Prerequisites

Lack of credit history (for credit products only)

This barrier describes the lack of payment history, collateral, or alternative datasets (e.g., mobile money savings, social media interactions) that would provide lenders the ability to conduct underwriting and assess credit worthiness.

Why is this barrier important?
Although access to credit is a major driver of demand for financial services, women are more likely than men to lack a credit history, which prevents them from accessing loans and financial products. This is also a pertinent barrier for women-owned MSMEs who are seeking to obtain credit from formal sources to grow their enterprise.

Connected Barriers

Prerequisites
Broader legal constraints
Digital/Foundational ID

Social norms
All barriers in this category

Cost
Cost of using DFS (incl. transaction cost)

Consumer Protection
Predatory lending

Most Relevant Segments

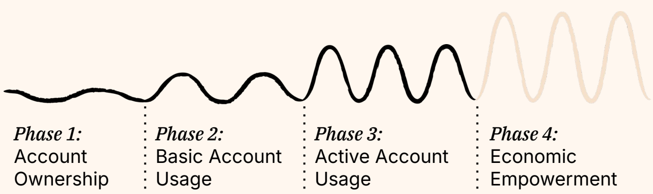
1 Excluded, marginalized

2 Excluded, high potential

3 Included, underserved

4 Included, Not underserved

Customer Journey Relevance



Key evidence relevant to this barrier

- In a brief published by CSIS, the authors state (Runde et al., 2021):

  "Female business owners in Africa face gender-based discrimination and obstacles that affect their profits, community engagement, and ability to successfully maintain businesses. These include legal discrimination, social norms, risk of gender-based violence, education and skills gaps, confidence and risk preferences, access to networks and information, household allocation of productive resources, and time constraints and care. **Because of these obstacles, women-owned businesses in Africa on average earn 34% less per month than those owned by men. A mere 10% of women-owned SMEs have access to the financing they need. With less access to land for collateral and a lack of credit histories, women are perceived as even more risky by private lenders.**"

- Collecting information on women's credit history can help women without property build their reputation collateral to get loans. However, 132 countries do not require retailers—and 129 countries do not require utility companies—to provide information to private credit bureaus or public credit registries (CFR, 2022).
- "A lack of access to finance is one of the major barriers facing women entrepreneurs in marginalized communities across the world. 80% of women-owned businesses with credit needs are either unserved or underserved... This is equivalent to a massive $1.7 trillion financing gap." (World Economic Forum, 2019).

- "A study among AFI's members showed that two thirds of respondents (**66%**) considered collateral requirements as a barrier for women's financial inclusion." It aligns with the reality that "women have lower capital and assets and in some countries still face limitations to owning certain types of assets." Additionally, at a global level, men handle **80%** of loan volumes (G20 Insights, 2018).

- **104 economies** "still lack a legal provision that expressly prohibits gender-based discrimination in access to credit" (World Bank, 2022).

- Most women-owned SMEs in India struggle with obtaining credit from formal sources due to credit market discrimination, and higher interest rates which in turn significantly constrain the growth of the enterprise (Chaudhuri et al., 2018).

- Women entrepreneurs in Vietnam, Pakistan, and Peru report experiencing limited access to loans of the right size and terms which leads to lower ownership of productive assets by women. **Barriers to credit include male guarantor requirements for collateral, physical asset requirements for collateral, access to formal credit history, and systemic gender bias**. 15% of women-owned micro and small businesses in Pakistan have access to credit (66% in Vietnam and 39% in Peru) (CARE, 2021).

- Interviews with more than 600 entrepreneurs in Indonesia found that women lose out on financing from formal banking channels because banks continue to rely on traditional means of credit assessment, including ownership of land and buildings. Indonesian women typically don't have those assets in their names, so banks are reluctant to lend to them (IFC, 2016).

- Collateral requirements exclude women who often lack land or property rights. For example, in Kenya, women make up around 40% of smallholder farm managers, but have less than 1% of available agricultural credit. In Bangladesh, women receive 1.8% of the available credit but make 27% of deposits with banks (DFID, 2013).

- According to the World Bank and AFI, MSMEs are perceived as low-return/high-risk enterprises, which affects their ability to receive loans (World Bank, 2012; AFI, 2017).

Key evidence relevant to this barrier

- High collateral requirements limit access to financial services for MSMEs. Additionally, “since most MSMEs are informal, the entrepreneur’s profile and business transactions are likely underrepresented in the formal financial ecosystem. This leaves the financial institution with limited digital transactional trails to build a credit score and provide customized financial solutions.” (MSC, 2021).

- “The financial needs of farmers extend beyond accessing and using bank accounts. Customised, adjacent financial services—such as savings, credit and insurance—are vital for them to invest in their farms and build more secure livelihoods. However, smallholders in LMICs lack the collateral and financial history they need to access formal financial services like agricultural loans.” (GSMA, 2021).

- “SMEs have traditionally been poorly served by the banking industry in Sub-Saharan Africa. Fewer than one-in-three medium-sized firms in the region have a bank loan or a line of credit according to World Bank data. For small firms it is fewer than one-in-five.” (World Bank, 2018).

The following Exemplar represents one evidence-based interventions that has shown success in addressing this particular barrier. There may be other Exemplars for this barrier in the larger Barriers & Exemplars Analysis compendium deck.

Exemplar
Savings for Change Program

"The Saving for Change (SfC) program began in Mali in 2005 to assist women in organizing themselves into simple savings and credit groups. The program is meant to address the needs of those who are not reached by formal financial service providers or traditional ROSCAs. As part of the program, about 20 women voluntarily form a group that elects officers, establishes rules, and meets weekly to collect savings from each member... When a member needs a loan, she asks the group for the desired amount; the group then collectively discusses whether, how, and to whom to disperse the funds. Loans must be repaid with interest, at a rate set by the members, and the interest collected is also added to the communal pool of funds. SfC introduced a novel oral accounting system which helps the women manage their debts and savings totals." (J-PAL).

"Unlike formal lenders, SfC group members lend their own money, so collateral is not required. The fact that all money originates from the women themselves, as opposed to outside loans or savings-matching programs, also increases the incentives to manage this money well. In addition, the program is designed to be self-replicating through "replicating agents" in each village. Once the first group is established in an area, members themselves become trainers and set up new groups in their village and the surrounding area." (J-PAL).

Key Activities

"In order to test the impact of the SfC program as well as different strategies for encouraging replication, researchers randomly selected 500 villages in the Segou region of Mali to participate in the study. These villages were randomly divided into two treatment groups of about 100 villages each, and one comparison group with nearly 300 villages.

1. The first group received the SfC program with a structured, three day training for replicators who received a handbook on how to start and manage savings groups.
2. The second group received the SfC program with an informal, organic training program in which trainers answered questions, but did not provide any formal instruction to replicators.
3. The comparison group did not receive the SfC program." (J-PAL).

Outcomes/results

- "Average savings in treatment villages increased by US $3.65 or 31% relative to the comparison villages. The SfC program also significantly —increased women's access to credit. Women in the treatment villages were 3% more likely to have received a loan in the past twelve months, and this loan was more likely to have come from a savings group rather than from family and friends." (J-PAL).
- "In addition livestock holdings increased, and households in treatment villages owned on average US $120 more in livestock than those in comparison villages, a 13% increase. In Mali, owning livestock is a preferred way to store wealth and mitigate against risks such as drought or illness." (J-PAL).
- "Villages that received structured replication training rather than informal training had higher participation rates in SfC." (J-PAL).
- "Both male and female members of households perceived a general pattern of increased empowerment among SfC members over time. Although they did not themselves use the term, they indicated growth of many components one would associate with empowerment: greater economic independence for members within their households, independence for members within their households, increased leadership—

—and sense of potential and purpose, and increased status in the household and in the larger community." (Oxfam, 2019).

Key enabling environment factors for intervention

Limited supporting financial infrastructure is required for this intervention. Once the initial trainings are conducted to familiarize women with the program, the model requires no other financial infrastructure.

Key design elements and principles that led to successful outcomes

- The SfC model is designed to function independently of outside support once established.
- Money originates from women and is managed by women, allowing them to manage their own micro-institutions. This also helps women to build trust with each other and the financial services.
- The program is designed to be flexible. The women in each group can modify rules related to participation and systems and transparency to adapt the program to their preferences and needs.

Potential for scale/replicability

SfC has potential for replicability, and the program has already expanded to other countries. Started in Mali, SfC has grown to include Cambodia, El Salvador, Guatemala, Mali, and Senegal. The limited financial infrastructure required by the program makes it a practical intervention to replicate and adapt across contexts. Additionally, "since its introduction, other organizations have sought to capitalize on the structure established by SfC, taking advantage of readily available groups of women already self-organized and united in purpose. The existence of SfC therefore serves to attract NGOs, information campaigns, and external collectives who may be willing to collaborate on future programs." (Oxfam, 2019).

Challenges encountered during the program

The authors of the SfC evaluation report identified several challenges with the program. First, most SfC groups are not positioned to find partnerships with organizations that provide access to external markets. A second challenge was that even after many years in the SfC program, the research team noted limited innovations and strong risk aversion in women's selection of where to invest in entrepreneurship, often resulting in market saturation... As a result, even in areas where SfC has successfully increased women's entrepreneurship, women are by and

Recommendations from the research

The authors of the SfC evaluation report identified several recommendations to consider. First, "SfC has succeeded where other microfinance institutions have failed in large part because financial control and decision-making rests in the hands of the women themselves" (Oxfam, 2019). If additional trainings are incorporated into the program, they need to maintain the same principles of transparency and autonomy that have allowed the program to be successful. Second, research has indicated that supplemental education can be linked to SfC around literacy, small business development, and civic education.

Additional Exemplars

The Hindu Succession Act

Women's Business Ownership Act

The impact of financial incentives on female land ownership in Tanzania

Interest Rate Sensitivity Among Village Banking Clients in Mexico

Paving the Way for Women from the Inside Out (TARA Program)

DigiFarm

Farm to Market Alliance (FtMA)

Business Women Connect Program

Rwanda's Land Tenure Regularization Program

Empowering MSMEs: Creating a Better Banking Experience for Women-Led Micro, Small, and Medium Enterprises in Kenya