Women's World Banking

Access to Finance of Women-Owned SMEs in Southeast Asia: An Assessment of Five Countries

With support from the Australian Department of Foreign Affairs and Trade

About Women’s World Banking

Women World Banking is the global nonprofit devoted to giving low-income women access to financial tools and resources they need to achieve security and prosperity. For more than 35 years we have worked with financial institutions to show them the benefit of investing in women as clients, and as leaders. We equip these institutions to meet women’s needs through authoritative market research, leadership training, sustainable financial products and consumer education. Headquartered in New York, Women’s World Banking works with 38 institutions in 27 countries with a reach of 14 million women to create access to finance on a greater scale than ever before.

Introduction

Small-to-medium enterprises (SMEs) comprise a majority of the businesses powering the economies of both developed and developing countries alike: together, formal and informal[1] SMEs account for more than 90 percent of enterprises in the economy and contribute about 50 to 60 percent of employment in the world. [2]

Women-led SMEs make up a sizable portion of this market. Of the approximately 40 million formal SMEs globally, about a third or 12 million, are women-owned. Seven million of these women-owned SMEs are in the developing world. Despite the growth and contribution of women-owned businesses in both the formal and informal sector, there is a tremendous gap in their access to finance. It is estimated that over 70 percent of women-led SMEs are either unserved or underserved financially. According to a recent Goldman Sachs study[3], if the credit gap is closed by 2020 in the 15 BRIC + N-11 countries (including the Philippines, Indonesia and Vietnam), per capita incomes could on average be 12 percent higher by 2030.

This study explores the financing landscape and recommendations for enabling women-owned SMEs[4] in five countries in Southeast Asia: Cambodia, Indonesia, Myanmar, the Philippines, and Vietnam. SMEs in this region account for approximately 98 percent of all enterprises, employ 66 percent of the national labor force, and, on average comprise about 30 percent of total export values.[5] Mirroring global proportions, women-owned SMEs account for 32 to 66 percent of the more than 55 million total formal and informal micro and small to medium enterprises (MSMEs) in these countries (except for Myanmar, where there is no data available), leading to a market of 23.9 million women entrepreneurs.

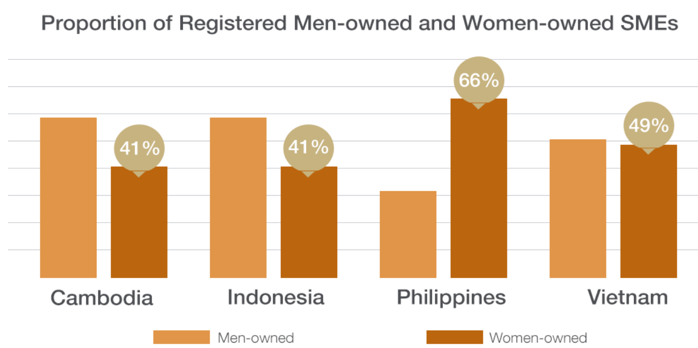
Women's World Banking has more than 35 years of experience researching and understanding the financial needs of low-income women globally. Given this expertise, the Australian Department of Foreign Affairs and Trade (DFAT) commissioned us to conduct this research to inform their work on improving women's economic participation, building markets for women and influencing the private and public sector environment to promote women's economic empowerment. Women's World Banking examined existing literature on SMEs and issues and constraints to their growth, with specific focus on financing constraints. Women's World Banking also conducted interviews with key stakeholders, including representatives from microfinance institutions (MFIs), local business or women's associations, policy-makers and NGOs in the countries being studied.

The full list of references and interviews conducted can be found in the research report submitted to DFAT .[6]

[1] "Formal SMEs are registered enterprises and are classified by size:, informal SMEs are not registered with the municipality or tax authority. All non-employer firms (independent of registration) are also classified as informal.
[2] Kyaw, Aung, "Financing Small and Medium Enterprises in Myanmar," IDE Discussion Paper No. 148, (April 2008).
[3] "Giving Credit Where it is Due," Goldman Sachs (2014).
[4] This study uses the IFC definition of women-owned SMEs, where an enterprise is considered woman-owned if the sole proprietor, or at least one joint owner, is female. While the World Bank Enterprise Survey also includes women-managed SMEs, the IFC definition was used since their database contains the most comprehensive data available.
[5] From 2007-2012," Asia SME Finance Monitor 2013 (April 2014).
[6] Access to Finance of Women-owned SMEs: An Assessment of Five Countries in South East Asia," Women's World Banking (August 2015).

Women-owned SMEs in Southeast Asia

In the five countries, women-owned enterprises shared many of the same characteristics: small or very small, mostly informal and often motivated by the necessity to augment household income. Indeed, most of the women-owned enterprises in general are in the informal sector (60 percent), a proportion likely reflected in women-owned SMEs specifically. This has implications for financial institutions seeking to serve them, for instance, the loan amounts they require and the documentation they are able to provide must be adapted to these characteristics.



Women's World Banking research confirmed a credit gap for women-owned SMEs in these five countries: only a small number of women-owned SMEs are able to access financial services. Most of this funding comes from private commercial banks. The proportion of women-owned SMEs that are unserved, under-served or choose not to access formal financing still ranges from 79 to 97 percent in the four countries reporting (data for Myanmar was not available).

	NON-USERS OF FINANCIAL SERVICES		USERS OF FINANCIAL SERVICES	
Country	Do not need credit	Unserved	Underserved	Well-served
Cambodia	48%	41%	8%	3%
Indonesia	31%	42%	19%	8%
Philippines	39%	24%	22%	16%
Vietnam	25%	29%	26%	21%

* Refers to access to financing profile of both formal and informal women-owned enterprises. There was no data available for women-owned SMEs in Myanmar.

Findings: Women-owned SME in Southeast Asia's Access to Finance

Women entrepreneurs in this study can be broadly categorized as those who choose not to access credit and those who want to access credit but are unable to or are insufficiently served. Women who voluntarily choose not to access credit reported preferring to rely on informal sources of financing such as their own money, or loans from friends and family instead of bank loans.[7] Payments on loans from family and friends are considered more flexible than bank loans. Financing amounts from these sources are often deemed sufficient for incremental business expansion with low capital requirements. Others cited cultural or religious reasons for not accessing credit: in some cultures and religions, women need consent of male family members to access formal financing.

In addition, the decision not to seek financing is also driven by a lack of information or awareness of financing options. Some women entrepreneurs do not have information on the available financing options, advantages and disadvantages of the various options, and cost and risks associated with each option. They also may not understand the role of financial institutions and the way financial institutions evaluate borrowers and their businesses. Because of this, women entrepreneurs are reluctant to or do not seek financing at all. [8]

On the other hand, women who desire credit (unserved) or have access to credit but it is insufficient to meet their needs (underserved), the following reasons were cited. Collectively, these barriers have prevented a majority of women-owned SMEs in these five countries from accessing much-needed financing.

Lack of documentation of their business operations. Women entrepreneurs often do not have the documentation required by banks and other credit providers (e.g., financial records, bank track record). As such, they are considered high risk and thus not served by financial institutions.[9]

In Vietnam, banks lend to SMEs, however consider them quite risky because most of the small enterprises do not have audited financial statements that the banks can use in determining the viability and sustainability of business operations.

High transaction costs incurred by women entrepreneurs in looking for a willing service provider. Women entrepreneurs are often not aware of financing choices. This lack of information leads to prohibitive costs such as income loss from time spent away from her business to visit multiple banks to learn about credit products. [10]

Lack of collateral Financial institutions often require that collateral such as land, building, security papers, or deposits should be in the name of the borrower. Women often lack ownership rights, due to a religious or cultural tradition of registering assets to men.

Tedious documentary requirements discourage women to apply for necessary financing. In the survey conducted by Asia Pacific Economic Cooperation (APEC), 21 percent of women owners surveyed reported that completing a loan application and procuring supporting documentation is a major challenge because of low-levels of financial literacy. [11]

Lack of a network from which female entrepreneurs can gather information regarding financing options, access a role model or mentor, or connect with other women who can provide advice.[12]

Women entrepreneurs from Myanmar and Indonesia cite poor networking that prevents SMEs from linking with the global value chain and international markets as well as inadequate participation in business networks and business associations, respectively, as barriers that exclude them from financing.

[7] "Finance for all? Policies and Pitfalls in Expanding Access," World Bank (2008).
[8] Ibid. 18
[9] Ibid. 29
[10] Ibid. 29
[11] Ibid. 20 and 21
[12] Ibid. 29

Recommendations

Given the major role SMEs play in the global economy, increasing access to financial services for women entrepreneurs is critical to support economic development. What is needed is comprehensive action by multiple stakeholders that specifically addresses the barriers facing women. Examples of promising initiatives from the five countries in this research are incorporated into the recommendations for each stakeholder to demonstrate how these guidelines are implemented.

Government

- Introduce a simplified registration system for micro and small enterprises operating in the informal sector: Authorities should ensure that procedures for business registration and business permit renewals are tailored to fit the needs and situation of women entrepreneurs.

- Establish supportive financial infrastructure: Credit bureaus, collateral registries, wholesale fund facilities and credit guarantee facilities can help financial service providers efficiently gather information to assess the creditworthiness of a client.

  Cambodia launched a Credit Bureau in March 2013 to help mitigate credit risks of financial institutions and enhance access to finance. All financial institutions are required to become members of the credit bureau.

Private Sector

- Collect gender-disaggregated information on clients: Having data on women-owned SMEs will enable banks and other financial institutions to design tailored financial products and employ appropriate lending policies and procedures. The Gender Performance Indicators[13] developed by Women's World Banking enable financial institutions to measure and track how well they serve women- and are a good starting point for financial institutions seeking to serve this market.

- Review risk assessment policies and procedures: Assessments of creditworthiness and collateral requirements may be needed to ensure services meet the needs of women-owned SMEs. Women's World Banking research and experience has shown that alternative means of assessment such as the on-site visit (where loan officers directly collect information about the businesses' size and financial activities) mitigate the barrier of tedious documentation and lack of collateral that women often face.

- Promote alternative finance modalities for financing women-owned SMEs: Alternative platforms that connect women entrepreneurs to potential funding, such as angel investors, venture capitalists and crowd funding will enable investors to reach this otherwise inaccessible market.

- Raise awareness of the business case for serving women-owned SMEs: Articulating the market opportunity for serving women-owned SMEs will help financial institutions design tailored financial products and services.

[13] "Gender Performance Indicators: How well are we serving women?" Women's World Banking (2013).

Development Agencies

- **Facilitate the development of women's networks:** These groups can serve as channels for acquiring information on markets, financing options, and new technologies; facilitate policy dialogues and even serve as the "women's voice" in advocacy and reform efforts.

- **Provide technical assistance on products and non-financial services for clients.** Assistance for financial institutions in the design of products and services appropriate to women-owned SMEs can speed product development and ensure the products meet women's needs. In addition, other research has shown that increasing financial literacy by teaching business planning and financial recording and management, understanding financial statements and using these to analyze business operations, or vocational training are extremely helpful for women to better manage their enterprise. Providing technical assistance to financial institutions that links client training to the loan officers' sales targets is critical: financial literacy programs should link directly to products and bank services in order to ensure applicability for clients.

- **Create platforms for sharing knowledge:** Collecting and sharing knowledge will facilitate the spread of innovations in SME development and prompt action on the part of government, the private sector, NGOs and others.

Global Best Practices in Banking Women-Led SMEs

In 2014, the European Bank for Reconstruction and Development (EBRD) commissioned Women's World Banking to conduct research on global practices of financial institutions serving women-led SMEs and develop recommendations for banks to adopt the best practices. These findings are summarized into six guiding principles found in "Global Best Practices in Banking Women-Led SMEs"[14] that every financial institution should consider to most effectively reach the women-led SME market.

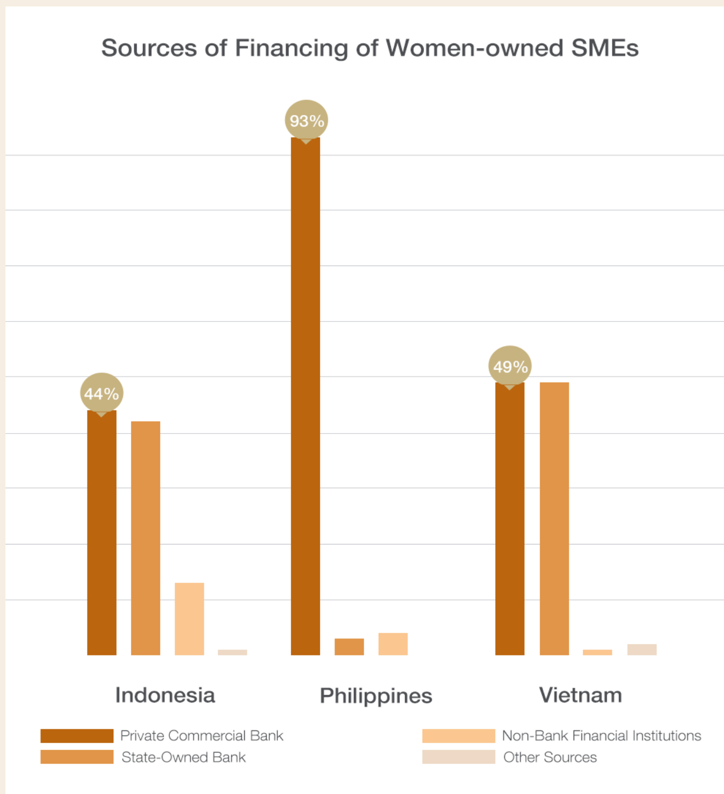
1. Know your market and customer
   - *Royal Bank of Canada (RBC): Canada conducted research to better understand demographic trends in the Canadian economy. It discovered that women had both an increasing role in household decisions and increasing purchasing power. The women's market had 950,000 self-employed women businesses and was estimated to grow at a steady pace. This research directly led to a decision at the highest levels of the bank to "stay ahead of the market" and invest in this segment. Today, RBC has a dedicated department for research, with a specific focus on understanding women clients through demographics, attitudes, gender dynamics, and segmentation.*
2. View women-led SMEs as a distinct group
3. Build internal capacity
4. Adapt your credit process, lending methodology and delivery models
   - *BLC Bank: Lebanon recognized that women in the region are often asset-poor, due to property rights and inheritance rules, and designed a collateral-free loan to address this barrier.*
   - *Garanti Bank: Turkey designed the Gold Secured Loan, which allows women to use gold as collateral.*
5. Offer women a comprehensive mix of financial and non-financial products and services
6. Invest in proving the business case through disaggregated data
   - *BLC Bank: Lebanon started disaggregating data by gender at the launch of its "WE Initiative." The bank had to redesign its IT systems in order to extract baseline gender data to measure performance. These metrics are now reflected in the bank's key performance indicators and according to the management of the program, "this was the most important decision the bank made with regards to this program."*

[14] "Global Best Practices in Banking Women-Led SMEs," Women's World Banking (2014).

Case Study: The Philippines

Through this research, Women's World Banking identified the Philippines as having the most conducive business and regulatory environment for women-owned SMEs: it is also the only country among the four with data available that reported any medium-sized women-owned enterprises. In addition, the proportion of women-owned SMEs is much higher than men-owned in the Philippines. This may be attributable to the relative equality that men and women enjoy. Since 2006, the Philippines is the only Asian country that has consistently ranked in the top 10 of the World Economic Forum's Global Gender Gap Index, ranking at number 9 in 2014.

Banks are the most common formal source of financing for all SMEs: indeed, half of women-owned businesses in the developing world use loans from private commercial banks. Nevertheless, one fifth of women-owned SMEs still rely on non-bank financial institutions and other sources, a significantly higher share than their male counterparts. [15]



Among the countries under study where data was available, the Philippines reported the largest proportion of loans coming from private commercial banks (93 percent compared to 49 percent and 44 percent in Vietnam and Indonesia respectively). This focus on enabling SMEs comes from the top: banks are mandated to allocate 8 percent of their loan portfolio for SME financing (RA6977). There are also a number of government and development finance institutions that provide financing/ direct lending for SMEs: the Small Business Corporation, the Philippine Export-Import Credit Agency (PhilEXIM), the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP), use credit lines provided by donors and the government to lend directly to SMEs. This demonstrates current government policy to provide the appropriate enabling policy and regulatory environment for the private sector to provide the needed financing for SMEs.

[15] Stupnytska, Anna, Koch, Kathryn, Mac Beath, Amy, Lawson, Sandra and Matsui, Kathy. "Giving Credit Where Credit is Due," Global Markets Institute (2014).

Best practice examples from the philippines

1. **Government- establish supportive financial infrastructure:**
   - Government has set up a guarantee facility for SMEs.
   - A law establishing the Credit Information Corporation (CIC) was enacted in 2008 and is expected to be operational within the year.

2. **Private Sector- review risk assessment policies and procedures:**
   - CARD SME Bank in the Philippines created a credit scoring model based on segmentation on loan size. CARD SME places greater weight on non-financial criteria such as age, successor, health and management of the business. For the largest loans, it also relies on financials such as cash flow, inventory and revenue.

3. **Private Sector- Provide technical assistance on products and non-financial service for clients:**
   - Planters Bank went beyond banking and provided non-financial services to help its SME clients strengthen their operations. Non-financial services include assistance in preparing accounting records, business advice, and networking. To suit the needs of SMEs, the bank designed and customized its products and services. It also simplified its loan documentation and tailored its loans to match borrowers' cash flows.

4. **Private Sector- Promote alternative finance modalities for financing women-owned SMEs:**
   - Leasing as a form of finance is beneficial for SMEs when they need financing for transportation vehicles used for business operations. A number of leasing companies are providing this alternative financing.
   - Monthly investment fora[16] are conducted in the Philippines, attended by potential angel investors and SMEs that are seeking funding for their business enterprises.

Given the already strong focus on women in the Philippines (with the gender gap benefitting women-owned SMEs), stakeholders in the region can use this country as a case study to demonstrate best practices on supporting growth of women-owned SMEs. Nevertheless, while excelling on many fronts, there are also still plenty of opportunities for the business environment in the country to improve. For example, thrift and private development banks do not have a large SME portfolio due to their limited resources and reliance on government financial institutions for their funding requirements. There is also more that can be done to encourage women entrepreneurs to seek and access financing: research[17] shows that Filipina entrepreneurs lack business, management, and technology training; do not keep good financial records; are uncertain or unconvinced of the benefits and advantages of bank financing and are unable to comply with the bank's documentary requirements. Pointing to the Philippines successes as well as demonstrating how improvements can be made on these fronts will highlight opportunities for other countries.

[16] The Philippine Venture Capitalists and Investment Group conduct a monthly investment forum which is participated by various entrepreneurs and potential angel investors. Five to six entrepreneurs make a short presentation (about 5 minutes) of their business operations and financing needs.

[17] Sources: 2011 IFC Enterprise Database; IFC 2010; Asia Foundation, 2013; Aquino,1999; Ferdausi, 1999; Abe and Dutta, 2014 and Binh et al, 2014; VCCI, 2013; Interview with VWEC; Raihan, 2007

Looking Forward

Women's World Banking is committed to ensuring that the credit gap for women-owned SMEs is addressed. There is a tremendous growth opportunity for these five countries when government, the private sector, and development agencies all play their key role in driving economic growth.

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