business-owners to be micro enterprises³² with need for microfinance size loans and with little chances of qualifying for bigger loans. Hence, there is reasonable access to micro loans, but much less for small and medium size loans. Women also cite loan repayment periods to be considerably short and with high interest rates. These factors lower

their appetite towards asking for credit, as well as other potential products and services that could be valuable to them.

The high cost of funding – Geographic distances and high transaction costs for banks operating in remote locations raises costs of finance, thus undermining the growth of women-owned SMEs in remote locations. As the majority of commercial banks have most of their operations in urban centers, women in remote areas are limited by lower mobility and have to revert to alternative mechanisms to fund their operations. Additionally, the limited time women have due to family and time constraints; and the high safety and theft risks they face in traveling long distances to conduct their banking transaction severely hampers their business growth.

Non-Financial Barriers

Access to finance for women-owned SMEs is also heavily linked to other challenges, which are of a non-financial nature, but which have high negative impacts on their growth potential. These can include investment climate conditions that may affect women differentially, the size of women enterprises and the industry in which they operate, women entrepreneurs' risk averseness, access to education and information, and access to markets.

Investment climate conditions – A weak investment climate limits SMEs' productivity. Particularly relevant for women are the formal gaps in legal capacity and property rights. Constitutional and statutory provisions may constrain women in entering into contracts in their own name. In some cases women may lack the legal documents, such as a national identity document or passport, which are pre-condition for banking transactions. For example, some countries still require spousal permission to register a company and open a bank account.

Limited business skills – Women enterprises often lack the level of business acumen and skills to grow in a profitable and competitive manner. Most enterprises have difficulty keeping track of their accounts³³, handling taxes and understanding compliance rules and regulations. They also lack the strategic focus and the long term plan

with specific markets, product/service innovation and growth projections to attract banks and investors and encourage them in taking the risk.

Limited networks – Women who start businesses tend to know fewer entrepreneurs than male entrepreneurs.³⁴ In other words, men have more social connections that enable them to access business opportunities, information, and contacts than do women. In this way, women are disadvantaged from the start, having fewer professional connections, role models, and mentorship opportunities, which can adversely affect their businesses in the long run.³⁵

Social and cultural roles also impact women's entrepreneurship growth – Cultural and societal views on gender roles can make it difficult for women who want to start their own businesses, and in some instances run it properly. In some societies, running a business is often seen as a male venture, women are traditionally associated with home and health³⁶. This heavily impacts their perception and path as self-employed, but most importantly impacts their decision-making process and their confidence in taking risks.

Conclusion

Women-owned enterprises—whether small, medium or large—are an important economic source for growth. Women are creating businesses at a greater rate than men and can equally contribute to the GNP of their economies as they invest their profits in education, their family and their community. If given the opportunity through innovative solutions for the barriers stated in this chapter, woman can thrive and be a profitable segment for financial institutions. Traditional measures of economic development and business performance often do not capture the true transformational benefits of women businesses.

Seeing the opportunity with and the growth potential of women-owned business, IFC has been working with financial institutions to enable them to profitably tap into the women's market. Through its investment and advisory programs, IFC is targeting global, regional and local financial institutions with SME lending track records as partners. As part of this work and to further understand and show the business case, IFC conducted a baseline exercise, detailed in the next chapter, and looked at its portfolio of commercial banks to confirm whether women are equally as profitable as men for financial institutions, and if there is indeed an opportunity for them to do more.

Establishing a Baseline for Lending to Women-Owned SMEs Among IFC Financed Financial Institutions



This chapter³⁷ presents findings from the *SME Gender Baseline*, specifically estimating the share of lending to formal women-owned SMEs across IFC's FIG portfolio. This chapter also highlights the financial and operational characteristics for formally registered women-owned SMEs that have received financing from IFC client financial institutions.

IFC aims to expand the opportunity to support women entrepreneurs' increased access to financial services. IFC has been helping banks profitably and sustainably serve women-owned businesses by providing financing for on-lending to women entrepreneurs, as well as advisory services to enhance client financial institutions' ability to address the needs of the women's market, and provide the most appropriate products and services for this clientele. Since interventions with a gender focus and component need to be customized to the specific characteristics of the local market and the FI, gender-disaggregated data becomes critical. In this context, IFC realized that examining the portfolio of its client FIs can provide valuable information not only on the volume of lending to women-owned SMEs, but also on the similarities and differences between women and men-owned SMEs.

In 2012, IFC completed the "*SME and Women-Owned SME Baseline Survey*" to determine the share of female-owned SMEs financed by IFC's client financial institutions worldwide, to establish a baseline ('SME Gender Baseline'), and to learn more about the characteristics of these firms. IFC surveyed 34 banks in 25 countries in all six regions, which accounted for about 10 percent of FIG's micro-, small, and medium size enterprise (MSME) reach reporting portfolio³⁸ by number of banks, and represented the regional portfolio distribution at the time of the survey. For each bank surveyed, 90-100 SME loans³⁹ were randomly selected (with roughly 30 or more

in each MSME category⁴⁰) and reviewed to get detailed information on the enterprises that received financing. This included the percentage of female ownership, number of employees, annual sales, total assets, women in top management, sector of operations, and other data. The portfolio sampling method was utilized after attempts to collect information on women-owned enterprises through a bank questionnaire, which revealed that the banks were unable to provide information on their SME clients on a gender-disaggregated basis.

The study defined "Women-owned SMEs" as firms with **at least 51 percent women's ownership⁴¹ and which received loans from \$10,000 to \$1 (or 2 million)⁴² at origination** (SME loan size proxy used by IFC for financial institutions⁴³). Where specified, an expanded definition, which is a proxy to the current IFC's women-owned SME definition⁴⁴, was used. In this case, women-owned SMEs were defined as firms with either at least 51 percent women's ownership, or with at least 26 percent women's ownership in a business that has a woman CEO or COO, and which received loans from \$10,000 to \$1 million (or \$2 million) at origination.

An analysis of more than 2,200 enterprises receiving small and medium-size enterprise (SME) loans from 34 IFC client FIs in 25 countries showed that, overall, about 16.4-18.5 percent of the loans were issued to women-owned SMEs, with regional variations from 5.7 to 28.1 percent. This indicates quite a low access to finance for women entrepreneurs and overall low women's ownership in emerging markets. It is estimated that in CY12, IFC clients had about 813,000-1,105,000 loans issued to women-owned SMEs, or 14-19 percent of 5.8 million SME loans.

A total of 3,157 randomly selected SME loans were reviewed during the portfolio sampling. Out of these, 2,269 were classified as SMEs based on the SME loan size proxy and had ownership data disaggregated by gender. These 2,269 SMEs allowed for statistically sound estimates, with regional 95 percent confidence intervals within \pm six percent, and the overall sample ones within \pm 2.5 percent (Table 6).

Table 6: Number of observations and confidence interval at 95% confidence level by region: 2011-2012

REGION	NUMBER OF OBSERVATIONS	CONFIDENCE INTERVAL
EAP	335	\pm 5.3%
LAC	446	\pm 4.6%
ECA	469	\pm 4.5%
SSA	272	\pm 5.9%
SA	359	\pm 5.2%
MENA	388	\pm 4.9%
Total Sample	2,269	\pm 2.5%

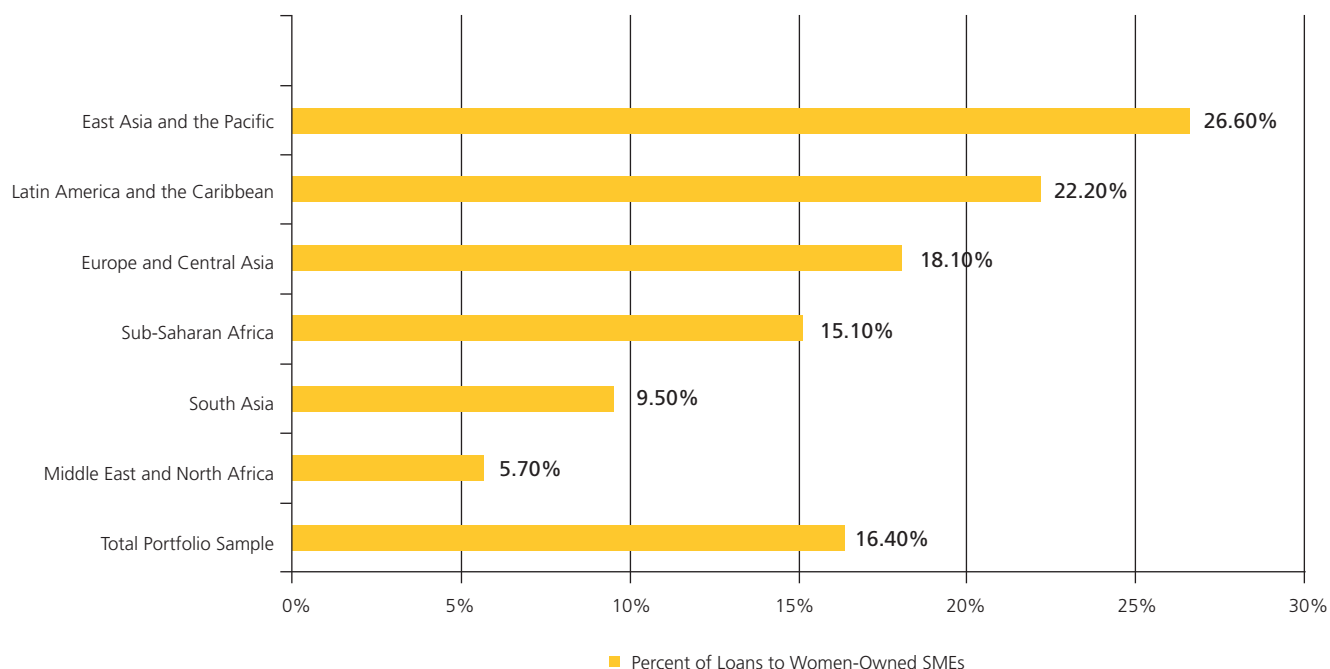
Source: Ernst & Young Analysis; IFC

Establishing a Baseline for Lending to Women-Owned SMEs among IFC's FIG Clients

The portfolio sampling showed the following percentages of number of outstanding loans issued to formal women-owned SMEs by region (Figure 5). The shares of loans to women-owned SMEs vary significantly by region and indicate an overall low level of women ownership and access to finance.

The obtained gender baseline allows for the extrapolation of the absolute number of loans issued to formal women-owned SMEs by IFC client financial institutions based on SME "reach" data, or the information collected by IFC from its FIG portfolio clients on their lending activities every year. This reach data is reported based on IFC's MSME loan-size proxies, and this makes it fully comparable to the sampling results from the SME Gender Baseline. For the purpose of this extrapolation, the baseline for SME loan size proxy for women-owned enterprises for each region was applied to the

Figure 5: The shares of loans to formal women-owned SMEs: 2011-2012



Source: Ernst & Young Analysis; IFC

total SME loans reported by IFC FIG portfolio clients in CY12 (FY13) for the respective region, taking into consideration the ranges based on confidence interval (Table 6). In CY12, IFC's FIG portfolio clients reported that they issued 5.8 million SME loans.

Portfolio extrapolation using the regional reach data and baseline estimates resulted in the following estimates of the number of loans issued to formal women-owned SMEs (Table 7). The extrapolation shows that in CY12 the loan portfolios of IFC's FIG portfolio clients had an estimated 959,000 loans, which could range anywhere from 812,700 – 1,105,100 taking into consideration the sampling error. By region, it is estimated that most of the women-owned SMEs were reached through IFC clients in LAC, EAP, and ECA. The least women-owned enterprises were reached in MENA and SSA. South Asia had a moderate number of women-owned SMEs in their portfolios.

Gender Baseline and Extrapolation Based on IFC's Definition of Women-Owned SMEs

At the time of the SME Gender Baseline, IFC adopted the following definition⁴⁵ of a women-owned enterprise: a woman-owned enterprise has either: (a) at least a 51 percent ownership/stake held by a woman/women; or (b) at least a 20 percent ownership/stake held by a woman/women AND ≥ 1 woman as CEO/COO (President/Vice-President) as well as ≥ 30 percent of the board of directors being women where a board exists. Utilizing

the available gender-disaggregated data points from the survey, the closest definition ("proxy") to IFC's adopted definition of women-owned SME is "enterprises with either (a) ≥ 51 percent owned by a woman/women; or (b) ≥ 26 percent owned by a woman/women AND ≥ 1 woman as CEO/COO (President/Vice-President)." This definition is more conservative and quite close to the current IFC definition, and therefore was used as a proxy for it.

Figure 6 below presents the gender baseline by region obtained from the portfolio sampling results using the IFC's proxy definition for women-owned SMEs. Even if firms with 25-50 percent women ownership and women in key decision making roles are taken into consideration, there are only insignificant increases in regional trends in terms of distribution of loans to male or female entrepreneurs across the regions.

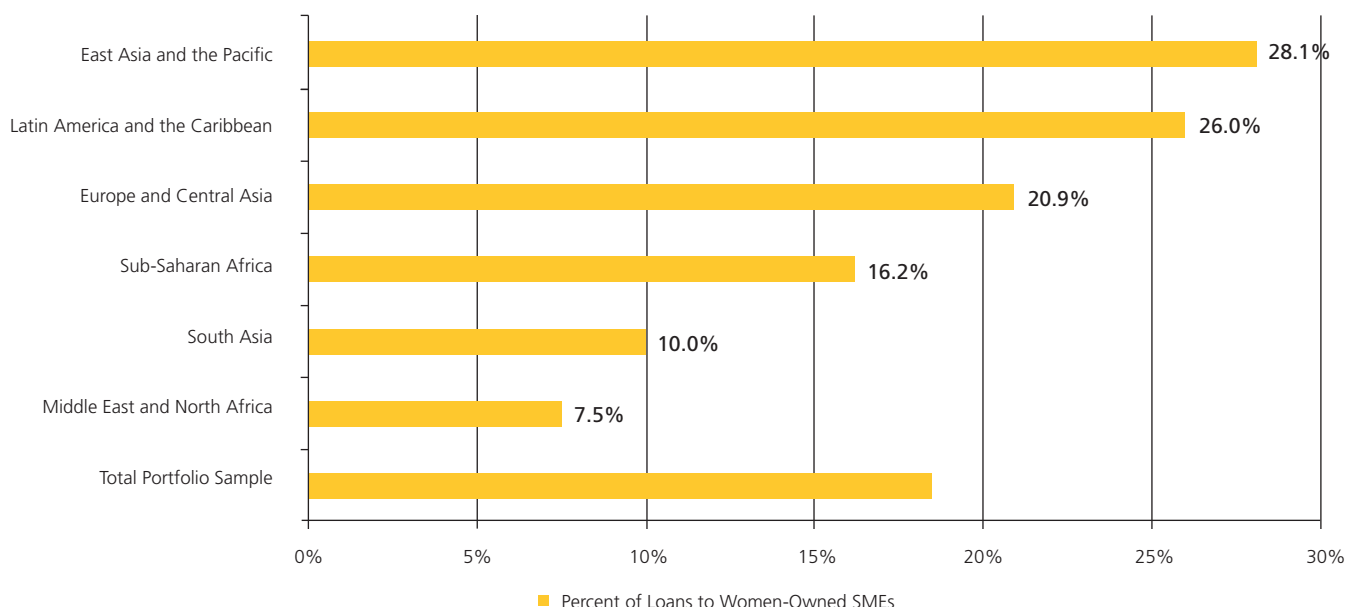
The gender baseline based on the IFC's definition of formal women-owned SMEs led to an increase in the share of loans provided to women-owned SMEs. This increase varies from 3.8 percent to 0.6 percent. The most notable increase was observed in LAC (+3.8 percent), followed by ECA (+2.8 percent). The baseline estimate increased by 1.8 percent in MENA and by 1.5 percent in EAP. A marginal increase was seen in the estimates for SSA (+1.1 percent) and SA (+0.6 percent). The extrapolation based on the above definition estimates that IFC's reach to women-owned enterprises was about 1,082,000 in CY12.

Table 7: SME Gender Baseline and Number of Loans to formal women-owned SMEs in CY12: 2011-2012

Region	"Gender baseline (% of EME loans (10k–\$1 or \$2m) to women-owned firms)"	"Number of loans to women-owned smes in cy11 (plus range of estimate)"
East Asia	26.6% (Range: 21.3-31.9%)	305,021 (244,246-365,795)
Latin America and the Caribbean	22.2% (Range: 17.6-26.8%)	555,102 (440,081-670,124)
Europe and Central Asia	18.1% (Range: 13.6-22.6%)	241,694 (181,604-301,784)
Sub-Saharan Africa	15.1% (Range: 9.2-21.0%)	15,381 (9,371-21,391)
South Asia	9.5% (Range: 4.3-14.7%)	61,551 (27,860-95,242)
Middle East and North Africa	5.7% (Range: 0.8-10.6%)	6,537 (917-12,156)
Global	16.4% (Range: 13.9-18.9%)	958,896 (812,722-1,105,069)

Source: Ernst & Young Analysis; IFC

Figure 6: Distribution of loans using IFC's expanded proxy definition of formal Women-owned SMEs: 2011-2012



Source: Ernst & Young Analysis; IFC

Conclusion

The SME Gender Baseline shows that access to finance for formal women-owned SMEs varies significantly from region to region, indicating overall low women's ownership of SMEs around the world based on two presented definitions. The survey allowed the IFC to establish a valuable gender baseline, which was previously available neither to IFC nor to its client financial institutions. The differences in women's ownership between the two definitions—one based on ownership only and one based on ownership and control—are small, so relatively little was gained by using the more expansive definition at this time. This may change over time, however, as more women participate in firm ownership and decision-making. The obtained results can be used to better focus

IFC's offerings in the area of supporting women-owned SMEs as well as target setting for increased support of women entrepreneurs. The gender baseline is also suitable for extrapolating the number of women-owned SMEs reached by IFC FIG clients on an annual basis. Given the wide regional variations, it is recommended that each region should be viewed separately while developing programs targeted at supporting women-owned SMEs.

The SME Gender Baseline also provided IFC an opportunity to analyze the characteristics of formal women-owned SMEs in client bank portfolios in comparison to their male counterparts. The next chapter presents this analysis.

Characteristics of Women-Owned SMEs



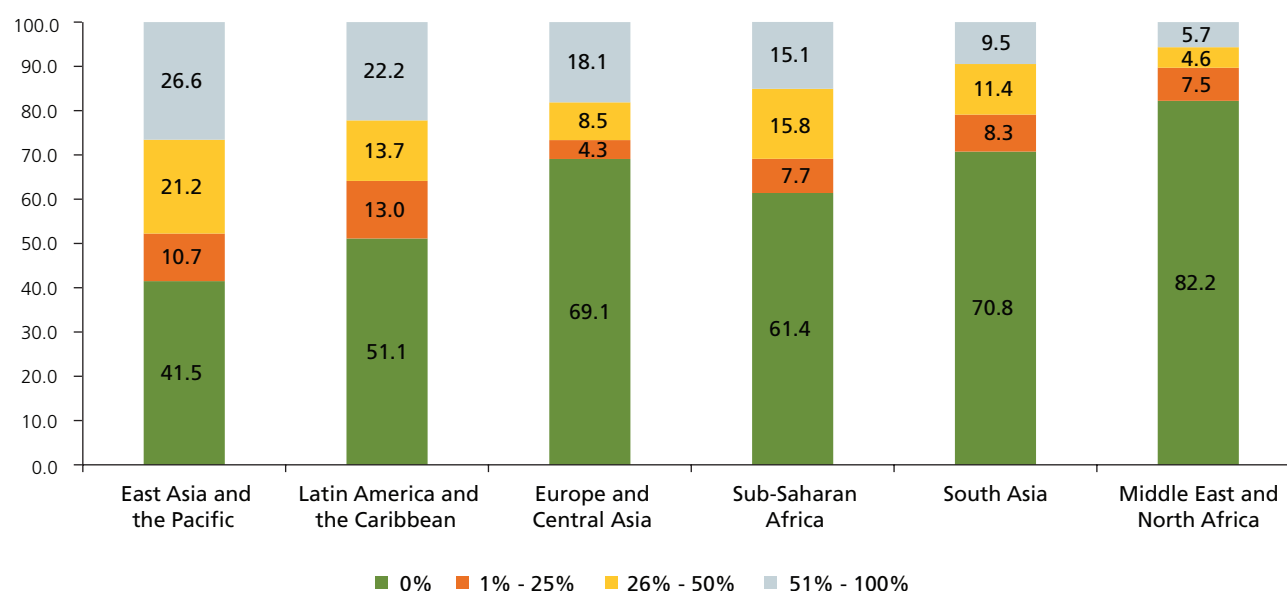
This chapter highlights the key operational and financial characteristics of formal SMEs on a gender-disaggregated basis in IFC's client financial institution's portfolio. Apart from the information on the gender-disaggregated distribution of loans given out by IFC's FIG portfolio client financial institutions, the portfolio sampling dataset gathered in the *SME Gender Baseline* provides information on a number of key characteristics between women and men-owned SMEs including insights into the operational profile and financial strength of these SMEs and the properties of the loans they have borrowed.

Operational profile of SMEs that have borrowed from IFC's FIG portfolio clients⁴⁶

Women's Ownership and Management

An analysis of women's ownership in formal SMEs must entail an understanding of women's role in businesses in which they may not have a controlling stake. Analysis of the geographic properties of the portfolio sample for percentage of women's ownership in businesses shows that the highest proportion of businesses in which women have a controlling stake are in EAP (26.6 percent). This is followed by LAC (22.2 percent), ECA (18.1 percent), SSA (15.1 percent), SA (9.5 percent), and MENA (5.7 percent).

Figure 7: Women ownership of formal SMEs by region: 2011-2012



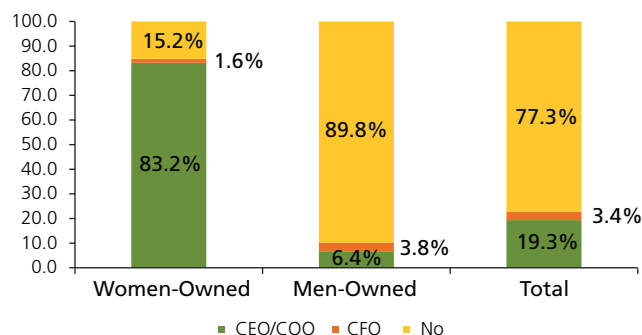
Source: Ernst & Young Analysis; IFC

Furthermore, 58.5 percent of SMEs in EAP have at least one woman owner. This is followed by LAC (48.9 percent), SSA (38.6 percent), ECA (30.9 percent), SA (29.2 percent), and MENA (17.8 percent)

The portfolio sampling database also highlights the role women play in managing SMEs globally. According to the sample, 23 percent of SMEs that have loans with IFC's FIG portfolio clients have women CEOs/COO and/or CFOs. But it is important to note that a majority of these women managers are managing women-owned businesses. About 85 percent of women-owned SMEs have women in senior management. The corresponding figure for men-owned businesses stands at around 10 percent.

This pattern is supported by a gender-disaggregated examination of business registration types. Around 54 percent of formally registered women-owned businesses are registered as individual entrepreneurs/sole proprietorships. In these cases, it is commonly observed that the owner is also the CEO/COO of the business.

Figure 8: Women in management of SMEs, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

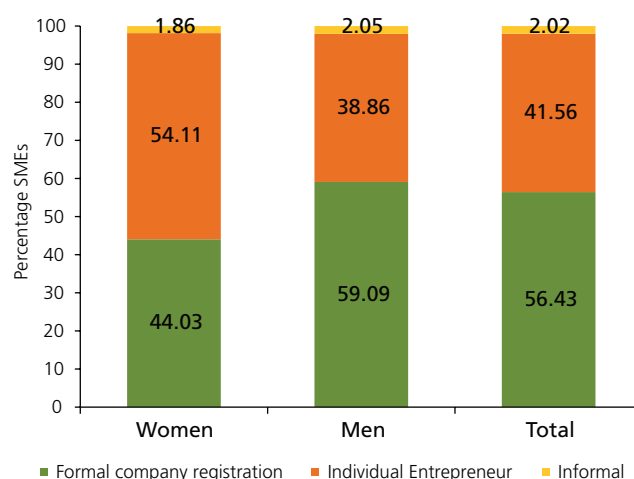
Registration Status

Around 56 percent of SMEs in the loan portfolio sample are formally registered companies while another 42 percent are sole proprietorships. Only 2 percent of SMEs are unregistered, and therefore informal.

Fifty-four percent of women-owned enterprises are individual sole proprietorships, while 39 percent of men-

owned enterprises are individual proprietors. Forty-four percent of the women-owned SMEs and 59 percent of the men-owned SMEs that have loans with an IFC's FIG portfolio clients are formally registered companies.

Figure 9: Registration status of SMEs, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

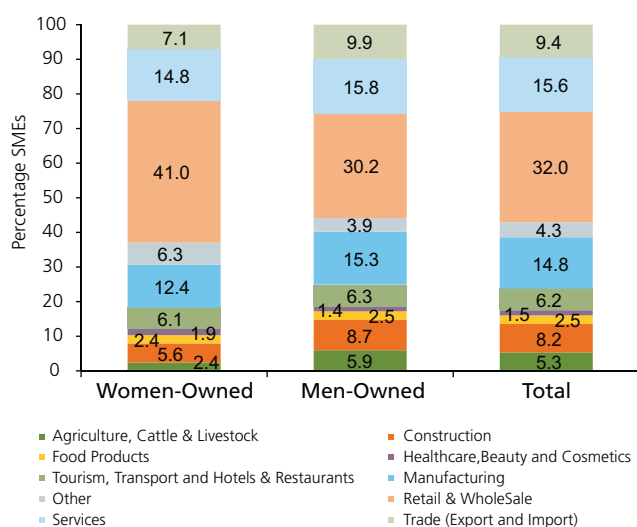
Sector of Operation

Nearly one third (32 percent) of all formal SMEs in IFCs global SME portfolio operate in the retail and wholesale sector. The other common sectors of operation include services (15.6 percent), manufacturing (14.8 percent), trade (9.4 percent), and construction (8.2 percent).

The types of firms operated by women and men entrepreneurs are different. Women-operated firms are smaller⁴⁷ and concentrated in different subsectors of both services and manufacturing.⁴⁸ A minor difference is observed in the trade (export and import) sector, which accounts for 7.1 percent of women-owned and 9.9 percent of men-owned SMEs. A similar difference is observed in the manufacturing sector, which accounts for 12.4 percent of women-owned and 15.3 percent of men-owned enterprises. Some difference is also observed in the agriculture, cattle, and livestock sector, which accounts for 2.4 percent of women-owned and 5.9 percent of men-owned enterprises.

These differences are primarily adjusted for within the retail and wholesale category, where there is a more pronounced gender gap. The sector accounts for 41 percent of women-owned and 30 percent of men-owned enterprises. In this sense, the portfolio samples are representative of the SME sector, as the proportion of women's enterprises is relatively higher in wholesale and retail trade, transportation, and accommodation, while it is relatively lower in manufacturing.⁴⁹

Figure 10: Sector of operation of formal SMEs, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

Scale of Operations (measured by number of employees)

Research that has documented the difference between the scale of operations of men-owned and women-owned SMEs measures the size of enterprises on the basis of number of employees, and suggests that women-owned SMEs operate at a smaller scale than their men-owned counterparts.^{50,51} However, information from the portfolio sample does not support such an analysis, and

Table 8: Number of employees working in formal SMEs, gender-disaggregated basis: 2011-2012

	Women-owned	Men-owned	Total
Mean	40 employees	44 employees	44 employees
Median	14 employees	15 employees	15 employees

Source: Ernst & Young Analysis; IFC

rather suggests that on the basis of number of employees, women-owned SMEs⁵² have the same scale of operations as their men-owned counterparts.

An analysis of the mean and median number of employees in formal SMEs reveals that the mean number of employees is 44 and the median number of employees is 15. There is a marginal difference between the mean and median number of employees working in women-owned and men-owned SMEs. The mean of the number of employees working at women-owned SMEs is 40, and the corresponding figure for men-owned SMEs is 44. The median value of employees working at SMEs is 14 for women-owned SMEs, and 15 for men-owned SMEs.

This parity in scale of operations is maintained even when comparisons are made across business registration types. The mean of the number of employees working at women-owned SMEs with formal company registration is 63, and the corresponding figure for men-owned SMEs is 65. Similarly, the median of employees working at these SMEs is 20 for women-owned SMEs, and 22 for men-owned SMEs.

Similarly, the mean of the number of employees working at women-owned SMEs that are sole proprietorships is 17 and the corresponding figure for men-owned SMEs is 20. Similarly, the median of employees working at these SMEs is 7 for women-owned SMEs, and 8 for men-owned SMEs.

Table 9: Business registration type and number of employees: 2011-2012

	Women-owned Formally Registered	Women-owned Sole Proprietorships	Men-owned Formally Registered	Men-owned Sole Proprietorships
Mean	63 employees	17 employees	65 employees	20 employees
Median	20 employees	7 employees	22 employees	8 employees

Source: Ernst & Young Analysis; IFC

Financial Characteristics of SMEs that have borrowed from IFC's FIG Portfolio Clients

The average annual sales of formal SMEs with a loan from IFC's FIG portfolio clients is about \$2,750,000, and their median annual sales is about \$590,000. The average value of total assets for these SMEs is \$2,250,000, and the median value of their total assets is \$492,000.

But a gender-disaggregated analysis shows that the parity in scale of operations of women-owned and men-owned SMEs with loans from IFC's FIG portfolio clients is limited to the number of employees. The median of annual sales for women-owned SMEs is 29.4 percent less than the median annual sales of men-owned SMEs.

Table 10: Annual sales of formal SMEs, gender-disaggregated basis: 2011-2012

	Women-owned	Men-owned	Total
Mean	\$2,268,399	\$2,841,140	\$2,745,470
Median	\$444,269	\$629,221	\$586,543

Source: Ernst & Young Analysis; IFC

A similar pattern is observed in the case of total assets, where the median value of total assets for women-owned SMEs is 30.6 percent less than the median value of total assets for men-owned SMEs.

Table 11: Total assets of formal SMEs, gender-disaggregated basis: 2011-2012

	Women-owned	Men-owned	Total
Mean	\$997,692	\$2,453,878	\$2,226,597
Median	\$364,599	\$526,633	\$491,855

Source: Ernst & Young Analysis; IFC

However, this disparity in the value of annual sales and total assets for formal women-owned and men-owned SMEs is because of the sectors in which women-owned and men-owned SMEs prefer to operate. A comparison of the median sales and median assets for women-owned and men-owned SMEs reveals that women find themselves at more or less equal footing as their men-owned counterparts in services and trade sectors.

There are a host of other sectors where women-owned businesses lag behind the performance of men-owned SMEs. These sectors include construction and real estate and food products.

As noted above, research has found that female business owners are more risk averse than men, especially when taking on financial risk⁵³. Also, it has been observed that female business owners are less likely to engage in risky business ventures and tend to minimize risk in their business operations⁵⁴. As a result, women-owned

Table 12: Sector of operation, annual sales & total assets: 2011-2012

Sector of Operations	Women		Men		Ratio (Women to Men)	
	Sales (Median)	Assets (Median)	Sales (Median)	Assets (Median)	Sales (Median)	Assets (Median)
Agriculture, Cattle and Livestock	\$492,696	\$434,167	\$655,250	\$668,991	75.2%	64.9%
Construction and Real Estate	\$286,380	\$695,214	\$542,869	\$1,009,499	52.8%	68.9%
Food Products	\$325,347	\$80,428	\$798,020	\$248,372	40.8%	32.4%
Healthcare, Beauty and Cosmetics	\$193,214	\$280,000	\$301,923	\$389,504	64.0%	71.9%
Manufacturing	\$628,920	\$476,914	\$823,367	\$657,624	76.4%	72.5%
Other	\$264,544	\$273,842	\$845,487	\$746,004	31.3%	36.7%
Retail and Wholesale	\$500,718	\$301,048	\$639,394	\$365,435	78.3%	82.4%
Services	\$533,160	\$516,024	\$549,186	\$620,650	97.1%	83.1%
Tourism, Transport and Hotels & Restaurants	\$342,720	\$574,614	\$550,512	\$805,000	62.3%	71.4%
Trade	\$620,344	\$483,189	\$633,333	\$445,531	97.9%	108.5%

Source: Ernst & Young Analysis; IFC

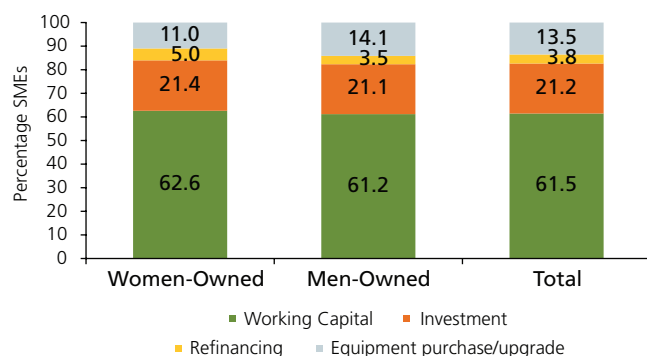
businesses tend to work with lower financial investments in their businesses. They tend to work with a lower volume of creditors and debtors and maintain relatively smaller inventories. This in turn affects the volume of sales they generate. Access to adequate finance can play a significant role in helping women overcome their reservations, thereby expanding the scale of operations.

It is important to note that the information in Table 12 is from the loan application stage. It would be interesting to carry out a similar analysis for these organizations post disbursement and at the repayment stage of loans. Such an analysis would provide an opportunity to evaluate whether the gap in scale of operations has narrowed because of access to sufficient finance. In this regard, the portfolio sampling dataset provides a unique opportunity to understand the characteristics of loans that SMEs have borrowed from IFC's FIG portfolio clients.

Characteristics of Loans Borrowed by SMEs

The borrowing pattern of formal SMEs with loans from IFC's FIG portfolio clients reveals that: 61.5 percent of loans were borrowed to finance working capital requirements; 21.2 percent of loans were borrowed for the purpose of financing investments; 13.5 percent of loans were borrowed for purchasing or upgrading equipment; and just 3.8 percent of loans were drawn for the purpose of refinancing existing debt. Furthermore, there is no notable difference between the purpose for which men-owned and women-owned SMEs borrow.

Figure 11: Purpose of borrowing for formal SMEs, gender-disaggregated basis: 2011-2012



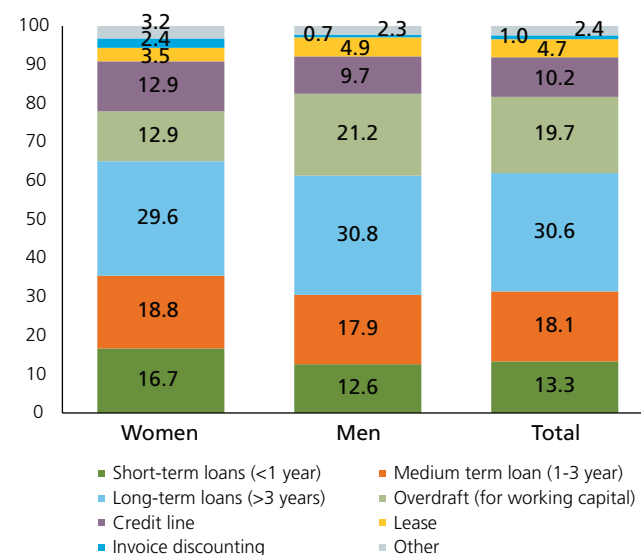
Source: Ernst & Young Analysis; IFC

SMEs borrow funds from IFC's FIG portfolio clients using a variety of loan products. The most commonly used loan product is the long-term loan (30.6 percent). The other frequently used loan products are overdraft facilities (19.7 percent), medium-term loans (18.1 percent), short-term loans (13.3 percent), and credit lines (10.2 percent).

But a gender-disaggregated analysis shows that there is a moderate difference in the usage of overdraft facilities. Specifically, 21.2 percent of the loans borrowed by men-owned SMEs are overdraft loans, and the corresponding figure for women-owned SMEs is 12.9 percent. This difference is adjusted for under the credit lines category and the short terms loans category. Meanwhile, 12.6 percent of the loans borrowed by men-owned enterprises are short-term loans, and the corresponding figure for women-owned SMEs is 16.7 percent. Similarly, 9.7 percent of the loans taken by men-owned enterprises are credit lines while the corresponding figure for women-owned businesses is 12.9 percent.

The percentage of formal women-owned and men-owned SMEs that have borrowed for the purpose of financing working capital requirements is similar. However, the proportion of women-owned businesses with an overdraft facility is lower than the corresponding figure

Figure 12: Type of loan products used by formal SMEs, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

for men-owned SMEs. This difference is adjusted for under the credit line and short terms loans category. An overdraft facility is a loan product which provides credit to businesses without the necessity of furnishing sufficient collateral. The same relaxation in collateral requirements does not apply to credit lines and short term loans. Therefore, it is quite possible that given their smaller scale of operation and a general notion of higher riskiness, women-owned SMEs are offered credit lines and short term loans more readily than an overdraft facility.

The average loan amount borrowed by formal SMEs that have taken loans from IFC's FIG portfolio clients is \$193,500, and the median loan amount is \$99,650. When viewed under a gender-disaggregated lens, the mean and median loan amounts for women-owned SMEs are approximately 25 percent lower than the corresponding figures for men-owned SMEs.

This is, however, in tune with the repayment capabilities of these SMEs, as the median loan amount for both women-owned and men-owned SMEs is about 20 percent of the median value of their annual sales.

The median loan amount borrowed by formal women-owned and men-owned SMEs varies across the range

Table 13: Loan amount at origination, gender-disaggregated basis: 2011-2012

	Women-owned	Men-Owned	Total
Mean	\$153,521	\$202,796	\$193,463
Median	\$77,171	\$100,000	\$99,653

Source: Ernst & Young Analysis; IFC

of loan products they use. The ratio of the loan amount borrowed by women-owned SMEs to the loan amount borrowed by men-owned SMEs varies from as low as 23.6 percent for invoice discounting to as high as 92 percent for long-term loans. These ratios provide further insight into why women-owned SMEs use short-term loans and credit lines to finance working capital requirements while their men-owned counterparts tend to use more overdraft facilities. Data from the portfolio sampling dataset reveals that the ratio of the loan amount borrowed by women-owned SMEs to the loan amount borrowed by men-owned SMEs is 90.1 percent for credit lines and 80.4 percent for short terms loans. However, a similar ratio for the overdraft facility category reveals that when women-owned SMEs borrow using an overdraft facility, their loan amount is merely half of that borrowed by men-owned SMEs.

Formal SMEs make use of a number of collateral types to secure loans from IFC's FIG portfolio clients. An analysis of the collateral furnished by SMEs to secure loans reveals that the most commonly used collateral (accounting for about half) is land, real estate, or factories. The second most commonly used collateral is guarantees (12.5 percent) and this is followed by the use of receivables as collateral (11.2 percent). Only 6.5 percent of the SMEs in the portfolio sample borrowed without providing any form of collateral.

There is, however, some difference in the pattern of collateral types used by men-owned and women-owned SMEs. A moderate difference is observed under the

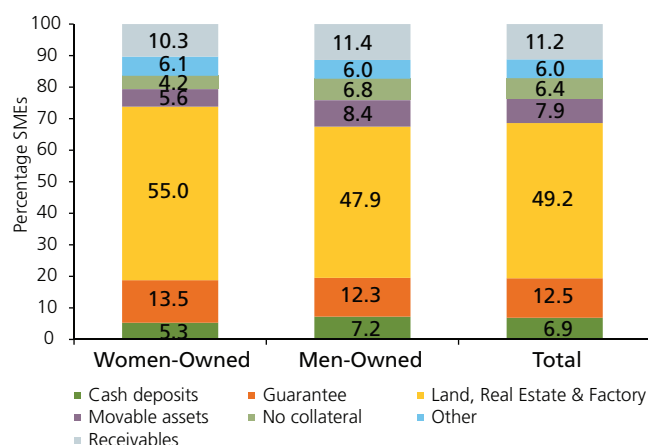
Table 14: Type of loan product used and loan amount at origination: 2011-2012

Type of Loan Product Used	Loan Amount for Women-Owned SMEs (Median)	Loan Amount for Men-Owned SMEs (Median)	Ratio (Women to Men)
Credit line	\$94,559	\$104,925	90.1%
Invoice discounting	\$125,000	\$528,630	23.6%
Lease	\$47,059	\$59,696	78.8%
Long-term loans (> 3 years)	\$116,279	\$126,444	92.0%
Medium-term loans (1-3 years)	\$27,216	\$38,889	70.0%
Other	\$119,089	\$222,306	53.6%
Overdraft (for working capital)	\$43,801	\$88,889	49.3%
Short-term loans (<1 year)	\$83,000	\$103,220	80.4%

Source: Ernst & Young Analysis; IFC

land, real estate, and factory category, which was used as collateral by 55 percent of women-owned businesses and by 48 percent of men-owned businesses.

Figure 13: Type of collateral, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

When offered as collateral, land, real estate, and factories are on an average able to secure the highest value of loan(s) while the lowest value of loan(s) is secured when no collateral is provided by the borrower. The ratio of the median loan amount secured by formal women-owned SMEs to the median loan amount secured by formal men-owned SMEs varies between 60 percent and 110 percent. However, this variation can be explained by the difference in the scale of operation of women-owned enterprises being smaller than that of their men-owned counterparts.

As discussed earlier, the loan amount disbursed by IFC's FIG portfolio clients is the same across formal women-

owned and men-owned SMEs when evaluated as a percentage of annual sales. There exists an equally strong parity in the interest rates at which IFC's FIG portfolio clients lend to women-owned and men-owned SMEs. The mean interest rate for SME loans is approximately 15.3 percent, and the median interest rate is approximately 14.3 percent.

A gender-disaggregated analysis suggests that the mean interest rate on funds borrowed by formal women-owned SMEs is approximately 0.7 percent more than the interest rate charged on funds borrowed by formal men-owned SMEs. However, the median interest rate charged on funds borrowed by women-owned SMEs is marginally lower than that charged on funds borrowed by men-owned SMEs. It may therefore be concluded that the aggregate interest charged is the same for both women-owned and men-owned enterprises.

This provides sufficient evidence in favor of the fact that IFC's FIG portfolio clients lend to SMEs without any gender-based biases.

Furthermore, an analysis of the mean and median tenor for which funds are formally borrowed by SMEs reveals that the mean loan tenor is approximately three years,

Table 16: Interest rate charged on loans, gender-disaggregated basis: 2011-2012

	Women-owned	Men-owned	Total
Mean	15.9%	15.2%	15.3%
Median	14.1%	14.3%	14.3%

Source: Ernst & Young Analysis; IFC

Table 15: Type of collateral furnished and loan amount at origination: 2011-2012

Type of Collateral	Loan Amount for Women-Owned SMEs (Median)	Loan Amount for Men-Owned SMEs (Median)	Ratio (Women to Men)
Cash deposits	73,536	85,269	86.2%
Guarantee	74,438	91,000	81.8%
Land, Real Estate and Factory	94,819	123,967	76.5%
Movable Assets	66,161	60,000	110.3%
No collateral	24,565	38,462	63.9%
Other	64,516	102,835	62.7%
Receivables	33,333	50,344	66.2%

Source: Ernst & Young Analysis; IFC

and the median loan tenor is two years. There is no notable difference between the mean and median tenor of loans taken by women-owned and men-owned SMEs.

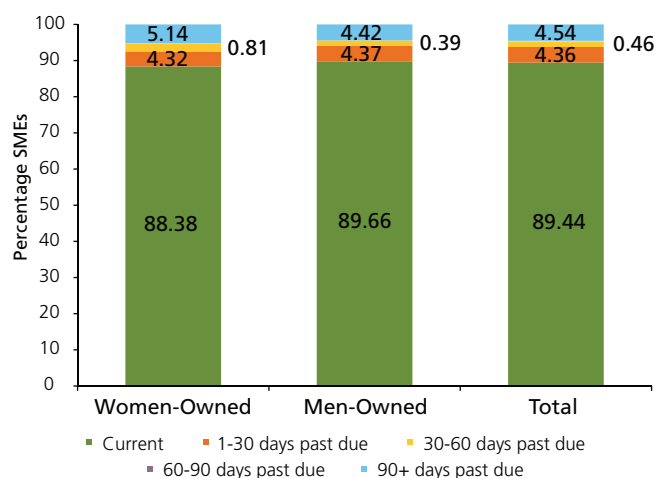
Table 17: Tenor of loans borrowed, gender-disaggregated basis: 2011-2012

	Women-owned	Men-owned	Total
Mean	35 months	37 months	37 months
Median	24 months	24 months	24 months

Source: Ernst & Young Analysis; IFC

Formal women-owned SMEs are not only able to secure loans at around the same terms as their men-owned counterparts; they are able to repay these loans with equal ease. Analysis of the performance of SME loans in the portfolio sampling dataset shows that around 90 percent of the loans are active, and only about 4.5 percent of loans are more than 90 days overdue. Furthermore, there is no notable difference between the pattern performance of loans borrowed by men-owned and women-owned SMEs.

Figure 14: Performance of SME loans, gender-disaggregated basis: 2011-2012



Source: Ernst & Young Analysis; IFC

Conclusion

An analysis of the portfolio data samples from IFC's FIG portfolio clients reveals that formally registered women-owned SMEs are more likely to be sole proprietorships, and most often these sole proprietorships are headed and managed by the owner herself.

Formal women-owned SMEs are well engaged in all sectors. They are more likely to have a larger presence in the retail and wholesale, and healthcare, beauty, and cosmetics sectors. They have close to equal footing in the tourist, transport, hotels and restaurants, services, and trade sectors, and a slightly lower presence in the manufacturing, agriculture, and construction sectors.

Contrary to public perception, formal women-owned SMEs tend to operate with a scale of operations that is comparable to the scale at which men-owned SMEs operate. They tend to have the same number of employees as their men-owned counterparts. However, they do tend to function on a smaller financial scale, and their aggregate annual sales and total assets are 30 percent lower than the corresponding statistics for their men-owned counterparts. In essence, this signifies risk aversion on the part of women entrepreneurs, who tend to work with lower inventory levels and shy away from working with creditors or debtors on their balance sheets. The borrowing pattern for formal women-owned SMEs is identical to that for formal men-owned SMEs. The aggregate loan amount borrowed by women-owned SMEs is about 25 percent less than the loan amount borrowed by men-owned SMEs. However, when viewed against their financial abilities, there is no observable difference in the amount they borrow vis-à-vis their annual sales.

Furthermore, on average, both women and men-owned SMEs borrow for the same tenor and are able to access funds at the same interest rates. This parity in loan characteristics is maintained during the repayment of loans and women-owned SMEs are able to repay their loans.

IFC's global reach demonstrates that women-owned SMEs who do have access to finance are treated similarly by IFC client financial institutions; however, much fewer women-owned SMEs are served by these financial institutions than their men counterparts. The characteristics of women-owned SMEs in the surveyed sample suggest that these are well performing yet overlooked clients, representing a market opportunity for financial institutions to pursue this underserved segment.

Recommendations



In 2011, IFC published the report *Strengthening Access to Finance for Women-Owned SMEs in Developing Countries*, suggesting measures that stakeholders should undertake to ensure women entrepreneurs' access to finance is given due attention. This report, *Women SMES: A Business Opportunity for Financial Institutions*, reinforces and builds upon the previously suggested actions and policy recommendations.

Based on IFC's investment and advisory engagements with FIs in recent years, and the results of the *SME Gender Baseline* study, the following key recommendations address how financial institutions, policymakers, development finance institutions, and private sector stakeholders can actively reduce the financial and non-financial barriers women-owned SMEs face, thus enabling an ecosystem conducive to women's entrepreneurship.

- **Develop a comprehensive framework at the government level to assess country gaps in supporting gender equality, including women's entrepreneurship**

In all of the IFC regions, barriers related to the socio-cultural environment have been identified as significant constraints for women's to access finance. While values or customs can obviously not be enforced by law, there is a need to raise awareness and promote an environment which is friendlier towards women entrepreneurs. Challenges such as limited or no access to property rights, limited access to education and a lack of awareness of legal rights influence the degree to which a women-owned SME can grow. As most non-financial barriers are based on custom and deeply cultural in nature, understanding a country's relevant laws and regulations, financial infrastructure, and unintended biases against women is necessary to start shifting negative perceptions of women.

Although this report provides insight into a region's demand and supply of credit to better understand the women-owned SME financing gap, women's access to finance must be assessed alongside other information of a country's gender gaps to understand the full spectrum of influencing challenges faced by women entrepreneurs, and where there are opportunities to support women. Government agencies focused on gender equality could address this by developing a framework to assess gender gaps and allocating resources to reduce the gaps accordingly.

- **Apply an ecosystem approach to encourage collaboration and enable women's entrepreneurship**

More public-private cooperation is needed to generate information and an enabling environment that addresses the financial and non-financial barriers women entrepreneurs face in growing their businesses. For instance, restrictive social and cultural norms, and limited access to networks, may prevent many potential female entrepreneurs from fulfilling their economic opportunities. Women often lack the necessary capacities, gained through economic skills enhancement trainings, as well as work experience. Women often do not possess the financial literacy they would need in order to acquire financial products or services. It therefore becomes imperative to establish more training and education programs—in conjunction with the provision of financial products and services—so that women have the necessary resources they need to set up and grow sustainable business. Stakeholders engaging initiatives that support women's entrepreneurship should assess the entrepreneurial ecosystem to determine the gaps in resources, such as the provision of trainings and networking opportunities, that need to be filled and identify potential partnerships—among

different actors such as government, non-profits, commercial banks, and universities—which can be formed to strengthen an enabling environment for entrepreneurship and support women.

For Financial Institutions: To date, there have been few initiatives where the financial sector joins hands with other stakeholders to develop and implement programs that support women entrepreneurs. A notable exception is Access Bank in Nigeria where the commercial bank partnered with IFC and Coca-Cola in March 2013 to provide access to finance for SME distributors of Coca Cola's Nigeria bottler, the majority of which are underserved women-owned SMEs. This investment in Nigeria is the first of an agreement between IFC and Coca-Cola- also signed in March 2013- targeted primarily at expanding access to finance for women-owned suppliers and distributors within Coca-Cola's value chain in emerging markets.

For Policymakers: In many countries, legislation has been passed supporting gender equality; however, there is a clear implementation gap.⁵⁵ Governments could provide advocacy and coordination between program implementers and funding organizations as part of a comprehensive ecosystem approach to addressing gender equality measures, including financial and non-financial barriers to women's entrepreneurship.

- **Develop a definition for formal women-owned SMEs and establish a firm knowledge base of gender disaggregated data for SMEs**

Up to this point, there is little consistency on how various stakeholders (e.g. financial institutions, policymakers, business accelerators) define formal women-owned SMEs. Developing a standard definition for women-owned SMEs is the first step towards assessing the gap in resources supporting this market segment. Financial institutions often do not have a baseline of SME data disaggregated by gender because they have not yet been able to define this segment of women-owned SMEs in their client portfolios. IFC has established a working definition of 51 percent-plus women's ownership. In cases where this cannot be determined or when there is additional

information available regarding the composition of the Company, IFC applies an expanded definition as a proxy to consider board members and management represented by women, which translates to firms with either more than 51 percent women's ownership, or with 20 percent-plus women's ownership in a business that has a woman CEO or COO.

Furthermore, a shared global definition of formal women-owned SMES would enable stakeholders to assess the number and type of women enterprises in local markets, and the specific barriers they face; nevertheless, the data available in this regard is sparse. While research exists on the general barriers women entrepreneurs encounter, including the barriers identified in this report, the strong similarity of these barriers among regions suggests that the existing studies only scratch the surface of the problems and often base their findings on generalizations or assumptions.

For Financial Institutions: The exercise of defining women-owned SMEs should be seen as a part of "Know Your Customer" strategy in an effort to understand the size, sector, and patterns of performance of women-owned SMEs in a bank's portfolio. As the market assessment and credit gap findings in the report present, women-owned SMEs offer a large untapped business opportunity and defining this segment is the first step towards determining the proper customer value proposition that banks should undertake to effectively serve the women's entrepreneur market. IFC advises FIs to utilize the standard or expanded definition as a starting point, and as necessary adjust the definition to the local market.

For Policymakers and Development Finance Institutions: Providing gender-disaggregated data on the number and type of women-owned SMEs at the country level would enable policymakers to take more informed decisions, and to develop evidence-based policies and support programs. Furthermore, they could track the development of women-owned SMEs in the country and maximize their macroeconomic effects through smart policies.

- **Understand women-owned SMEs are a sub-segment of greater SME finance, and therefore develop a specific value proposition to serve them profitably and sustainably**

As this report has shown, women entrepreneurs have their own characteristics and face very specific barriers. The approach financial institutions undertake to design a women's market value proposition should be built around the business case for serving women-owned SMEs as a distinct untapped market segment rather than seeming to alienate men. In order to realize the market potential women entrepreneurs represent, FIs need to tailor their value propositions and marketing and sales approaches to women customers by understanding women's distinct financial behaviors as well as particular needs. In some cases and depending on the context as shown in this report, one of the most common matters that could be addressed to strengthen access to finance for women can be the flexibility of banks with regards to collateral. In a number of the countries in the sample, property rights remain a problem for women, even where appropriate legislation is in place. This makes it difficult for women to present fixed collateral and build a credit history. As an alternative to asset-based lending, banks should look at risk-based credit evaluation using credit scoring methodologies. Also, the acceptance of commercially viable movable assets (such as inventory and receivables) should be encouraged but this presumes a well-functioning legal and regulatory framework for secured transactions, which includes a modern collateral registry for security interests on movable assets. In countries where the legal framework in this regard is weak or inexistent (i.e. poor quality or lack of depth in the credit information available through collateral registries and credit bureaus), broad partnerships among different stakeholders including governments, FIs, and international financial institutions (IFIs: such as World Bank Group) should be formed to outline and implement an strategy towards improving key aspects of the ecosystem where women entrepreneurs operate. In some other cases, tailoring the value proposition for female entrepreneurs involves fine-tuning the way of communicating marketing materials and the

approach to women entrepreneurs as business clients through dedicated relationship/account managers. In addition, a specific value proposition for women entrepreneurs may further strengthen the provision of non-financial services through alliances with service providers and a variety of networking opportunities.

- **Engage financial institutions to support women's entrepreneurship**

It is imperative to engage financial Institutions in order to increase women's access to capital. IFC's Banking on Women program has developed a track record which includes 16 investment projects, ranging from long term loans to instruments such as risk sharing facilities that help share the risk FIs undertake when assuming greater exposure in new or riskier markets, amounting to almost US\$700 million in Africa, Latin America and the Caribbean, East Asia and the Pacific, and East and Central Europe. In addition, IFC issued the first ever Banking on Women Bond in 2013 that raised \$165 million to be invested in projects that will support women entrepreneurs in developing countries. In terms of gender advisory projects, IFC has nine active gender-related Access to Finance engagements with a value of US\$10.9 million with a similar geographical spread as IFC investments.⁵⁶ Examples of IFC advisory engagements with financial institutions include enhancing and/or building new capabilities (e.g. strategy, market research, sales and marketing approaches, and product and service customization, and customer management) to serve SMEs in general, and women-owned SMEs as a sub-segment.

Conclusion

This report demonstrates that increasing women-owned SMEs' access to finance is not only good for women, but a growing and profitable opportunity for financial institutions. For financial institutions, developing targeted business approaches to serve women entrepreneurs can be perceived as risky. Years of experience supporting client banks on how to overcome the risks associated with entering a new market places IFC in a unique position to offer FIs a range of solutions to seize this opportunity.

The strategic focus of “one” World Bank Group and the range of expertise across the WBG offers financial institutions a range of solutions. The solutions are not simple. They must be client focused and holistic in nature, enabling an entrepreneurial ecosystem that is women friendly by tackling the financial and non-financial

barriers women entrepreneurs face at both global and country levels. Solutions to increase women’s access to finance must also connect and sustain partnerships across the sectors and stakeholders. IFC now has a baseline of crucial data to enroll stakeholders at all levels, and the steps to improving financial access for women are clear.

Annexes



Annex A: Detailed Methodology for Calculation of Market Assessment and Financing Gap

Data Sources

Formal Sector:

- Number of firms: IFC and World Bank, MSME Country Indicators (www.ifc.org/msmecountryindicators)
- % of firms with loan or line of credit: World Bank Enterprise Surveys, 2003-2010 (www.enterprisesurveys.org)
- Deposit accounts: McKinsey & Company, Global Banking Pools (2008)
- IFC Regions and Countries (<http://financegap.smeifinanceforum.org/documents/IFCRegions.xlsx>)

Definitions

- Types of firms included in the World Bank Enterprise Surveys:
 - The survey primarily covers manufacturing and services sectors, which corresponds to firms classified with ISIC codes 15-37, 45, 50-52, 55, 60-64, and 72 (ISIC Rev. 3.1). Please see the Enterprise Surveys web site for further details.
- Deposit accounts: checking, saving and time deposits
- Formal sector enterprises:

Type	Number of employees
Micro	1-4
Very Small	5-9
Small	10-49
Medium	50-250 ⁵⁷

- Categorization of enterprises based on credit usage and need:

Type	Definition
Un-served	Need credit but do not have access to any credit
Underserved	Have a loan and/or line of credit but find financing as a constraint
Well-served	Need credit and needs are met
No need	Neither have nor want credit

- Women-owned MSMEs: World Bank Enterprise Surveys have the following information at firm level:
 1. Female ownership (at least one woman owner)
 2. Female sole proprietor
 3. Female decision maker (i.e., manager)
 - IFC MSME Finance Gap Database considers firms of type (1) and (2) as women-owned firms, and limits (3) to firms with women as the top manager and at least one women owner.
 - Note: For South Asia, the question used was “Are any of the principal owners female?” where principal owners are defined as those with >5% ownership. For other regions, the question was “Are any of the owners female?”

Estimation Methodology

Estimating the number of formal enterprises:

1. **Create initial values** using the MSME Country Indicators by IFC and World Bank.
2. **Conduct country deep-dives** to refine the data for 25 countries, using local government sources, literature review, and additional research and insights from McKinsey and client experts.

3. **Adjust country-level data to manage varying definitions of SMEs.** Whenever national definitions deviate from the MSME definitions given above, adjust the data to fit the common SME definition given above.
4. **Estimate the very small segment** which is not usually defined by national data sources. The size of the very small segment—based on the number of enterprises with less than 10 employees—is calculated using data from Brazil, India, Kenya and Mexico, as a percentage of the total. This is then used as an estimate for the rest of the countries.
5. **Extrapolate data** for those countries for which data were not available in the MSME Country Indicators by using regional averages for the ratios of micro enterprises to total population, very small enterprises to total population, small enterprises to total population, and medium enterprises to total population.

Estimating the number of formal SMEs with no credit or insufficient credit:

1. **Focus is on loans and overdrafts from financial institutions** and other forms of financing such as trade finance, leasing, and factoring were excluded.
2. **Use data from World Bank Enterprise Surveys** to calculate the percentage of firms of each size type that are well-served, underserved, un-served, and that do not need credit.
3. **Use the regional averages** for countries without data according to level of credit usage and need, and enterprise size.

Estimating the value of the credit gap:

1. **Estimate average revenues of formal SMEs by using the average revenue data** from the World Bank Enterprise Surveys for the countries where that information was available. For other countries, estimate average revenue of the “small” segment by using a linear regression of revenues to GDP per capita. Average revenues for the other segments (i.e., micro, very small, and medium, informal) are based on the regional averages from Enterprise Surveys as

GDP per capita was not statistically significant in explaining the variation in revenues in these sectors.

2. **Establish a baseline of the value of formal credit currently used** by using “Global Banking Profit Pools” database by McKinsey & Co., which has estimates of the amount of formal financing provided to formal SMEs in 78 countries and for each region. This dataset includes bank loans, overdrafts, formal trade finance, leasing, and factoring. Combining this database and the average revenue estimates, we estimated average credit usage among SMEs using formal credit as a percentage of their revenues. Note that Enterprise Surveys data does not include trade finance, leasing, and factoring, and this may lead to a potential bias in the estimates due to measurement error. However, the share of these three in overall firm finance is very low, and hence this error is expected to be very small.
3. **Assume the total potential need for formal financing** is 20% of revenues for all institutions that were well-served, un-served and under-served. This assumption is based on interviews with IFC experts, and is verified by an analysis of McKinsey & Co. proprietary data on credit usage of 500 leading emerging-market listed companies.
4. **Estimate the credit gap** on a country-by-country basis as:
 - For un-served enterprises, revenues are multiplied by 20%
 - For under-served enterprises, the amount of outstanding credit is multiplied by 50% based on feedback by IFC experts.
5. **Extrapolate the credit gap** for countries where data are incomplete using regional averages for each segment.

Estimating the number of MSMEs without access to bank accounts and the value of their un-intermediated cash balances:

1. All MSMEs are assumed to possibly benefit from a deposit account, allowing for the possibility that some MSMEs would not have any need.

2. Calculate deposits as a percentage of revenue for those enterprises that already have deposit accounts using the Global Banking Pools database of McKinsey & Co. on deposit volumes for formal SMEs to calculate the average size of deposits for a formal SME as a percentage of average revenue. This is then used for all MSMEs to estimate the total size of current MSME (formal and informal) deposits. Where there was no country-level data, regional averages are used.
3. Estimate the total value of un-intermediated cash balances by using the ratio of deposit balances to average revenues for those enterprises with deposit accounts as a proxy for un-intermediated cash balances for enterprises without accounts on a country-by-country basis. Regional averages were then used for countries with no or incomplete data.

Methodology for estimating gender-based differences

1. Use Enterprise Survey Data set

- The latest comprehensive data set available in mid-April 2011
- The India manufacturing and retail surveys were appended, as they were not included in the dataset
- China is not included as the survey did not ask a question on gender of ownership
- For the MENA region, most of the data cuts include only Yemen in the original data set as the questionnaire administered in Yemen used the same set of questions as the rest of the countries outside MENA. This was appended with a separate indicator database from Enterprise Surveys to calculate regional averages for MENA of percent of enterprises with >1 women owners, percent of women-owned enterprises with access to deposits, percent of women-owned enterprises with access to loan or line of credit.

2. Define type of women-owned MSMEs:

- Enterprise Surveys have information on the following at firm level:
 - i. Female ownership: At least one women owner
 - ii. Female sole proprietor
 - iii. Female decision maker (i.e., manager)

IFC MSME Finance Gap Database considers firms of type (i) and (ii) as women-owned firms, and limits (iii) to firms with women as the top manager and at least one women owner. There are ~16,000 firms in the sample that are of type (i), ~4,000 of type (ii), and ~3,000 that are of the limited version of type (iii).

Due to sample size limitations, female ownership was used as the key variable for the majority of analyses. Other definitions were also used when sample size was big enough.

There are a large number of firms that have not responded to the gender-related questions. The country-level aggregates for these firms are marked as “n.a.” in the “female ownership” column in the data set.

Estimate the number of MSMEs with >1 women owner

Starting point: number of micro, small and medium enterprises

For each country where gender disaggregated Enterprise Surveys data are available, the percentage of firms within each size bucket that had >1 women owner is used. Regional averages of this percentage are calculated for each size bucket, using number of enterprises of each size in each country as weights.

For countries where gender disaggregated Enterprise Surveys data were not available, regional averages were substituted.

Notes on estimating the number of women-owned MSMEs with no or insufficient credit

If a country had <20 firms for calculating the country-level variable (e.g. percentage of women-owned small enterprises that are underserved), then that variable is not calculated, and the regional average is substituted instead.

For MENA, the sample size for “>1 women owners” was very small since the data set only included Yemen and MENA has relatively low woman ownership. As such, extrapolations were imperfect, and MENA was excluded.

Annex B: Detailed Methodology for IFC's SME Gender Baseline

Study Methodology⁵⁸

In 2011-2012, IFC conducted “The SME and Women-owned SME Baseline Survey,” with the primary objective of determining the current share of formally registered women-owned SMEs financed by IFC's FIG portfolio worldwide as well as to learn more about the characteristics of these firms and regional differences among them. As a result, IFC conducted a series of Client Bank Survey Questionnaires to seek qualitative and quantitative responses which would help IFC in answering the questions at hand. Thirty-nine banks responded to the questionnaire, which provided quality insight on a number of SME parameters. However, it did not gather sufficient information on gender-specific variables/parameters. The majority of the banks provided information on their SME portfolios, but many were unable to respond to gender-specific questions. This was primarily due to the prevalent practice of not tracking or recording information on the gender of SME owners.

In order to collect gender-specific information, an alternate approach was adopted, in which portfolio samples from the IFC client financial institutions were collected and analyzed. To collect gender-disaggregated information, IFC needed samples from client financial institutions within its client bank portfolio. Data was manually collected in a way that it provided a foundation for an extrapolation for the entire portfolio.

IFC conducted a SME portfolio sampling of 34 investment client financial institutions⁵⁹, which represents 10 percent of FIG's total reach reporting portfolio⁶⁰. The banks were selected from across 25 developing countries (Table B2) while ensuring geographic coverage and representation of the six regions of IFC's portfolio. For each surveyed bank about 90-100 SME loans were randomly selected

(roughly 30+ for each MSME loan size proxy category) and were reviewed by the IFC staff or client bank staff. The key enterprise information collected included percentage of women ownership, number of employees, annual sales, total assets, women in top management, sector of operations, purpose of loan, and type of collateral used.

Businesses/enterprises were classified as micro, small, or medium enterprises based on the IFC's loan size proxy definition.

Based on this definition, micro enterprises are those with loans less than \$10,000 at origination; small enterprises are those with loans between \$10,000 and \$99,999 at origination; and medium enterprises are those with loans between \$100,000 and \$1 or 2 million⁶¹ at origination. Finally, SMEs⁶² include small and medium enterprises but exclude micro enterprises. Thus, they refer to enterprises with loans between \$10,000 and \$2 million.

The verification analysis of the IFC's SME loan size proxy—conducted by Ernst & Young as a part of a study titled “Technical Note on the Verification of IFC's SME Loan Size Proxies”—showed that it is 80 percent accurate at identifying underlying SMEs and 98 percent accurate at identifying underlying MSMEs based on the IFC MSME definition. It also showed that the loan proxy definition is most accurate in capturing SMEs when small and medium loan size proxies are combined into one “SME” loan size category. The verification study also showed that individually small and medium loan size proxies do not separate small and medium enterprises well enough and that both proxies contain large numbers of underlying small enterprises as classified by IFC's MSME definition (Table B1) as well as some medium enterprises. Therefore, for the purposes of this analysis and throughout the report, the combined SME loan size proxy has been used as the best available representation of SMEs in the sample from six regions, and it will be analyzed and presented as “SMEs.”

Table B1: IFC MSME Definition

Indicator	Micro Enterprise	Small Enterprise	Medium Enterprise
Employees	<10	10-49	50-299 ⁶³
Total Assets	<\$100,000	\$100,000<\$3 million	\$3 million < \$15 million
Annual Sales	<\$100,000	\$100,000<\$3 million	\$3 million < \$15 million

In the present analysis women-owned SMEs are defined as firms where more than 51 percent ownership/stake is held by women⁶⁴ and which received loans between \$10,000 to \$1 or 2 million at origination.⁶⁵ In certain cases, where specified, an alternative definition has been used where women-owned SMEs are defined as firms where more than 51 percent ownership/stake is held by women or where women own between 26-50 percent in a business that has a woman CEO or COO and which received loans between \$10,000 to \$1 or 2 million at origination.

The portfolio sample also included some micro loans, or loans from \$1,000-10,000 at origination. Since this report's focus is on SMEs, these loans were excluded from the analysis as being not sufficiently representative of SMEs. (For more information, please see the 'Technical Note on the Verification of IFC's SME Loan Size Proxies'.)

Using these classification criteria, a total of 3,157 randomly selected SME loans were chosen, and the enterprise information associated with these loans was collected and reviewed. Out of these, 2,336 were classified as SMEs based on the SME loan size proxy. This report

uses this data to establish a baseline estimate for lending to women-owned SMEs in IFC's Financial Institutions Group portfolio and summarizes the characteristics of the women-owned SMEs in the SME loans portfolio of IFC's FIG portfolio clients.

The 2,336 randomly selected samples allow for statistically sound global estimates as they have been selected to ensure a confidence level of 99 percent and a confidence interval of about 2.5 percent. The number of observations for each region is much lower, and as a result regional aggregates will have a lower statistical significance. Therefore, the report will focus on global portfolio trends with limited regional conclusions.

The presentation of firm-level characteristics is provided for the SME portfolio without distinguishing between the characteristics of small enterprises and medium enterprises. However, in the reach data collected by IFC there is a perceptible difference between the proportion of small and medium loans in the SME flagged financial institutions portfolio. To represent this difference, all firm level characteristics have also been calculated based on relative weights and are provided in Annexure II. The weights have been calculated using IFC's CY11 reach data.

The regions and countries covered in the baseline study are provided below:

Table B2: Geographic Coverage of the Study

Region	Country	Portfolio	CBSQ
East Asia & Pacific	Cambodia		
	China		
	Indonesia		
	Papua New Guinea		
	Philippines		
	Vietnam		
Europe & Central Asia	Azerbaijan		
	Georgia		
	Kazakhstan		
	Russia		
	Turkey		
	Ukraine		
Latin America and the Caribbean	Brazil		
	Colombia		
	Costa Rica		
	Dominican Republic		
	El Salvador		
	Honduras		
	Mexico		
	Peru		
Middle East North Africa	Egypt		
	Jordan		
	Lebanon		
	Pakistan		
	West Bank of Gaza		
South Asia	Bangladesh		
	India		
	Sri Lanka		
Sub Saharan Africa	Burundi		
	Democratic Republic of Congo		
	Ghana		
	Kenya		
	Malawi		
	Nigeria		
	Tanzania		
	Uganda		

Annex C: Financial and Non-financial Constraints Faced by Women-Owned SMEs

The material in this section is based on “Strengthening Access to Finance for Women-owned SMEs in Developing Countries”

Table C1: Non-financial Constraints

Non-financial Constraints:	
Conditions in broader business environment including: legal, cultural, regulatory environment, human capital, infrastructure and governance issues that are an impediment for women to have access to finance, and own/manage strong and profitable businesses	
Condition	Examples
Legal Environment:	Smart regulations
	Right to access and control property
	Modernization collateral laws
Cultural Environment:	Gender division of labor/household obligations reduces available time for entrepreneurial activities
	Gender discrimination: legal capacity, property rights, cultural traditions, exclusion from identification documentation
	Lower inter-household bargaining position
	Lack of entrance to labor force
	Restrictions on mobility
	Restrictions on business activities to engage in
	Fear of take over of business prevents reinvestment of earnings
	Access to products and services that meet life cycle needs: education, health, insurance, pension
	Constraints within financial institutions (i.e. cultural barriers preventing interest in women clients)
	Access to a safe place to save
Human Capital:	Personal characteristics of women entrepreneurs (i.e. different levels of education and business and financial management training)
	Limited access to human capital and collateral (human capital - talent, networks, management techniques, education)
	Education levels/literacy
	Financial literacy
	Work experience
	Leadership
	Business skills
Regulatory environment:	Informal sector/lack of incentives for businesses to formalize
Infrastructure:	Unreliable or poor can be constraint for financial institutions that serves SMEs and productivity of SMEs.
	Weak investment climate/financial markets limits local banks ability to serve growing businesses
	Weak infrastructure affecting the ability to grow a business (i.e. Electricity, transportation, governance, red tape, crime)
Weak Governance:	Corruption
	Harassment reported by both men & women, but women are seen as more vulnerable and softer targets

Table C2: Financial Constraints

Financial Constraints:	
Condition	Examples
Infrastructure:	Current financial infrastructure that limits incentives to reach more clients (i.e. lack of credit bureaus or collateral registries, limited sharing of information between financial institutions).
	Too complex & cumbersome procedures for financing
Risk aversion:	Characteristics of entrepreneurs & enterprises they run (i.e. women run smaller firms, service sector firms, and in the informal sector) Small firms are too risky b/c can't survive weak investment/infrastructure
Gender-disaggregated data:	Lack of tracer studies to allow for cross-country & large-scale conclusions on evaluation of enterprises specific to gender
	Banks' marketing strategies not built around women entrepreneur profile (i.e. hours open, locations due to cultural constraints)
	Lack of services offered beyond micro-credit to help women graduate
	Lack of knowledge about the market opportunities that women entrepreneurs present
Gender Stereotyping/Institutional discrimination:	Financial institutions stereotype women to be less entrepreneurial than men
	Small size of women owned businesses are seen as a deliberate & socially induced choice and influences FIs perception of amount of financial resources allocated
	Women are offered more expensive financing terms(i.e. higher rates and lower amounts of loan) because they do not meet transaction criteria or are seen as less qualified
	Women are offered terms based on statistical averages of SMEs at large
	Women do not have access to financial programs that only support sectors that men have historically operated in
	Women are seen as high risk due to lack of collateral and credit history
	Involuntarily built into the credit evaluation criteria
Undiversified portfolios of financial institutions:	Banks rely on limited personal profiles & track records in reviewing loan applications which do not properly represent women due to lack of personal records & documentations
High cost of servicing women:	Costs associated with administering small loans

Bibliography



Baliamoune-Lutz, M., McGillivray, M. 2007. "Gender inequality and growth in Sub-Saharan Africa and Arab Countries". African Development Bank Group/United Nations/Economic Commission for Africa African Center for Statistics, African economic conference on Opportunities and Challenges of Development for Africa in the Global Arena, 15-17 November 2007, Addis Ababa, Ethiopia.

Fairlie, R. and Robb, A. 2008 "Why Do Female-Owned Businesses Have Lower Survival Rates, Profits, Employment and Sales than Male-Owned Businesses?" Working Paper.

Fairlie, R. and Robb, A. 2008a. "Gender Differences in Business Performance: Evidence from the Characteristics of Business Owners Survey." IZA Discussion Paper No. 3718.

Kepler, E., and Shane, S. 2007. "Are male and female entrepreneurs really that different?" Washington, DC: U.S. Small Business Administration, Office of Advocacy.

Klasen, S. 2005. "Economic Growth and Poverty Reduction: Measurement and Policy Issues," OECD Development Centre Working Papers 246, OECD Publishing.

Klasen, S., Lamanna, F. 2008. "The Impact of Gender Inequality in Education and Employment on Economic Growth in Developing Countries: Updates and Extensions," Ibero America Institute for Econ. Research (IAI) Discussion Papers 175, Ibero-America Institute for Economic Research.

Klasen, S., Wink, C.. 2002. "A Turning Point in Gender Bias in Mortality? An Update on the Number of Missing Women," Population and Development Review, The Population Council, Inc., vol. 28(2), pages 285-312.

Ernst & Young/IFC. 2012. "SME Gender Baseline Estimation for IFCs Financial Institutions Portfolio", (Internal Guide)
IFC/Global Partnership for Financial Inclusion (GPFI). 2011. "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries".

IFC/McKinsey. 2011. "Assessing and Mapping the Global Finance Gap for MSMEs", unpublished presentation
IFC. 2012. "Women, Business and the Law – Removing Barriers to Economic Access".

World Bank (2011) "Opportunities for Men and Women: Emerging Europe and Central Asia".

OECD (2012), "Share, size and industry of women-owned enterprises", in Entrepreneurship at a Glance 2012, OECD Publishing.

World Bank Enterprise Surveys. Various years.
www.enterprisesurveys.org

Endnotes



1. In this case, SMEs include very small enterprises. SMEs are defined as formal (registered) enterprises in the non-agricultural private sector with 5 to 250 employees. The analysis is intended to be viewed as approximate data points, rather than absolute numbers. In fact, these estimates could be presented as a range with a variation of +/- 10 percent.
2. All \$ figures are US dollars.
3. In this case, micro enterprises with 0 – 4 employees were included.
4. Micro and very small enterprises are not included in IFC's SME Gender Baseline analysis. SMEs are defined using a loan proxy methodology for enterprises with greater than 10 employees. Chapter 2 of this report provides an explanation of the methodology.
5. IFC/GPFI: Strengthening Access to Finance for Women-Owned SMEs in Developing Countries, 2011
6. Balamoune-Lutz and McGillivray, 2007
7. Klasen and Wink, 2002; Klasen, 2005, Klasen and Lamanna, 2008
8. IFC/GPFI, 2011
9. Ibid.
10. Ibid.
11. SME Gender Baseline for IFCs Financial Institutions Portfolio, 2012
12. The methodology is also publicly available at <http://financegap.smefinanceforum.org/methodology.html>
13. Refer to Annex A for a link to the publicly available list of IFC Countries per region
14. Published in 2011 by the IFC in conjunction with the Global Partnership for Financial Inclusion
15. All tables and figures in Chapter 5 correspond to 2011-2012, during which the data collection took place.
16. IFC annually collects information about the loans provided by IFC-funded financial institutions, with special focus on MSME loans (also known as “IFC’s MSME reach”).
17. In some cases the SME portfolio did not contain any or enough loans in the “micro” category (for the purposes of this survey loans from \$1K-10K), so the sampling size was smaller.
18. The \$2 million cut-off is used for advanced emerging markets
19. At the time of this report, IFC defined women-owned enterprises as a firm with (a) ≥ 51.0 percent ownership/ stake by a woman/women; or (b) ≥ 20.0 percent owned by a woman/women AND ≥ 1 woman as CEO/COO (President/Vice-President) as well as ≥ 30.0 percent of the board of directors being women where a board exists. The SME Gender Baseline does not supply gender-disaggregated information about the Board composition of SMEs, as this information is usually not available with banks. Also, information on percentage of ownership stake with women is only available in the form of fixed bands. Utilizing the available gender-disaggregated data points from the survey, the closest definition to IFC’s adopted definition of women-owned enterprises is “enterprises with (a) at least 51 percent owned by women; or (b) at

least 26 percent owned by women and having at least one woman as CEO/COO (President/Vice-President).” This definition, being more conservative, is quite close to the current IFC definition, and therefore has been used in Chapter 5 as a proxy for the same. It has been referred to as the “expanded women-owned SME definition.”

20. In Chapter 3, the definitions of SMEs considered include the very small (which is 5 + employees). If very small enterprises were excluded from the analysis then the number of formal women-owned SMEs would be an estimated 2.85 million and the overall credit gap would be an estimated \$287 billion for women-owned SMEs across all regions. The key reason for including very small enterprises in the credit gap analysis section is to demonstrate that in the very small formal enterprise segment there are a large number of formal women-owned businesses that lack access to financial services, which presents an opportunity for financial institutions to target that segment.

21. Refer to Annex A for a link to the publicly available list of countries per region

22. In the 2011 report, Strengthening Access to Finance for Women-Owned SMEs in Developing Countries, IFC presented an analysis of the same IFC-McKinsey data in ranges at a regional level in an effort to estimate the global market presence and financing gap of formal women-owned SMEs. This report complements the previous analysis shared by providing a more detailed analysis of the market presence of women-owned firms (e.g. sectoral representation and market size distribution of women-owned SMEs weighted by regional population) and the credit constraints (e.g. average credit gap per region) women-owned SMEs face.

23. SMEs include very small enterprises defined as enterprises hiring more than five employees.

24. Average Credit Gap is calculated as the Total Value Gap divided by the Number of Un-served and Under-served SMEs [Total Number of SMEs*(percentage of Un-served + percentage of Under-served))]

25. This chapter builds on the findings Strengthening Access report and SME Gender Baseline.

26. Refer to Annex C for further details on financial and non-financial constraints

27. While many of the findings presented here may be applicable to informal (unregistered) forms, the data and analysis relate to formal (registered) firms.

28. <http://www.undp.org/content/dam/undp/library/corporate/fast-facts/english/FF-Gender-Equality-and-UNDP.pdf>

29. <https://www.wbginvestmentclimate.org/uploads/SecuredTransactionsSystems.pdf>

30. Ibid

31. Please note that size here represents very small and small companies with 5 to 49 employees. As defined in the Strengthening Access report, women’s entrepreneurship is largely skewed toward smaller firms. They make up nearly 32-39% of very small firms, 30-36% of small SMEs and 17-21% of medium-sized companies.

32. Please note that size here includes micro companies with 0-4 employees, and is not comparable to the SME Gender Baseline.

33. [http://web.worldbank.org/WBSITE/EXTERNAL/ TOPICS/EXTGENDER/0,,content MDK:23392727~ pagePK:210058~piPK:210062~theSitePK:336868,00. html](http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTGENDER/0,,content MDK:23392727~pagePK:210058~piPK:210062~theSitePK:336868,00.html)

34. [http://asiafoundation.org/in-asia/2013/02/27/ networking-essential-to-women-entrepreneurs-in-asia/](http://asiafoundation.org/in-asia/2013/02/27/networking-essential-to-women-entrepreneurs-in-asia/)

35. [http://www.gemconsortium.org/docs/ download/3106](http://www.gemconsortium.org/docs/download/3106)

36. [https://www.academia.edu/778926/Developing_ Women_Entrepreneurship_-_A_challenge](https://www.academia.edu/778926/Developing_Women_Entrepreneurship_-_A_challenge)

37. As discussed in Chapter 2 (Methodology), unless specified otherwise, the definition of women-owned SMEs used in the following this chapter and the next differs from that utilized in Chapters 3 and 4.

38. IFC annually collects information about the loans provided by IFC-funded financial institutions, with special focus on MSME loans (also known as “IFC’s MSME reach”).

39. Loans to micro-enterprises were excluded from this analysis. See Annex B.

40. In some cases the SME portfolio did not contain any or enough loans in the “micro” category (for the purposes of this survey loans from \$1K-10K), so the sampling size was smaller.

41. Banks that had any definition for women-owned firms usually defined them as firms with 51%+ women’s ownership.

42. The \$2 million cut-off is used for advanced emerging markets.

43. As a part of this survey, the accuracy of the IFC’s SME loan size proxy for IFC’s Financial Institutions Group clients was verified, and it showed that the SME loan size proxy is 80.4% accurate at identifying the underlying SME enterprises according to the IFC’s MSME definition.

44. At the time of the SME Gender Baseline, IFC defined women-owned enterprises as a firm with (a) 51.0 percent ownership/stake by a woman/women; or (b) 20.0 percent owned by a woman/women AND 1 woman as CEO/COO (President/Vice-President) as well as 30.0 percent of the board of directors being women where a board exists. The SME Gender Baseline study utilized a slightly different definition due to some practical limitations. The SME Gender Baseline does not supply gender-disaggregated information about the Board composition of SMEs, as this information is usually not available with banks. Also, information on percentage of ownership stake with women is only available in the form of fixed bands. Utilizing the available gender-disaggregated data points

from the survey, the closest definition to IFC’s adopted definition of women-owned enterprises is “enterprises with (a) at least 51 percent owned by women; or (b) at least 26 percent owned by women and having at least one woman as CEO/COO (President/Vice-President).” This definition, being more conservative, is quite close to the current IFC definition, and therefore has been used in this chapter as a proxy for the same. It has been referred to as the “expanded women-owned SME definition.” The gender baseline estimation by region and portfolio extrapolation has been re-calculated using this expanded definition and presented in this chapter.

45. IFC is currently discussing the revision of this definition to the following: women-owned enterprise is a firm where (a) majority ownership by woman/women: at least 50% + 1 share of total voting shares in legal entity; or, (b) at least 20% ownership by woman/women; and at least one woman as CEO/COO (President/Vice-President); and, where Board of Directors exists, at least 30% comprised of women

46. Ernst & Young/IFC. 2012. “SME Gender Baseline Estimation for IFCs Financial Institutions Portfolio”, (Internal Guide)

47. Firms include small and medium enterprises, but exclude micro enterprises. In the SME Gender Baseline, SMEs are referred to as enterprises with loans between \$10,000 and \$2 million.

48. World Bank (2011) “Opportunities for Men and Women: Emerging Europe and Central Asia”

49. OECD (2012) “Share, size and industry of women-owned enterprises”, in *Entrepreneurship at a Glance 2012*, OECD Publishing.

50. World Bank (2011) “Opportunities for Men and Women: Emerging Europe and Central Asia”

51. OECD (2012), “Share, size and industry of women-owned enterprises”, in *Entrepreneurship at a Glance 2012*, OECD Publishing.

52. Caution must be exercised in comparing these findings with Chapter 4 findings given the different definitions of SMEs applied.

53. Kepler and Shane (2007).

54. Fairlie and Robb (2008a).

55. Women, Business and the Law.

56. As of December 2013

57. An upper bound of 299 is used in the SME Gender Baseline.

58. Ernst&Young/IFC. 2012. "SME Gender Baseline Estimation for IFCs Financial Institutions Portfolio", (Internal Guide)

59. The sample includes 33 investment FI clients, 19 of which were also recipients of IFC's advisory services and one prospective investment client.

60. IFC's FIG outstanding portfolio clients who report on their lending activities every year.

61. The \$2 million limit was for advanced countries only. The list of advanced countries includes Argentina, Brazil, Chile, China, Colombia, India, Korea, Mexico, Morocco, Peru, Russia, South Africa, Thailand, Tunisia, Turkey, Poland, Hungary, Czech Republic, Slovakia, the Baltics, and Slovenia.

62. As per the general prevalence within IFC.

63. An upper bound of 250 is used in WBES.

64. It was answered that majority of the surveyed banks preferred/used this definition of women-owned enterprise.

65. It is important to include that this analysis assumes that one loan represents one firm, and it does not account for potential double counting when firms have multiple loans from the same or other FIs. \$2 million limit is used for a small of more advanced developing countries.



2121 Pennsylvania Avenue, NW
Washington, DC 20433, USA
www.ifc.org