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Financial inclusion for MSMEs and women's economic empowerment

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The importance of micro-, small, and medium-sized enterprises (MSMEs) in national economies is well known, as well as is their global impact, since, by number, they dominate the world business stage. But notwithstanding the wide acknowledgment of MSMEs' importance to national economies, they still face difficulties that need to be addressed, such as informality, low productivity, and limited access to finance. When Argentina, with the support of the International Council for Small Business (ICSB), decided in 2017 to present a resolution to the General Assembly of the United Nations establishing June 27 as MSMEs Day, the idea behind it was to showcase the importance of these enterprises in the achievement of the 2030 Agenda for Sustainable Development and raise awareness about the difficulties these enterprises face.

In this context, it is important to highlight two main aspects that are frequently interlinked. The first one is access to finance and financial inclusion. The second one is the empowerment of women.

Since MSMEs are often the most vulnerable link in national economies, financial inclusion should be at the center of any MSMEs policy. According to the latest data of the SME Finance Forum, 1 131 million or 41 percent of formal MSMEs in developing countries have unmet financing needs. MSMEs' finance gap in developing countries is estimated to be approximately \$5 trillion, or 1.3 times the current level of MSME lending. All these numbers will be bigger if we include informal enterprises.

While bank lending is the most common source of external financing for MSMEs, other forms of funding should be considered, like public-private investment or crowdfunding. In addition, enhancing the financial literacy of MSMEs, simplifying capital market procedures, and lowering the accessibility cost structure, especially for the unbanked, is a key issue. There is no doubt that access to credit is important. However, credit is not the only success factor in running a business profitably. To survive and grow, MSMEs have complex needs that go beyond credit. That is an area in which technology and fintech can present great opportunities.

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Moving to the link between access to finance and the empowerment of women, it is important to highlight that women-owned businesses are relatively more underserved. The aforementioned data of the SME Finance Forum show that women-owned businesses comprise 23 percent of MSMEs and account for 32 percent of the MSME finance gap. These data only include formal MSMEs and it is well known that many of these women-owned enterprises in developing countries are informal.

One of the main barriers that women face in gaining access to financial services, including in some cases the use of a basic bank account, is the requirement of collateral. When a person requires a business or personal loan, the lender asks for collateral, such as land or a house. In many cultures, it is men who traditionally own the land or the house, a fact that results in the exclusion of women.

In that context, it is of the essence that governments and financial institutions start to work in promoting and developing a differentiated approach to focus on women entrepreneurs. In the case of governments, this will allow not only an improvement in gender equality and the empowerment of women, but also an increase in production and consumption, the creation of jobs, more fiscal revenues, as well as all the other benefits that MSMEs bring to their national economies.

For financial institutions, it will also be profitable. Different studies have shown that female customers have a higher propensity to save both as entrepreneurs and as personal customers, and deposits from female customers typically grow at a higher rate and stay with the financial institution longer. In addition, women entrepreneurs are reliable repayers of credit.

To do this, financial institutions should start to think outside the box. Customized offerings for women entrepreneurs will require a deep understanding of the market, research, and documentation of their needs for financial and support services.

There will also be a need for reworking processes for approval and delivery of loans to women entrepreneurs in order to respond to cultural factors, such as the one mentioned before that prevents women from accessing finance, and the need for swift approvals with limited paper formalities. Some of these changes may require appropriate changes in the regulatory Frameworks.

In addition to the above, training staff on how to engage with women entrepreneurs will also be needed in order to increase access to new customers and enhance their comfort in dealing with the institution.

In conclusion, there are great opportunities in access to finance for MSMEs and the empowerment of women entrepreneurs. For that reason, it is essential to carry out a strong campaign of dissemination, advice, assistance, and support of MSMEs. The public sector, in coordination with the private sector, should work to give visibility to the available instruments and design others that allow the creation, growth, and development of MSMEs, especially of women-owned enterprises.

In that sense, ICSB provides an excellent global platform to discuss the trends and challenges of MSMEs, as well as the development of new frameworks to promote women entrepreneurial ecosystems that allow the achievement of a more diverse and equal business world.



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This ICSB Gazette issue is featuring an article written by Martín García Moritán

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