

UDK: 330.14
005.32:331.1-055.2
JEL: L26, B54, O15
COBISS.SR-ID: 227960844

PROFESSIONAL PAPER

Women Entrepreneurship and Access to Capital



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ABSTRACT

This paper explores the consequences of gender inequality on the women entrepreneurship development and economic development. The paper challenges the theoretical statement which says that resolving issue of the gender inequality worldwide, can significantly change the conditions of economic development. Limited potentials for women in business stop the economic growth, particularly in developing countries. Ability to access the financial resources appears to be the biggest impediment for women to achieve economic independence. This finding is recognized in many developing as well as developed countries.

KEY WORDS: *gender equality, women entrepreneurship, access to capital, microfinance, social inclusion*

Introduction

According to a recent study by the Credit Suisse Research Institute (Gender Diversity and Corporate Performance, 2012); companies with women board members routinely outperform competitors whose boards include no women. Growing interest in the subject of gender diversity in corporate boards and in governmental policymaking positions has produced a lively debate about the economic benefits of gender equality. Although

women are making progress in eliminating gender disparities, they still lag men in the workplace and in the halls of government. These gaps are found throughout the world, but are particularly pronounced in developing economies. Renowned scholars, leading institutions, global businesses, and a growing range of nongovernmental organizations stress the benefits of further reducing gender inequality to allow women to realize their full potential in economic activities and in civic life (Stotsky, J. 2013). The question is no longer whether gender diversity matters, but how it can be achieved.

In the shadow of global economic crisis, started in 2008, and awareness that the market is neither stable nor self-correcting, it is difficult to explore the facts related to women entrepreneurship and equal access to capital as common practice throughout the world. It is the fact that female-run enterprises are steadily grown all over the world, contributing to household incomes and growth of national economies. According to new data from the Global Financial Inclusion (Global Findex – Klapper, L. 2014) database, women represent the greatest portion of the population with marginal or without access to capital. The same document provides information that women in comparison to men have approximately 20 percent less chances to open an account in the bank or borrow the money in order to initiate their economic activities. These inequalities exist worldwide, particularly in developing countries making the distinction within the income categories wider and more visible.

Despite the obvious potential for growth, women entrepreneurs still face difficulties accessing the capital sources and enforcing their business plans. Lack of access to finance and financial services is repeatedly identified as the major constraint for women business owners (World Bank, 2013). Numerous studies have shown that SMEs in middle-income economies generally contribute nearly half of employment and as much as a third of gross domestic product (IFC, 2014). On a larger scale, smaller companies contribute in some aspects (e.g. employment growth) even more than bigger companies.

Macroeconomic Aspect of Gender Equality

Exploring the way how gender inequality affects the macroeconomic categories has a relatively short history. However, microeconomic analysis considers gender impact for a long time now. This is why the policy makers

developing gender responsive strategic documents must have profound understanding of the causal effect that economic growth and policies supporting it, have on the female entrepreneurship.

To achieve equality and economic independence females, have to be provided with the equal opportunity to run a business, open a bank account and borrow the money.

The survey (UN, 2009) on gender equality, found that the empowerment of female entrepreneurs has multiple effect in many different aspects of development especially in poverty reduction and the welfare of children.

Macroeconomic policies impact gender equality by means of market interventions to make capital more accessible. Until recently, gender inequality has been neglected as the category on significance in drafting macroeconomic strategies and policies, especially when it comes to the economic growth strategies and monetary, fiscal, trade and investment policies, as well as the specific constrains to women's economic empowerment, including in particular the unequal gender distribution of paid and unpaid work and its implications for access to economic resources and opportunities.

Monetary policies influence the issue of gender inequality through the labor market. Women smallholder farmers and SMEs are prevented from easy borrowing through formal procedures in formal banking institutions. Other than that, tax system often creates additional inequality by forcing female entrepreneurs to shift their economic activities into the gray zone of economy to avoid the burdens imposed by tax authorities. On the flip side, Governments have tools to help vulnerable social categories and female entrepreneurs to ensure their empowerment. Namely, budgets at national and local level could be an instrument for a "positive discrimination" of these groups. Gender budgeting initiatives could be used in ensuring that resources are allocated in accordance with the gender sensitive policies.

Trade policies may affect female empowerment and force gender inequality through different mechanisms. For example, women can be discouraged by employment policy giving more opportunities to males over females, or by income policy when for the same work females get less income than males. Again, like in the case of monetary policy, there are mechanisms to stimulate women empowerment and their economic independence and welfare.

Foreign direct investment – The foreign investment attraction policy and its impact on gender inequality could be two fold. Namely foreign direct investments bring new jobs, particularly in labor intensive sectors. On the other hand, the incentive for capital reallocation is rather often, the low wages policy where the overarching goal is higher amount of investments, number of new jobs but not empowerment of the vulnerable social categories and gender equality. According to UN survey (UN, 2009) the obstacles women are facing in the market are: the low level of education that keeps them in the work intensive, low income sectors, obstacles in market mobility, and access to capital. These factors keep women in the labor sectors where the influence of global competition defines the framework for development.

Economic growth strategies should give attention to the real economy and focus on creating a gender sensitive macroeconomic environment, full employment and decent work, access to land, property and other productive resources as well as financial services, and full coverage of social protection measures.

Position of Women in Transition and Developing Countries

According to the United Nations Population Fund (UN, 2015) an empowered woman has a sense of self-worth. She has control over her own life, both within and outside the home and she has the ability to influence the direction of social change to create a more just social and economic order, both nationally and internationally (UNDP, 2008). The World Bank and others have shown that increasing women's access to quality education, good jobs, land and other resources contributes to economic growth, and sustainable development on the long-run (UN WOMEN, 2011).

Women represent 3,5 billion citizens; yet in many countries they face a wide range of constraints to effective participation in social and economic sphere. Women make up less than 10% of world leaders. Women have found themselves consistently limited by traditional gender stereotypes regarding women's ability to assume leadership positions.

According to research done by CSRI (Credit Suisse Research Institute, 2012) approximately one quarter to a third of all small firms in the world are owned by females. These are predominantly small or micro companies with limited potentials for further development. The situation with big and multinational companies is different. Women are rather poorly represented

in these companies with no or rare presence in the highest management levels.

The suggestions given in the World Bank's report (*World Development Report 2011*) estimate that productivity could increase by 25% in the development countries, if the "positive discrimination" measures and policies towards female entrepreneurs is adopted and enforced. In essence, the findings of the report lead into conclusion that women empowerment and gender equality have supportive effect to the sustainable economic growth and creation of new jobs. That requires removing existing legal and traditional obstacles, and improvement of the financial markets.

The following is a detailed exposition of these two limitations:

In the early 1970s, awareness arose about the disadvantaged conditions of women all over the world. At this time the concept of "women in development" has been developed by UNDP. The idea called for the involvement of women in projects that would help improve their conditions as well as those of their families (Aggrawal S., 1996). To illustrate the recent changes related to gender inequality, it is helpful to analyze the data from U.S. Census 2000. Namely, based on the results of it, one of three employed females earns more than her male partner. Slowly but steadily the status of women is improving in every aspect. As the time and effort required for household chores diminished due to the technology development, women spent less time at home. It was necessary to assess the global situation (both social and economic) of women so that needed areas of change could be identified.

In 1975, the United Nations' declaration of the International Women's Year and the Decade for Women provided the impetus for studying the specific problems, concerns, and issues pertaining to women from a policy perspective. Findings from studies, conducted mostly by UN in the second half of 20th century became very important. They provided the basis for planning strategies for the integration of women in national development programs. Much of the research, however, was conducted among women in the Western world. It was inappropriate to use these data as a basis for planning projects intended for women in developing countries. Social scientists, (Tinker B., 1981) warned against the implementation of development programs based on the Western model for women in developing nations. Tinker argued against this practice, explaining, "The unquestioned transfer of erroneous beliefs about women from developed

Western to developing societies seems to be at the root of many of the negative effects development has had on women's lives (Tinker B., 1981)"

In the Republic of Serbia for example, there is no precise statistical data on women's entrepreneurship. The lack of policy and specific measures that promote female entrepreneurship and gender equality is the direct consequence of non-existing data that would help to compare local circumstances with surrounding countries and European Union.

However, it seems that women in the Republic of Serbia are changing their attitude. Namely, long period of instability, wars and transition made Serbian people and particularly women more decisive when it comes to economic independence. They were taking the risk of running business more often, trying to secure the future of their families. Such developments could not be neglected by the authorities at the all levels in the country, from national to local. The Government of Serbia introduced new laws, improving the business environment. Sometimes, the new legislative was modern in essence but too difficult to implement. Particularly, when it comes to entrepreneurship, the new regulation missed comprehensive gender equality component.

The complex theme of female entrepreneurship as well as the clarity of the policies has to be supported by the adequate activities of gender mainstreaming.

Obstacles to Women Entrepreneurship

This section of the article will give more information about female entrepreneurship as well as on different impediments that prevent women in being economic active and run their businesses in competitive manner. The short list of these impediments along with the brief explanation is provided below:

Legal framework – The basic precondition for avoiding “gray economy” is the regulation that stimulates start-ups, micro businesses and SMEs to exercise their economic activity in the formal sector. The World Bank's study conducted among poor people worldwide in 2015 (*Voices of the Poor* - World Bank) came to conclusion that poor people see their escape from poverty through development of their own businesses or work in the small scale businesses. The lack of smart regulation, however, keeps approximately 80% of economic activities of the poor still in the “gray economy”.

Ownership issue – A basic factor that serves as an incentive for boosting entrepreneurship activities is the ownership. The right to acquire and access the private property encourages entrepreneurs to take an effort towards economic empowerment. Particularly it works for women in business. In many countries around the world property rights issue goes hand in hand with gender inequality. Women are discriminated in access to capital, borrowing and ensuring collateral, despite the fact that most countries now have in the constitutions mandatory provision on property rights and gender equality. Poorly enforced constitutional provisions, directly affect female entrepreneurship enthusiasm and their decisiveness in risk taking.

Cultural constraints – The set of incentives for female entrepreneurs to start and develop business activity is seriously endangered with the role that women has in the society. In some countries, cultural heritage and tradition prevent women in having their own property and makes access to capital more difficult. Thus, with no property and no money, women are discouraged to achieve economic independence through the business activities.

Time constraints – The longer time devoted to child care, preparing fresh food and other household activities, reduce the time women can allocate for personal improvement, learning and economic activities. The time constraint determines market position, type of work and duration of work experience. Thus, time constraint is considered as one of the most important factors that influences females' labor market position.

Custom and traditional social norms - Social norms often define the activities women can engage in, imposing restrictions on mobility or on engagement with the outside. Although influential, strong and deeply rooted into the real life, these social norms are changeable under appropriate regulatory reform process. The enforcement of gender sensitive regulation could change custom and traditional social norms.

Women's position within the family – Very often, particularly in the poor countries women are not in the position to take part in decision making about spending family funds, even in the cases when it is decision about their earnings. That situation prevents women entrepreneurs in taking actions towards business development and economic empowerment.

Human resources – Females education, skills improvement and experience gained over the time, significantly influence the value of the human capital. This helps in their positioning on the market, since the

measure of female entrepreneurs' human capital is still lower in comparison to males. This obstacle became as of recently easy to overcome due to the improvements in education of women

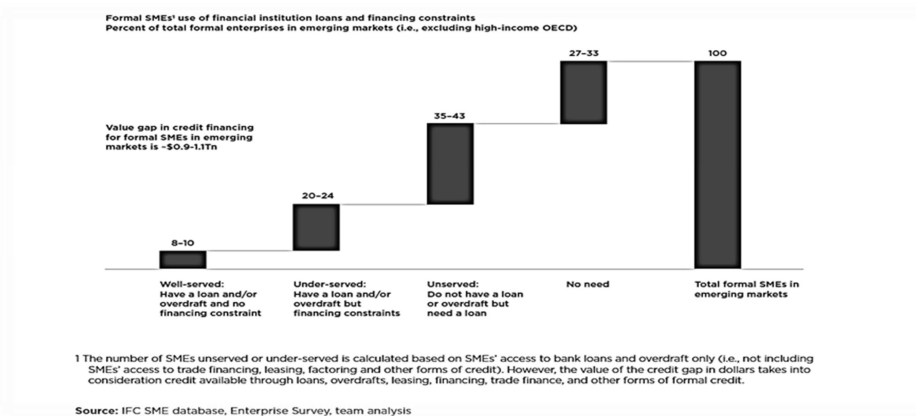
Infrastructure – Access to finance is determined, among others, with the status of infrastructure. Good roads and railroads can shorten the time for female entrepreneurs to reach the financial institutions. Electricity shortages could affect the economic performance of the small companies owned by women. Thus, good condition of infrastructure helps businesses in general, and women owned business in particular, to grow and develop.

Governance – Well-structured and managed system for the businesses to perform their activities is maybe of crucial importance. No matter how the business is effective and profit oriented, the burden of poor governance could be very discouraging. It works for every type and size of business. So, good governance stimulates businesses and economic activities in general. It is especially important for the women owned businesses. Good governance, gender sensitive, sets the stage for female businesses to find the market niche and achieve steady growth. Very often, good governance is the tall order for the poor countries or developing countries and requires lot of efforts and investments. Thus, creation of business enabling environment and good governance model is the most difficult reform to introduce in these countries.

Women Entrepreneurship and Access to Finance

Depending on the company size, access to finance as an obstacle to economic growth and development has a different significance. The chart below presents the ratio determined with the company size – the bigger companies, the less need for additional finances. There is a difference also whether the company is run by female or male, and what sector companies work in.

Graphic 1: SMEs development constraints



Namely, women-owned SMEs are a financially underserved segment at the market. They are less likely to obtain formal financing and often pay higher interest rates. As mentioned above the economic performance depends on the sector and geographic location. Women entrepreneurs who owned smaller firms in distant locations and specific product are in less competitive position and it reduces their chances to obtain good loan at good interest rate. That is why very few female entrepreneurs are using formal bank credits. Instead, they are financing the growth of their businesses by relying upon personal savings, investment from private sources such as family and friends, and the reinvestment of business earnings.

Analyses (IFC, 2001) have shown direct correlation between type, size and the ownership structure of the business and the size of the loan they can borrow at the bank and average time of issuance of the loan. Though women are running a large number of formal small and medium enterprises, the number of businesses owned and lead by women is inverse proportional to the business growth scale. Namely, on the list of successful, growing SMEs, number of female owned firms goes down as one move to the top of the list. This doesn't mean that women are less successful in running business, it means that aforementioned constraints are huge and influential and among them access to capital is considered as the most difficult one.

The position of female entrepreneurs depends also on the overall rate of entrepreneurship in the country. Namely, more developed sector of entrepreneurship means more women in business. The linkage in number of

male entrepreneurs in one country is directly proportional to the number of female entrepreneurs. More developed entrepreneurial sector means higher number of the female firms, performing well and without problems in access to finance.

Microfinance in Context Women Entrepreneurship Improvement

In order to provide an answer to the question whether women entrepreneurship contributes to the economic growth at large, it is important to tackle the other, supply side or the financial institutions. There is no doubt that the financial institutions have an important role in making financial resources more accessible and affordable to the female entrepreneurs. The experience from the financial market shows positive attitude of the commercial banks towards female owned firms as good clients and very bankable.

As stated above, female entrepreneurs more risk averse tending to decrease the possibility of failure because of high interest loans that could not be re-paid. Thus women entrepreneurs are more oriented towards informal financial resources like private savings, borrowing from friends and family and other informal resources. One of the informal financial services providers are Microfinance Institutions (MFI) whose number of clients increases over the years. Many women entrepreneurs are MFI client although as of recently, the female entrepreneurs need for capital grows faster than MFIs. Some women have extremely good business ideas requiring larger loans, but they face discrimination in accessing such loans, with the result that their businesses collapse because they are forced to purchase inferior equipment or materials.

MFIs are required to react fast to the needs of their clients and, very often, they provide tailor made package of financial services for the different type of clients. The flexibility of SMEs to react to the market impulses is followed with the increased flexibility of the MFIs to answer their needs. In this part of the document, the examples cooperation between MFIs, governmental agencies and international development entities will be provided.

In the developing countries recently appeared numerous financial models tailored on the needs of specific country in order to improve private sector. Particularly, many financial mechanisms have been developed to support women entrepreneurship in last several decades.

The example of Global Banking Alliance for Women (GBA) is maybe the most illustrative one. GBA is an organization based on the membership. It has an innovative approach in helping women become economic independent. The organization provides women owned firms with the basic access to the financial resources through its cooperation with commercial banks. The GBA was established as consortia of several banks from Ireland, USA and Canada. Previously, these banks have its own successful experience in help fostering female entrepreneurship. Nowadays, the GBA is very well developed organization with more than 30 member national and commercial banks as well as some other institutions. The banks and institutions collaborate and exchange information on developments in sector of women entrepreneurship on regular basis and make the support to women in business more efficient.

Apart from being credit support for women businesses, certain number of programs was developed to support female entrepreneurship from the aspect of technical assistance. From the experience of these programs can be concluded that female entrepreneurs are quite profitable and reliable market actors.

Aforementioned mechanisms have proved over last two decades that continuous support to female entrepreneurship, based on mix of steady support in access to capital and technical assistance is helpful and efficient when it comes to increased number of women owned firms and number of jobs created in such firms. The system based on following standards was developed to estimate usefulness of the support mechanisms:

- **Leverage:** This standard shows how the public entities contribute to the mechanism,
- **Sustainability:** Represents the potential of the mechanism in question to grow in the long term period resisting the everyday challenges,
- **Replicability:** Supporting mechanisms supposed to be used in different environments with minimal modifications,
- **Results and Track Record:** The mechanism should have solid M&E system in place for the purpose of tracking results, and learning from the experience,
- **Implementation Capacity:** The mechanism should be tailored by the capacity of MFI that has to implement it.

The case of certain financial support mechanisms shows that the full efficiency and perfection are still far away, if reachable at all. Why is that so? Well, it seems that operational MFIs are not resistant to scaling up along with its clients and shifting its focus on the profit making. Maybe the most illustrative example comes from Peru and the MFI MiBanco that over the time became a commercial bank. Transformation to a commercial bank brought transition of the overarching goal that instead of helping women micro-entrepreneurs to get easily small loan, became assurance of bigger loans that would help in scaling up their economic activity. In the end the result of the transformation from MFI to a commercial bank, was the higher rate of business failure among women entrepreneurs.

The case of WEDI was somewhat similar. Namely the Women Enterprise Development Initiative (WEDI) established in South Africa to support women entrepreneurship. This fund ensures capital for the women owned firms, however unlike MiBanco, WEDI considers social aspect of its activity much more than profit created from the financial service provided. The WEDI goal is set in the long run and it is about helping female entrepreneurs to build up their capacity and ability to grow on the sustainable basis. The difference of two compared examples is in the level of social awareness and readiness to work towards this goal.

Improving Access to Capital for Female Entrepreneurs in Serbia

Socio-economic conditions for women's entrepreneurship in the Republic of Serbia are unfavorable. Women owned firms are proportionally smaller than men's. When it comes to the type of business women entrepreneurs in the Republic of Serbia are oriented toward business sectors of trade and services, unlike men entrepreneurs who are much more in the sector of production and agriculture. The share of the firms from trade sector in total number of women owned firms is 36.4%. At the same time share of men owned trade firms is 28.4%. Additionally, share of female owned firms in service sector is 44% in total number of firms, which shows that women entrepreneurs are predominately (80%) in the sectors of trade and services, while the same number in case of men entrepreneurs is approximately 68%. Numerous are factors that influence this relation on the market. Interestingly, reasons for that are more social in the nature. Namely, female entrepreneurs are more reluctant to choose complex legal forms for their activity, they are less interested in joint ventures than in independent

business, and so on. At last, women entrepreneurs have started their businesses later than men. All of mentioned, along with the standard obstacles for women entrepreneurship recognized globally, causes the higher rate of female businesses closure. In the Republic of Serbia, the rate of closed businesses was 47% for female owned firms to 38% of male owned ones. This is particularly case with the female owned firms in the earlier stage. It points out how women entrepreneurs still facing numerous impediments in running the business.

Lately, the developments in the process of creating business enabling environment for women entrepreneurs in the Republic of Serbia are promising. The legal framework and institutional support mechanisms were drafted with awareness of the complexity of the women empowerment issue and higher level of gender sensitivity. However, although the trend of changing of the social and business environment is going in the positive direction, it has to be stressed that it is not sufficient. Namely, the rigor legal framework on financial institutions doesn't recognize the non-banking financial institutions like MFIs, while the banking sector is even stricter when it comes to the funding of start-ups. Many banks are unwilling to provide services, in part because of the perceived high risk of financing poor clients and start-ups, but also because they would need to invest significant resources in changing their business model to serve this clientele. With an estimated size of €267 million, microcredit can play a significant role in credit access for the entrepreneurs, particularly female ones, although it would remain only a small fraction of the total level of bank credit provided. In the author's view, this potential demand justifies further study on how financing the female entrepreneurship could be improved in the Republic of Serbia.

Conclusion

In the "post-economic-crisis" times of economic instability, the priority for development and economic growth must be based on the balance approach to SMEs. The concept of gender equality must not be neglected. On contrary, barriers that stop women in easier access to financial resources have to be removed. Making women equal to men can improve their and lives of their kids and families and society at large. Finally, further democratization of the society has to be based on social and political

activism of both men and women as economic independent members of the society.

Among others, one possible path to enhance both female and male entrepreneurs' access to capital is introduction of MFIs in the Serbian financial market. Relaxing the legal framework related to financial market could be of great help. Developing the microcredit regulatory model considering specificities of local conditions could help in diminishing "gray financial market" and bringing all money transactions in the formal flow and more chances for prosperity and economic growth for both women and men owned enterprises.

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Article history: Received: 10 June, 2016

Accepted: 7 November, 2016