Social Enterprise Development Centre

Policy Brief

FINANCIAL ACCESS FOR WOMEN ENTREPRENEURS

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Executive Summary

Removing access to finance barriers for women is critical for promoting female entrepreneurship, enhancing gender equality and inclusive growth in Pakistan. Research from South Asia suggests that the success of women's ventures is highly correlated with their access to financial services. But access to credit, savings, insurance, and remittance services is particularly limited for women in Pakistan. Patriarchal norms, gender-blind policies, legal barriers, and low levels of financial literacy restrict women from tapping the country's financial resources. There is an urgent need for policymakers and financial institutions to recognize that the financial industry requires gender mainstreaming. This would involve taking definitive steps to make the financial landscape enabling for women in general and female entrepreneurs in particular.

The Global Entrepreneurship Monitor (GEM 2012) estimates that only one percent of entrepreneurs in Pakistan are women. This is worse than even the low South Asian average of 10 percent. Research shows that women across all developing regions are much more likely than men to be driven towards entrepreneurship by necessity rather than choice, that is, out of poverty and lack of labor market opportunities (De Vita, Mari and Pogessi, 2014). They also face severe mobility restrictions. Nevertheless, there is increasing recognition worldwide that women entrepreneurs are the new 'engines of growth' (De Vita, Mari and Pogessi, 2014).

But to promote female entrepreneurship, it is critical to remove barriers in access to educational, economic and financial resources for women. This will redress gender disparities and make economic growth more inclusive.

Access to credit, savings, insurance, and remittance services is particularly limited for women in Pakistan, as borne out by the fact that men constitute 87 percent of the total borrower base (Afzal et al., 2015). In the absence of formal finance, women entrepreneurs reach out to informal sources to help cover their startup costs and working capital needs. These may include loans from family and friends, their own savings and informal merchandise credit (World Bank, 2012). The Access to Finance (A2F) survey (2015) reports that only 11 percent of women in Pakistan are banked as opposed to 21 percent of men. This is an improvement from just 4 percent of women in 2008 but indicates that there is still a long way to go.

Barriers to Financial Access

The entrepreneurship literature suggests that there are vast differences between the entrepreneurial processes for women and men. Women have a relatively more difficult time accessing finance, they face legal barriers, their business networks are weaker, and they generally suffer from restricted mobility and lack of social support for their entrepreneurial ventures (Jennings and McDougald, 2007; Jamali, 2009; Minniti, 2009; Davis, 2012; Vossenberg, 2013). Research from South Asia suggests that the success of their ventures depends on the female business owner's level of education and access to credit (De Vita, Mari and Pogessi, 2014).

Patriarchal norms portray men as the breadwinners of the family and women as the family's natural caregivers (Tabunan, 2009). This makes it difficult for women's businesses to grow at the rate that men's do. This is only compounded by the fact that they face barriers in access to finance. For one, female entrepreneurs face more stringent loan requirements than their male counterparts in Pakistan. They are asked to provide male guarantors that are not family members to process their loan applications, which is difficult in a gender segregated environment (Finnegan, 2015). Even if a bank account is opened in a woman's name, it isn't unusual for her relatives, male or otherwise, to use the money to meet their own needs (World Bank, 2012; Zulfiqar, 2017). Such cultural norms make it harder for women to differentiate between their personal and business accounts (Safavian and Haq, 2013). Banks also lend to women at higher rates of interest as compared to men, which makes them less likely to use formal financial resources (Finnegan, 2015). Where financial resources are available to them through microfinance institutions, lenders prefer lending to women in groups, while men are offered individual loans. Group loan sizes are typically smaller and borrower transaction costs higher, including joint liability contracts and the obligation to attend group meetings (Zulfiqar, 2017). Exacerbating the impact of these inequalities is women's relatively lower rate of financial literacy.

Financial Inclusion Policy Initiatives

In recent years Pakistan has taken several steps towards financial inclusion, for which it has earned international accolades. Global Microscope rankings place Pakistan among the top six countries in the world for creating an enabling environment towards financial inclusion. Much of the emphasis in this area has been towards the development of the microfinance industry.

In order to regulate the microfinance industry, the Government of Pakistan enacted the 2001 Microfinance Institutions Ordinance, which encouraged the setting up of Microfinance Banks (MFBs) that would be regulated by the State Bank of Pakistan (Zulfiqar, 2017). Prior to this the microfinance industry included nonprofit microfinance institutions (MFIs) only, the majority of which provided credit to women and to the rural poor. Thanks to the State Bank's stringent capital adequacy requirements for MFBs, the latter's lending criteria has diverged sharply from that of the MFIs. More than 95 percent of MFB

lending is to men in urban areas in the form of individual loans (Zulfiqar, 2017).

In 2007 a Microfinance Outreach Strategy was rolled by the state whose aim was to enable inclusive growth by promoting microfinance outreach to rural areas and to women. Monitoring mechanisms to oversee the social impact of microfinance on rural, urban and women's access to microfinance were put in place. But the policy achieved minimal success since no specific targets related to women were set nor were any special initiatives taken in this regard (Safavian and Haq, 2013).

The Pakistan Poverty Reduction Strategy Papers are the country's development blueprints, aimed at helping it achieve its growth targets while improving public service delivery. The 2010 Strategy Paper lists various financial inclusion schemes implemented in the country. This includes the People's Rozgar Programme introduced to provide access to credit to the unemployed. In 2008, the State Bank of Pakistan established its Financial Inclusion Programme, with assistance from the UK Department of International Development (DFID) (Bajwa et. al., 2010). The idea was to enable the provisioning of equitable and sustainable access to finance for the poor and marginalized, including women. The Access to Finance (A2F) survey (2015) reports that after the introduction of the Financial Inclusion Programme many more women were banked, increasing the percentage of financially included women from 33 percent to 43 percent between 2008 and 2015 (DFID Annual Review, 2016; A25, 2015). But the survey is based on a limited sample size of only 10,000 respondents and uses data reported from banks and non-bank financial institutions. This can be misleading, for research has established that between 30 to 70 percent of the loans made out to women in Pakistan are used by their male relatives (Safavian and Haq, 2013).

In 2012 the State Bank launched a National Financial Literacy Programme (NLFP). The program targeted low-income households, teaching them the basics of budgeting, savings and debt management (Ali et. al., 2012). Under this program several women received financial literacy training but the program remains at its pilot stage.

The 2015 National Financial Inclusion Strategy (NFIS) provides the most comprehensive reform platform so far to achieve universal financial inclusion (Nishtar et al., 2015). The stipulated goal of the NFIS is to expand the outreach of formal finance to at least 50 percent of the adult population and to scale the percentage of bank lending to small-medium enterprises (SMEs) to 20 percent. But there is lack of clarity regarding NFIS's gender targets and expanding the outreach of SME lending to women, though there has been an initial meeting between the central bank and the financial institutions within its purview regarding gender targeting.

These initiatives have helped Pakistan earn international recognition for creating an enabling regulatory environment for financial inclusion, but women entrepreneurs continue to face severe barriers in accessing formal financial services. Part of the reason is that these policy initiatives do not provide incentives for the financial industry to target women. On the other hand, the regulatory

emphasis on risk and asset management means that financial institutions prefer to target men for credit and other services, resulting in the barriers women face, identified in the previous section.

Commercial Banks and Digital Finance

Commercial banks dominate Pakistan's financial industry. The 26 private and public, commercial banks together had assets worth Rs.15.4 trillion as of June 2016 (Chhoangalia and Badshah, 2016). The sector has enjoyed more than 14 percent annual growth for the past five years. Despite this, financial inclusion in Pakistan remains lower than other countries in the region. For instance, only 13 percent of the population has a formal bank account, as opposed to 53 percent in India, 31 percent in Bangladesh and 83 percent in Sri Lanka (Demirguc-Kunt et. al., 2015).

Women remain excluded from the bulk of commercial bank lending and other financial products. Some banks, such as Allied Bank the third largest in the country, have opened women only branches to encourage women to access their financial services (Allied Bank, 2017). At the same time, its officers report that these branches are unprofitable and a drain on the Bank.

In 1989, a commercial bank specifically for women was set up. The First Women Bank (FWB), a joint venture between the Government of Pakistan and six of the largest local commercial banks, was ideally placed to serve the needs of women entrepreneurs. Some of the services it provides include salary loans, Asaan (easy) accounts which do not require complex opening procedures, and the women's end of the youth business loans (FWBL, 2015). But the Bank no longer restricts itself to women only since they find that women-only lending does not allow them to meet their financial bottom-line or the capital adequacy ratio defined by the State Bank's prudential regulations for commercial banks.

Islamic banks have been slow to recognize the potential women entrepreneurs present, for anecdotal evidence suggests that female entrepreneurs are much more interested in interest-free credit and/or Islamic modes of financing than commercial bank.

According to a survey women in Pakistan have almost equal access to savings services, that is, 52.6 percent of women as compared to 58.5 percent of men, but the same survey reports that they are much more likely to save informally (Nenova and Niang, 2009). To address this, Women's World Banking (WWB) conducted a three-year programme called "Safe Places to Save" in order to increase women's savings in formal bank accounts in Latin America, South Asia and Africa. In Pakistan, they collaborated with Kashf Microfinance Bank (now renamed FINCA Microfinance Bank) to have women open more savings accounts, but cost-wise the project was not found to be sustainable. Women represent less than six percent of savings account holders at this and other financial institutions (WWB, 2013). This is often because financial services designed with women in mind are just not available (Nenova and Niang, 2009).

Digital finance presents a significant new opportunity for enhancing financial inclusion.

Pakistan has led the way in South Asia in branchless banking. An estimated 5.8 percent of the adult population has access to mobile accounts as compared to the South Asian average of 1.9 percent (Afram and Andrianaivo, 2016). Promising initiatives include JazzCash's collaboration with Women's World Banking for providing digital financial services to women (Rao, 2017). But here too gender disparities limit the reach of such services, for only 36 percent of women own mobile phones as compared to 80 percent of men (West and Lahren, 2016).

This could have been improved through regulation but the 2008 Branchless Banking Regulations formulated by the State Bank had a gender-neutral stance, which meant that there were no specific provisions for targeting women through digital finance (Safavian and Haq, 2013).

Recommendations

From a policy perspective this brief makes three broad recommendations: the need to generate more gender disaggregated data on financial inclusion, while ensuring its far-reaching dissemination and discussion in policy circles; incentivizing the financial industry to target women at all income-levels and stages of entrepreneurship by designing products tailored to meet their needs; and devising financial literacy programs with sufficient depth and coverage.

Putting reliable and efficient data collection mechanisms in place that are regularly updated, is the first step towards bringing an issue to the policy agenda. Financial inclusion surveys such as the A2F are a welcome addition to the financial policy toolkit but they need to include gender disaggregated data by each level and area. This data then needs wide dissemination in policy circles and beyond in order to generate discussion and recognition of this issue at the wider social, economic and political level.

Second, the financial industry needs to be incentivized to pay attention to the financial needs of women in general and women entrepreneurs in particular. A case in point is the 2001 Gender Policy launched by the Bank of Zambia, which called for ensuring gender equality and equity in financial governance (FIS and UNCDF, 2017). This is an important step towards ensuring the representation of women in policymaking forums. Women's presence is critical on the boards of major financial and public institutions such as the State Bank of Pakistan. Consultations with gender experts on finance and public policy are crucial to undertake the gender-mainstreaming of this sector.

Apart from governance, a gender-focused policy should be put in place to incentivize and monitor different financial sectors' targeting of female clients. Such incentives are necessary because the primary focus of commercial financial institutions is risk and asset management.

There should be a thorough review of the sector's institutional policies to ensure the erasure of all discriminatory lending requirements against women, such as the stipulation of male guarantors for loan approval, while also ensuring that men do not take over women's loans. This can easily be ensured via a more engaged and gender-sensitive lending process.

The financial industry must introduce products and services tailored to meet this minority group's needs. As an incentive, organizations that develop financial products targeting women could be given priority for capacity building grants (Safavian and Haq, 2013).

Financial literacy programs should be launched alongside to enable women to access these products. These programs should not just be limited to basic numeracy and budgeting, but should have sufficient depth in order to meet the needs of both micro and SME entrepreneurs. Finally, awareness campaigns must be launched to enable gender equitable social change.

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