



Ninth Commonwealth Women's Affairs Ministers Meeting

*"Gender Issues in Economic Crisis, Recovery and Beyond: Women as
Agents of Transformation"*

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PROMOTING GENDER RESPONSIVE INVESTMENT

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Promoting Gender Responsive Investment



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Background

Promoting investment is a core activity of the Commonwealth Secretariat. The programme aims to help member countries attract increased levels of investment, and expand access to finance for excluded groups.

- **Commonwealth Private Investment Initiative (CPII)**
- **Support the development of local financial markets**
- **Assist countries to improve their business environment**



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Background

This presentation draws on lessons from the Secretariat's Investment programme, and ongoing work looking specifically at access to finance for women.

- **Identify key legal, regulatory and institutional issues**
- **Identify operational risk from a financial institutions perspective**
- **Case studies**
- **Lessons learned**
- **Questions and comments**
- **Scope is limited to commercially viable private sector enterprises / entrepreneurs.**



Legal, Regulatory and Institutional Issues

Women entrepreneurs generally have lower credit default rates than their male counterparts. However women entrepreneurs find it more difficult to obtain credit from the formal sector.

- Lack of collateral, often due to community property rights
- Delays in registration of collateral and realisation in case of default
- Lack of adequate credit information
- Smaller size of business compared to male owned business
- Lack of access to business development services

As a result, women entrepreneurs are perceived by financial institutions as being more risky than their male counterparts, and it is more costly for banks to lend to them than to an equivalent male owned business.



Operational Risk

**Financial institutions by their very nature are risk averse.
Default risk is the biggest deterrent to lending.**

- Excluded groups (women, SMEs, low income, etc.) are perceived as high risk groups
- Lending to these groups can be profitable, but financial institutions often lack the skills to target these groups
- However lending to these groups is costly – both in due diligence and loan administration, provision of business development services etc. resulting in high interest rates to enable the banks make a profit

Improving access to finance for women requires working with financial institutions to develop and implement appropriate products / instruments which help to mitigate risk and reduce costs.



Case Study : Financial Leasing in Tanzania

Leasing is a process by which a firm obtains the use of fixed assets in return for a series of contractual, periodic payments.

- The asset is owned by the financial institution, thus reducing the need for collateral
- A good solution for SMEs and others who lack collateral and credit history
- Accounts for 15 – 30% of capital financing in OECD countries, but only 0 – 15% in developing countries

The leasing industry in many developing countries is hampered by absence of clear laws, unclear accounting standards and supervisory framework



Financial Leasing in Tanzania

Tanzania, with support from IFC and Switzerland, decided to promote leasing as means of improving access to finance for SMEs and women.

- Legislative review, culminating in assistance with drafting a new Financial Leasing Act in 2008
- Capacity building – general and customised for all stakeholders including officials, financial institutions and entrepreneurs
- Promoting linkages between equipment suppliers, financial institutions and end users
- Worked with micro-finance institutions to develop micro lease products
- Value of leases increased from \$32 to \$100 million over 3 years, number of leasing companies doubled
- SERO Lease Finance is a woman owned finance company that benefitted from the programme. Today she works with 10,000 other women who support an average of 5 people each

The Tanzania Leasing Programme was successful mainly due to intensive practical support at all levels and to all stakeholders



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Case Study: Growth Oriented Women Enterprise

Programme funded by IFC and AfDB to support Kenyan women entrepreneurs with potential to access funding.

- Risk sharing guarantees to selected banks to cover 50% of loan portfolio to target group
- Business development services
- Gender sensitive training to financial institutions and other service providers
- Portfolio has a default rate of less than 5%
- Increase of 15 – 20% in portfolio of target clients
- Creation at least 500 jobs

GOWEs results due to the structure of the guarantee, which encourages risk sharing, combination of capacity building and technical assistance.



Lessons - Operational

Efforts should focus on developing products and methodologies to reduce risk and cost of lending to women. Tools could include

- **Guarantee schemes** – to share risk as in the GOWE case. However, structure must be right to avoid moral hazard, and encourage true risk sharing. Financial institutions must also be encouraged to take on increasing proportion of risk over time.
- **Alternative methods of finance** – such as leasing, factoring help to provide access for those without collateral and / or credit histories. However, they are most effective in very specific legal and regulatory environments and can therefore take time to implement.



Lessons – Policy

Encouraging gender responsive investment requires coordinated action at all levels.

- **Policy** – Governments need support to identify policies which hinder access to finance for women.
- **Legal and Regulatory** – The issues of access to finance can not be separated from the legal and regulatory environment.
- **Financial Institutions** – there is a need for a better understanding amongst policy makers of the reasons why financial institutions and to work with them to address these.
- **Capacity building and technical assistance** is an essential part of any programme to encourage gender responsive investment



Thank You



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