Female-led enterprise financing solutions

By Raymond Brandes, FLOW Programme Manager at SNV

Financing solutions through banks and other financial institutions can play and have played a critical role in supporting the commercialisation of agricultural value chains. However, they are unlikely to be the main drivers of providing end-user finance to micro-enterprises, and low-income consumers because of conservative banking practices, the high transaction costs of delivering financial services to distant dispersed communities, and micro-margins on loans for small-scale applications. Traditional commercial banks and (semi-)government funds can play an important role in narrowing this gap by providing secure credit-lines to organisations whose traditions, mission and systems pose fewer barriers to lending to low-income people, namely microfinance institutions.

Microfinance institutions therefore present the greatest prospect for scaling up micro-enterprises and end-user finance to dramatically expand access to value chain services for low-income people. In the meantime in Kenya (semi-)government funds like the Women Enterprise Fund, Uwezo Fund and the Youth Enterprise Development Fund are bridging the access to finance gap by providing easy and affordable financial and business development support to underserved groups of society (women, youth and persons with disability).

As Global Manager of SNV's ***Enhancing Opportunities for Women's Enterprises (EOWE) programme***, funded by the Ministry of Foreign Affairs of The Netherlands as part of the ***Funding Leadership and Opportunities for Women (FLOW)*** framework, I believe that financial services for low-income people are a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress. Formal financial services such as savings, loans, and money transfers enable them to invest in enterprises, better nutrition, improved living conditions, and the health and education of their children. Therefore, microfinance is also a powerful catalyst for empowering women farmers and entrepreneurs (primary producers and micro-enterprises) under our programme, which is being implemented in Kenya and Vietnam between 2016 and 2020. In Kenya, the EOWE programme facilitates access to finance for female farmers and entrepreneurs through microfinance institutions and the (semi-) government funds, which will contribute to reaching the potential of these funds as well as these women.

Microfinance is a powerful catalyst for empowering women farmers and entrepreneurs

According to data provided by the International Council for Small Business (ICSB), formal and informal Micro-, Small and Medium-sized Enterprises (MSMEs) make up over 90% of all firms and account on average for 60-70% of total employment and 50% of GDP. MSMEs are the first responders to societal needs and provide the safety net for inclusiveness. These types of enterprises are responsible for

Farmers and entrepreneurs in Narok learn about finance and credit products for women.

significant employment and income generation opportunities across the world and have been identified as a major driver of poverty alleviation and development. MSMEs tend to employ a larger share of vulnerable groups of the workforce, such as women, youth, and people from low-income households. MSMEs can sometimes even be the only source of employment in rural areas. As such, MSMEs as a group is the main income provider at the "base of the pyramid".

Although MSMEs generate the most jobs, they face many challenges in day-to-day operations and growth. Access to finance is often cited as one of the primary obstacles that affect MSMEs disproportionately. According to the World Bank[1], there are 200 to 245 million formal and informal enterprises, of which 90 percent are MSMEs, that do not have a loan or overdraft, but are in need of one, or do have a loan but still find access to finance a constraint.

Financing constraints are even magnified for informal (unregistered) firms, which are estimated to account for around 74 percent of all MSMEs in the world, and around 77 percent of all MSMEs in developing countries. Even though informal firms tend to be small in size and often less productive than formal enterprises, they contribute significantly to economic activity and employment. Unregistered firms rely mostly on informal financing, which, although important in facilitating access to finance, is associated with lower firm growth and increased firm illegality.

The traditional core business of microfinance institutions (MFIs) has focused on providing two basic services: loans and savings. Loans for first-time customers, with rising amounts for customers seeking to grow their mostly home-based income generation activities, to loans for genuinely entrepreneurial customers seeking larger loans for off-homestead enterprise and agricultural production and processing. On the savings side, while this service has always been part of the MFIs' core business, this has until recently been limited often to a minimalist mandatory savings product, which is less a genuine service than an entry requirement for customers receiving loans. There are now wider saving services on offer from mandatory savings to open savings accounts, from contractual saving products offering low-income people with the opportunity to make regular monthly savings to term deposit accounts. While MFIs are beginning to offer other sets of financial services such as insurance, leasing, and payments, these remain the second and third cousins to the more dominant loans and savings services of MFIs. The phenomenal growth of MFIs has been partly supported by a market-based approach to providing financial services to low-income people where most MFIs, though not all by any means, at least cover the costs of delivering the services. They have been able to do this by minimising operating costs, pricing their products realistically, and perhaps most importantly understanding the needs and capabilities of their customers.

A developed financial sector helps to mobilise and allocate resources and manage risks, contributing to private sector development, economic growth, and in turn, job creation. With the challenges described above, an opportunity arises for both policy makers and the private sector to intervene at various levels to encourage the formalisation, participation and growth of micro-, small and medium-sized enterprises in international, regional

[1] Peer Stein, Oya Pinar Ardic, and Martin Hommes (2013). *Closing the Credit Gap for Formal and Informal MSMEs*. IFC, Washington, DC.

and national markets, including through access for all to capacity-building and financial services, such as affordable microfinance and credit.

Micro-, small and medium sized enterprises are vital in achieving the Sustainable Development Goals (SDGs), in particular in promoting innovation, creativity and decent work for all. Efforts to enhance access to finance for MSMEs across key sectors of national economies are an important element of the implementation of the SDGs. In particular, MSMEs are an important element in the implementation of SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure). More specifically, SDG targets 8.3 and 9.3 call for enhancing the access of MSMEs to financial services. Through our EOWE programme we also contribute to SDG 5 (gender equality) by ensuring that women will equally benefit from access to these financial services.

Linking smallholders and micro-entrepreneurs with financial institutions in Baringo county, Kenya.

SNV's EOWE programme works with its partners to enable female farmers / entrepreneurs (and their families) to enhance their productivity and income to improve their living conditions. The majority of men, women and children in low-income countries suffering from food insecurity are farmers on small plots of land, often under one hectare, and/or livestock pastoralists. As women represent a significant portion of smallholder farmers and constitute the more disadvantaged group of the community they are a key target of any engagement. If business is to make a difference in their lives, it must actively engage these groups by providing them with opportunities to move from simple subsistence to producing a marketable surplus while still investing in their own land, or by supporting the creation of higher value products from their produce. Private sector actors can achieve this through ***outgrower schemes*** that provide nearby smallholders with the inputs, finance and technologies/techniques required for successful production. To the same ends, contracts with farmer cooperatives can enable private sector actors further up the value chain to support smallholders, because of larger quantities they will be able to supply as a collective.

Currently, access to finance for our programme's beneficiaries is mostly through the government funds like in Kenya with the ***Women Enterprise Fund*** (with whom SNV has a MOU), ***Uwezo*** and the ***Youth Enterprise Development Fund***. We'll also work with local private MFIs to facilitate access, but banks often want collateral which our beneficiaries don't have or the sum they want to borrow is too low to make it attractive for banks to get involved.

SNV's immediate action is to connect beneficiaries (through our local NGO partners) with officers of these government funds at the county level as well as with local MFIs, so they can understand their current requirements and conditions. Any of SNV's beneficiaries already meeting the requirements can apply (with the support of these officers and our local NGO partners). SNV receives feedback from these interactions and sessions to better understand the gaps and needs at beneficiaries' levels, the specific barriers in the application process and the requirements and conditions. SNV closely reviews the processes with the aim to enhance these by simplifying procedures, lowering requirements and improving conditions together with the funds and MFIs.

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