

WOMEN ENTREPRENEURS AND ACCESS TO FINANCE IN PAKISTAN

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This paper does not necessarily reflect the views of the World Bank Group.

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Abstract

Women are emerging as important players in Pakistan's economy. Despite an increasing presence in the micro, small, and medium enterprise sectors, women's lack of access to finance remains one of the key constraints for enterprise growth. This paper highlights the benefits of greater access to finance for women in Pakistan and provides an overview of the constraints and opportunities for increasing access. In addition to financial and nonfinancial recommendations for microfinance institutions, the paper provides suggestions for how the government can promote women's access to finance and, in so doing, support women's social and economic empowerment.

Introduction

This paper sheds light on some of the issues regarding women's access to finance in Pakistan at the micro, small, and medium enterprise levels, both from the demand and supply sides. The paper argues that improved access to financial instruments that are appropriate for women, as well as the provision of nonfinancial services, would help women grow and professionalize their businesses into more competitive ventures (Goheer 2003). This is especially important not only for women's empowerment in general, but also for increasing female employment in the private sector, where participation stands at about 15.9 percent as of the fiscal year 2003–2004, one of the lowest in the region (Pakistan Federal Bureau of Statistics 2006).

This paper is divided into five sections: (1) the development case for women's access to finance: why is it important?; (2) the economic justification for providing access to finance for women; (3) obstacles to women's access to finance—demand-side issues; (4) obstacles to women's access to finance—supply-side issues; and (5) recommendations, which includes proposals for how to make women more bankable clients and outlines the policies, approaches, products, and services required to build women's capacities to access institutional finance.

The paper builds on the premise that economic development and women's empowerment are interrelated. In order to be effective, economic development must go hand in hand with women-focused policies (Duflo 2005). This paper thus seeks to make appropriate policy recommendations to help promote market-based financial services for women as a tool to alleviate poverty, promote women's asset ownership, create employment, empower women, and promote gender equality.

The Development Case for Providing Access to Finance for Women in Pakistan: Why Is It Important?

Women-owned businesses are a minority in Pakistan, but recent trends suggest that women are beginning to emerge as increasingly important players in the country's economy (IFC). Social gender bias is a major obstacle to women's entrepreneurship in Pakistan, and providing access to finance can be an important tool for the empowerment and development of women, both at the social and political levels (Goheer 2003).

Poverty Alleviation and Improved Social Well-being

While not a panacea, women's access to finance is an important tool for poverty reduction. In Pakistan, the weight of poverty falls primarily on women. A comparison of males versus females in the United Nations Human Poverty Index revealed that 55.8 percent of Pakistani women, compared with 41 percent of men, were living below the poverty line (Goheer 1999). Microfinance programmes in Pakistan have increasingly focused on women and have been an important aspect of the country's poverty alleviation strategy. The Ten-Year Perspective Development Plan (2001–2011) and the Three-Year Development Programmes (2001–2004) of the government of Pakistan emphasize microcredit as the main approach to improving the conditions of poor Pakistani women (Goheer 2003).

Increasingly programs not only give women and men access to credit but also savings, with the aim of promoting poverty alleviation. Savings are recognized as playing a critical role in smoothing the incomes of the poor and providing them with more predictable revenue streams (Rutherford 1999). Savings are also an important determinant of both individual and national well-being (Carpenter and Jensen 2002). According to a quarterly update on microfinance in Pakistan undertaken by MicroWatch in 2006, women comprise 39 percent of active savers, compared with 61 percent of men.

Women often view an increase of their own income, and their control over it, as a valuable tool to enhance their overall well-being and power within their household. Typically, however, the financial sustainability paradigms applied to microfinance schemes focus mainly on women's time and resources required for program efficiency or community development, while paying little attention to the impact on familial gender relations (Mayoux 2006). A participatory empowerment survey conducted by Kashf Microfinance Pakistan¹ found that the majority of its client base view an increase in their income as a vehicle for improving their status within the household (Hussein and Hussain 2003). For instance, 90 percent of the women considered themselves to be disempowered in matters of domestic issues and basic rights. The women aimed to improve their status through having their own income (85 percent), freedom of mobility (70 percent), and equal decision-making power with men (92 percent) (Mayoux 2006). In Kashf's 1998 Impact Assessment Study, 40 percent of respondents noted that domestic fights decreased when income increased as a result of lending. Similarly, a 2002 study of Aga Khan Rural Support Programme members concluded that the majority of men and women surveyed reported an increase in joint decision-making regarding domestic, financial, and other issues (Hussein and Hussain 2003).

Female Employment Generation

The small to medium enterprise (SME) sector can make a significant contribution to women's employment, which is particularly important in a country like Pakistan where the female labor force participation rate is 15.9 percent, among the lowest in the region. This gap is even visibly larger in urban areas where female participation rate is as low as 9.44 percent (Pakistan Federal Bureau of Statistics 2006).

According to the State Bank of Pakistan, SMEs are defined as (1) service businesses which employ fewer than 250 people and have total assets (excluding land and building) of up to Rs 50 million; (2) manufacturing businesses which employ fewer than 250 people and have total assets (excluding land and building) of up to Rs 100 million; and (3) trading businesses that employ fewer than 50 people and have total assets (excluding land and building) of up to Rs 50 million. Alternatively, any business, whether in the trading, service, or manufacturing industry, with net sales of no more than Rs 300 million also is considered to be an SME. SMEs have played a significant role in Pakistan's economy. In 2002–2003 they contributed over 30 percent to GDP, 140 billion rupees to exports, and 25 percent of manufacturing export earnings. SMEs constitute about 90 percent of all private enterprises in the industrial sector, and employ some 78 percent of the nonagricultural labor force (SMEDA 2004).

Even though “hard data” is difficult to obtain as research on female entrepreneurs in the SME sector is scarce, a survey undertaken by the International Labor Organization (ILO) of 150 women entrepreneurs in Lahore and the twin cities of Rawalpindi and Islamabad found 39 percent of women from the sample engaged in small enterprises and 9 percent in medium enterprises. Furthermore, the sample revealed that women entrepreneurs in the SME sector provide greater employment to women. On average, women entrepreneurs were found to hire more females than their male counterparts (Goheer 2003).

The Economic Justification for Providing Women Access to Finance

Evidence suggests that women's entrepreneurship is on the rise in Pakistan. The majority of women entrepreneurs in Pakistan are engaged in traditional sectors such as boutiques, aesthetics, bakeries, apparel, handicrafts, jewelry, and other similar micro and small businesses (IFC). According to a 2005 report by the United Nation's Convention on the Elimination of All Forms of Discrimination Against Women in Pakistan, the number of self-employed women has increased from 11.7 percent in 1997–1998 to 15.7 percent in 2001–2002.

While relatively modest compared to demand by men, research also shows an increase in women's demand for credit (Hussein and Hussain 2003). Even though microfinance institutions are the main players in providing financial services to women, women continue to be a minority of the borrowers of NGO credit programs. The latest microfinance performance indicator report points out that Pakistan has the lowest global ratio of female to male borrowers and suggests this discrepancy could be one of the reasons why Pakistan's microfinance sector has not been able to scale-up as successfully as other countries (PMN 2005). There is significant potential for increased outreach by NGOs as well as other financial institutions to serve this potentially rewarding market segment.

Further, increases in economic activity of women in Pakistan can represent a potentially profitable market niche for the financial sector. Over the last year, banks from developing countries have started to join the Global Banking Alliance for Women, a consortium of best practice banks that leverage the women's market for profit as well as for social purposes.² Many of these banks have reported that

the default rate for their women entrepreneur portfolio is lower than that of their overall portfolio. Women also tend to request smaller loan sizes than men.

Obstacles to Women's Access to Finance—Demand-side Issues

Lack of access to finance remains a business constraint for both women and men, but evidence suggests that women face greater hurdles. A major limitation identified by women entrepreneurs is the lack of access to institutional finance to fund their start-ups and business expansions. Research conducted by the IFC in the Middle East and North African countries (MENA) indicates that women entrepreneurs at the micro and SME levels generally fund their business start-ups and expansions from personal sources (i.e., savings or loans from family and friends) to a greater extent than men. Access to formal capital is further restricted by the fact that women often do not know how to access formal finance. Because women use nontraditional financing means and often do not know how to access finance through the existing chain, finance institutions do not perceive their demand. Pakistani women also suffer from a lack of access to—and control over—capital, land, and business premises (Roomi 2005), a general trend true of women entrepreneurs in most developing countries. As a result, women-owned businesses often do not meet the minimum borrowing requirements for existing financing schemes; they tend to remain undercapitalized and are unable to reach their growth potential.

Highlighting women's difficulty in accessing credit, a 2005 study of 256 women entrepreneurs in Karachi, Lahore, Rawalpindi, Islamabad, Quetta, and Peshawar found that access to finance remained a huge challenge for women (Roomi 2005). Women entrepreneurs faced more difficulties in mobilizing start-up capital, credit guarantees, investment capital, and experienced discrimination from bankers. The study also noted that "most of the women are shy to approach banks because of the unavailability of collateral, their inability to develop viable business plans, and above all social unacceptability of their interaction with the male bank professionals" (Roomi 2005, 7).

An analysis of women's credit needs in the cities of Rawalpindi and Karachi found that many women do not have the necessary know-how to access finance in order to run businesses effectively (Hussain, Hashmi, and Hussain Rao 1997). Similarly, businesswomen are often unfamiliar with the various nonfinancial services that are available to them.

Women entrepreneurs often resort to different sources of financing than men. Their businesses tend to be concentrated in the service sectors and usually require a small initial capital outlay and less technical knowledge (UNESCAP 2005). The majority of the 256 respondents in the Roomi 2005 study had to generate most of their business finances from personal savings, family, and friends. The research noted that "because of their limited earning potential, it is quite impossible to have significant savings to start a business. Therefore, it is only possible for a female to start a business if her family has some extra cash as start up capital and she has a strong support from members of the family to do so" (Roomi 2005, 7).

This trend was also apparent in the ILO survey, which observed that 73 percent of women used their private savings as start-up capital for their enterprises, with

only 4 percent accessing formal credit sources. Similar trends were found beyond the start-up phase. Women who borrowed from formal sources mainly used their personal assets for collateral: 27 percent used their personal belongings; 18 percent pledged their house; 18 percent used the guarantee of government officers; 9 percent used dollar account security; and 9 percent used their immovable property (Goheer 2003).

Accessing finance is also particularly difficult for women who typically do not own land and other property which they could use as collateral. According to UNICEF's 2007 State of the World's Children report, research on Pakistani women revealed that they owned less than 3 percent of plots in surveyed villages, despite having the right to inherit land in most villages. Even though Shariah law clearly entitles women to inherit land and property, Pakistani women—especially in rural areas—rarely receive their share of immovable property, according to the World Bank's 2005 country gender assessment. The same study notes that when women do inherit property, it is typically controlled by the men of the family “due to general powers of attorney, gift deeds, or voluntary relinquishment of the property by the female to the male heirs” (World Bank 2005, 20). Moreover, it is interesting to note that the tendency of women to retain inherited property does not vary according to the family's wealth. However, regional differences were observed. For instance, women in the Punjab were three to four times more likely than women in Sindh to retain inherited land. The issue of inheritance is not so much related to knowledge of women's rights as it is about culture. The assessment points out that 95 percent of women interviewed were aware of their right to inherit land, though only a minority knew the amount they were entitled to (World Bank 2005).

Obstacles to Women's Access to Finance—Supply-side Issues

Women are often undervalued as economic participants and viewed as being able to handle only small loan amounts. According to Pakistan's 1998 Rural Financial Markets Study, men have over three and a half times greater access to credit compared with women in rural Pakistan. Moreover, men borrowed 91 percent of large loans, with the average size of loans given to women at 8,000 rupees, compared to 19,000 rupees borrowed by men (Husseini and Hussain 2003).

While both men and women often cite accessing formal credit as a problem, particularly at the SME level, women often face higher hurdles because financial institutions often do not have products and services that meet the specific needs of women entrepreneurs. Women typically have smaller businesses that tend to be in the service sector and may be viewed by bankers as representing higher risk—even though experience from microfinance shows that women can be excellent customers.

With NGOs' focus on microfinance and most banks serving large corporations, SME banking still remains the “missing middle” of financial services. Banks in Pakistan—similar to banks in many emerging markets—often do not have the technical know-how or expertise for dealing with SME clients. This is further hindered by traditional biases formal institutions have against small business owners operating in the informal sector—they are seen as risky clients who lack the necessary collateral needed to obtain loans (Afzal 2006). Formal institutions

are further biased against women, an outcome of social and cultural prejudices which view women solely in their domestic roles and frequently ignore or undervalue them as economic participants (Goheer 2003). This is reflected by the facts that women themselves are often not confident or able to apply for larger amounts of financing and that bank staff view women's loan applications with greater scrutiny. Respondents to the ILO survey also identified a gender bias when requesting formal financing. Of those surveyed, 66 percent agreed that being a woman was a major constraint in obtaining formal finance; 90 percent cited "procedural snags relating to their sex and strict terms of financing" (Goheer 2003, 33).

Recommendations

Develop Financial Products That Cater to Women Entrepreneurs

Women customers typically have to run their own businesses while being responsible for household expenses, food, and child care. They are extremely vulnerable when it comes to taking on loans with tight repayment schedules. Institutions looking to broaden their female customer base should design innovative loan products (including those meeting lifecycle needs) and marketing programs (for example, through sponsorship of nonfinancial services and rewarding referral systems). Training bank staff on the particular needs of potential (and existing) customers can be an important first step to increasing the women's portfolio. For example, while women customers can be attracted by providing lower interest rates and lower collateral requirements, they are often equally concerned about the transaction costs of the loan, repayment schedules, and the value of each installment. To this end, financial institutions may want to develop more appropriate procedures and flexible repayment schedules. In other countries, financial institutions have also promoted women's savings in innovative ways where group lending and guarantee schemes have encouraged lending to women.

Leasing can be a good financing alternative for women who, more often than men, do not have access to collateral to obtain loans from formal institutions. Leasing in a country like Pakistan is therefore an important source of financing because it is asset-based. Leasing products is less risky for institutions, as the equipment constitutes a security in itself and the ownership remains with the lesser. It can also be particularly useful for women SME owners who typically have difficulties qualifying for bank financing given a lack of sufficient working capital, credit history, and resources to provide collateral. Financing equipment was the main reason cited by women entrepreneurs for borrowing, with 66 percent of ILO women survey respondents having borrowed funds for equipment. This compared to 44 percent having used finance for working capital, 18 percent having borrowed for trade finance, and 9 percent for land and buildings (Goheer 2003). Thus, leasing is especially useful for women-owned microenterprises and SMEs that often lack the necessary collateral needed to obtain loans for equipment financing from banks (Murad 2005). Other advantages include simple documentation without the hassle of a mortgage registry—another area where

women entrepreneurs are often at a disadvantage as the male head of household is typically the one registered on mortgage titles. Moreover, because women are usually owners of smaller businesses that tend to rely on working capital, leasing is a preferred method of finance as it frees up capital normally invested in fixed assets.

While it is, in general, not recommended to use consumer credit cards for SME financing, retail products have proven to be a first step in helping banks reach out to the women's market. Consumer credit cards can, for example, finance women entrepreneurs' smaller office supply and equipment needs. Bank Alfalah offers a "Women's Exclusive" consumer credit card on its Web site "with unique features which have been tailor-made for the women in Pakistan."

Help Women Become More Bankable Clients Through Nonfinancial Services

Nonfinancial services provided by the government, NGOs, and other interest groups can improve the financial performance of women-owned businesses. For example, the *Daily Times* of Pakistan reported in its 6–12 November 2006 issue that the Women's Chamber of Commerce and Industry in Lahore (WCCI) has been providing skills training to women in Lahore "to a point where they have income tax returns for registration of businesses, deep insight into the banking system and know-how to benefit their businesses." The ability to accompany loan applications with business registrations, tax return forms and audited financial statements has helped many of its nine hundred members to secure financial loans (Akram 2006).

Providing clients with nonfinancial services and improving their financial literacy can also have a positive impact on bottom-line targets. In 2001, First Women Bank Limited (FWBL) developed the Financial Services Desk in response to a finding that the main obstacles for their women clients were a lack of knowledge of financial rules and a lack of legal awareness. The clients, among them confident and capable businesswomen, were not familiar with the legal issues surrounding company registration, taxation, and accounting. FWBL's president notes that "it wasn't as if they lacked the dedication and hard work required to do business. As women in a patriarchal set up, they simply had not been equipped to deal with such problems. As a result, they were more susceptible to hoodwinking by the men in their lives" (Aziz 2005, 5). The Financial Services Desk offers legal advice, advice on tax matters, and corporate and trade financing among other facilities. Even though the costs associated with providing nonfinancial services were not insignificant, FWBL benefited from clients' improved bankability (Aziz 2005).

Promote Financial Sector Outreach to Women

In order to assist women in becoming more bankable clients, financial institutions themselves need to develop their outreach "through innovative approaches, the hiring of mobile credit teams, and staff training which promotes greater outreach to women" (Hussain, Hashmi, and Hussain Rao 1997). In many instances, it has proven useful for financial institutions to partner with NGOs to improve their outreach to female customers at the micro-loan level—where NGOs

handle the loan and repayment process while the financial institution provides the necessary capital.

Partnering of business membership organizations and financial institutions has also proven successful. For example, since members of the WCCI in Lahore identified access to finance for women-owned SMEs as a main obstacle to expanding their businesses, the body negotiated in 2006 a special women entrepreneur financing scheme with the Bank of Punjab for loans up to five hundred thousand rupees. The scheme accepts WCCI member customers without any collateral requirement (i.e., no assets will be mortgaged to issue a loan) provided that their loan application is accompanied by two letters of personal guarantee (from two guarantors that have prime real estate properties in urban centres) and a WCCI letter of recommendation (Akram 2006).

The government can also play a valuable role in coordinating and disseminating information on financial services for women: addressing one of the key problems highlighted by Pakistani women entrepreneurs (Goheer 2003). Through targeted awareness-raising campaigns and efficient business networks, the government can help women entrepreneurs understand the range of financial instruments available to them (UNESCAP 2005). In addition, government policy should encourage financial institutions to target women customers and specifically address the gaps in women's access to finance for lifecycle and business needs.

Promote Women's Access to Microfinance

The government of Pakistan should encourage microfinance institutions to adopt a targeted, articulated gender focus as part of the national strategy to address poverty alleviation and women's economic empowerment. It is often assumed that microfinance institutions have larger numbers of women clients. The case of Pakistan demonstrates that this is not necessarily the case. This idiosyncrasy can be easily explained in the Pakistani context: with strong disincentives to risk-taking (higher social punishment for women), a social structure that may discourage women of entering more lucrative business ventures and with microfinance institutions that charge high interest rates and do not differentiate between men and women, it is natural to see fewer women borrowers in Pakistani microfinance institutions. This low volume of lending to women further compounds the problem as it masks their true entrepreneurial capabilities and thus indirectly discourages traditional bankers from lending to women.

Experience from around the world demonstrates that well-designed microfinance programs can be potentially rewarding markets for financial institutions. By catering their services to meet the needs of women clients, microfinance institutions can do much to attract this market segment. For instance, providing women-only credit windows, female staff, and trained personnel adept at serving the banks' female clientele can do much to foster a female client base. Also, a careful assessment of women's repayment profiles (e.g., testing whether women are truly better borrowers and whether the theory of higher social punishment in case of failure for women holds) as well as a better understanding of the expected returns from women's business investments (e.g., understanding the dynamics and attractiveness of the sectors women choose to start businesses in) can provide

helpful clues to the nature of the intervention microfinance institutions need to think about in terms of expanding their outreach to those market segments with highest potential growth and profitability. Institutions should also be encouraged to collect gender-disaggregated data to ensure that their targets to reach female customers are being met and to start collecting empirical evidence that would allow them to better target their products to women.

Implement Sound Policies

By providing well-designed microfinance, SME, and leasing instruments that meet the needs of women, financial institutions can tap into a growing market of female clients. Similarly, the supply of financial products needs to go hand in hand with well-thought-out policies in order to increase women's demand for finance. This must include improving women's ownership and control of their land and assets (i.e., property rights) to help them meet collateral requirements, as well as promoting women's financial literacy to access existing finance schemes. Policy makers should also encourage business development services that build the capacity of women to access capital from banks.

In the long term, women's access to collateral can be increased by improving property and land title laws and procedures. In India for example, the Mann Deshi Mahila Sah Bank Ltd. was able to convince the authorities to include women's names on property papers in recognition of a woman's right to own household property. By providing women with clear property rights and control of their assets, their economic standing and their ability to access institutional finance is significantly improved, as noted by Harsh Kabra on 28 December 2006 on the BBC News Web site. This was also economically appealing for the bank because it was able to increase the number of female customers who were able to provide collateral. Moreover, including women in joint mortgage loan applications also resulted in faster pay-back rates and reduced the number of late payments. For the municipality, in return, having included women on joint property has resulted in the authorities witnessing faster tax payment rates (Sinha 2007).

The financial sector is a powerful vehicle for alleviating women's poverty and increasing their participation in the formal economy. The government of Pakistan can play an important role in harnessing the ability of the financial sector to meet women's demand for financial services by creating enabling policies for financial institutions to increase their outreach to women. By encouraging the development of financial institutions that treat women as potentially lucrative customers, the government will do much to empower women to break out of poverty cycles, participate more fully in the private sector as businesswomen, and generate wealth and employment.

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Endnotes

¹Kashf Foundation, inspired by the Grameen Bank of Bangladesh, started operations in 1996 “as an action research program focusing for the first two years on understanding the key aspects of providing microfinance to poor women.” Among its various initiatives Kashf Foundation began the “Dastkaari (meaning that which is hand crafted)” enterprise development program promoting the skills of female artisans. “Dastkaari aims to be market led,” improving women artisans’ access to international markets (Mosedale 2001).

²The alliance’s secretariat is housed by IFC, the private sector arm of the World Bank Group (see <http://www.gbaforwomen.org>).