



Equitable Growth in a Resource Constrained World.

Unleashing capital for women
entrepreneurs in Africa

The World Bank's 2024 Women, Business and the Law report found that women have the power to turbocharge the global economy, and yet legal and structural barriers routinely keep them on the sidelines. Today, 96 economies still do not prohibit discrimination in access to credit based on gender, limiting women entrepreneurs' access to capital and hindering their economic opportunities.

Closing gaps in employment and entrepreneurship alone could raise GDP by more than 20 percent. **In an era of persistently slow growth, increasing the participation of women in the global workforce could significantly brighten the economic outlook, for communities, countries, and the global economy.**

The Challenge

Africa is demographically the youngest and fastest growing region, but economic growth has barely kept pace with population growth. With its population expected to double to 2.5 billion by 2050, it is imperative that the world supports a growth strategy that creates jobs and Africa's rapidly expanding labor force, including women.

Africa has the highest share of female enterprises in the world at 26%, but women entrepreneurs are more likely to own or work in informal microenterprises.

The unpredictable nature of these livelihoods means their income streams are lower and less consistent than for their male counterparts. It also means they are invisible to most formal lenders and can't secure the capital they need to grow a business, hindering their ability to increase their incomes and create additional jobs in their communities.

Access to capital, especially for women led microenterprises, remains highly constrained in Africa.

At only 36%, Africa lags all other regions on credit supplied to the private sector as a percentage of GDP — compared to 47% in South Asia and 158% in OECD countries. Across the continent, women face more constraints to borrowing, due to informality, less access to collateral and co-signers, fewer data trails, and less established track records. Even when women successfully pay back multiple loans, they still are not able to get credit on better terms and are faced with a narrow set of credit options, most of which do not match their needs.

Increasing women's access to credit can be a powerful development tool, which can support them in building resilience, managing cash flows, reducing poverty, and driving economic growth. **But the current financial system doesn't work for most of Africa's women entrepreneurs.**

A New Vision: What Can Decision-Makers Do?

Getting more capital into the hands of women entrepreneurs in Africa is possible, but it requires **building more inclusive credit markets that ensure finance works for women, in ways that meet their needs**. Importantly, this proposed approach does not advocate for credit for all; instead, it is designed to use scarce resources more effectively and make more and better credit available to smaller enterprises run by women who demonstrate they can use it well.

Many women in Africa participate in informal credit mechanisms, such as Village Savings and Loan Associations or chamas. While these informal systems work for one-off purchases or income diversification purposes, they don't provide the right type of financial support to reliably run a business. Finding pathways for capable women

entrepreneurs into more appropriate forms of credit that meet their business needs requires a new approach to credit provision in Africa. The work of BRAC in Bangladesh and the National Rural Livelihoods Mission in India provide strong examples of how to build pathways from informal to formal sources of credit for women entrepreneurs.

In the regulated credit ecosystem, **leaders in public and private sectors need to tackle three main constraints** that make it difficult to offer affordable credit responsibly to low-income women: **high operating costs**, the **cost of risk**, and the **cost of funds**.

Here are some of the most effective ways governments, donors, DFIs, financial institutions and philanthropic partners can co-create an equitable lending system for women:

1

Build agile regulatory systems that enable the emergence of a diverse spectrum of financial institutions, with different cost structures and appropriate levels of prudential oversight, while offering robust consumer protections.

Donors can support African governments to build enabling regulations that support responsible lending, consumer protection, and institutional scaling without distorting markets. Peru successfully used this approach to nurture an inclusive credit ecosystem by creating an agile regulatory regime. It has a "stepped" model that supports providers to evolve from NGO to formal credit provider to non-bank financial institution and eventually to a full-service bank with progressive increases in minimum capital requirements and prudential oversight with each new step on the ladder. Excellent supply side data enables regulators to monitor the health of the sector in near real time.

2

Invest in digitizing lenders and improving data sharing. Lenders have poor visibility into the risks of lending to poor women, which effectively makes them sub-prime credit risks. However, despite having to borrow at rates well over 70% APR in much of Africa, many borrowers are paying those loans back despite their high costs and inflexibility. They are not sub-prime, they are just invisible, given the available data infrastructure. Assessing risk on a case-by-case basis is complicated and expensive. Bringing financial institutions into the

digital age and enabling data sharing with all lenders makes it easier to evaluate women as clients and provide right-sized loans with fair terms. It also reduces the high cost of serving customers with small loans and frees up money from operations to support lowering interest rates. Private providers like Kaleidofin in India or Kuunda in East Africa are showing the value of digitizing data on low-income borrowers to improve credit offers.

3

Help inclusive lenders to obtain local currency wholesale funding at a reasonable cost. The high cost of capital is a major driver of high interest rates to low-income borrowers, whether delivered by MFIs or fintechs. Funding from external sources looks affordable in dollar or euro terms but becomes prohibitively expensive when hedging costs are built in. Local currency financing is often expensive or not available at all because local lenders are either uncomfortable with the credit risk of second and third tier institutions or because they can earn money lending to easier segments like governments or large corporations. Donors can help mitigate this problem by supporting lower cost hedging instruments or by crowding in domestic financial institutions, which have ample local currency liquidity, but need guarantees to help alleviate concerns about credit risk. Aceli in East Africa is blending subsidies and incentives to steer domestic commercial banks into lending to sectors that they previously avoided, in this case agriculture.

The Role of Donors

To achieve these goals, donors can use levers more strategically. Funders spent \$10 billion on financial inclusion in Africa in 2021. This capital can be put to more targeted use, investing in the regulatory systems and providers who can deliver lending services to low-income women at scale, providing incentives where merited to improve the economics of operating on the continent in market-building rather than market-distorting ways, and supporting the delivery of low-cost local currency financing to impact-first lenders best suited to meet the needs of low-income women.

To read more about how the public, private and philanthropic sectors can work together to get capital into the hands of women, read the full whitepaper visit www.gatesfoundation.org.