Entrepreneurship and financial inclusion

Key PAGE findings under this theme have focused primarily on the issue of access to credit. Limited access to credit, as one aspect of financial exclusion, is a problem faced by entrepreneurs and potential entrepreneurs throughout the developing world. In the context of the wider literature, PAGE-II (and PAGE-I) research has been contributing findings that aim to address existing knowledge gaps. Projects looking at promising innovations to help small enterprises—particularly women-led enterprises—improve their access to credit are outlined in the following paragraphs.

1. Lack of education and/or training

Interventions addressing small entrepreneurs’ lack of education and/or training have emerged as key and promising tools to address credit access issues throughout the developing world. However, education and training-based interventions vary significantly and have had mixed successes. Recent evidence from Togo shows that psychology-based personal initiative training increased firm profits by 30% while standard business training had no effect. PAGE studies in Africa and Asia have contributed key findings to this literature. While offering training alongside credit was found to reduce the default rate in Uganda, and significantly increase revenue in Ethiopia for men, programs that successfully support female entrepreneurs are lacking. In Ethiopia, the gender difference in favour of men is explained by the higher risk-aversion shown by women. In Senegal, women were found to be particularly credit-restricted as they have generally received less training and education than men. In a separate study on Ethiopia, increasing financial literacy and management skills were found to positively contribute to enterprise growth. Finally, in Indonesia, investments to improve long-term health outcomes may be more valuable than training programs in boosting the cognitive skills needed for non-farm entrepreneurial success. Further, gender-sensitive, research is now needed to understand the impacts of actual policies to provide training to assist in improving credit access for small entrepreneurs.

SOME EXAMPLES OF POLICY RESEARCH ISSUES:

- Are there gender biases in the design of credit-related training and educational programs that may explain differential access? Do these biases constitute binding constraints for female access to education and training?
- The supply of training and education programs and their adequacy for entrepreneurs’ requirements and needs, paying special attention to gender-specific needs, gender-targeted programs and specific features that are more useful in each context.
- On the demand side, research on the returns to educational/training programs that also considers the potential gender gap in returns and their explanation

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1 See, for example, Robb, Valerio and Parton, Fox and Kaul and Newman et al. (section 5.3.4.1).
• Improving the efficiency of public institutions in reducing the constraints entrepreneurs face, and increasing the support they receive, in accessing credit markets (policy and institutional implications of innovative models).

• Can flexible training programs (such as distance learning programs) improve access to these programs? Given the domestic responsibilities of women, do these impacts differ by gender?

• Most training programs aimed at improving access to credit have looked at improving the skills of credit receivers. Can training in assessing projects for feasibility and profitability, and guiding borrowers to come up with better business plans for lenders (e.g. bank officials) reduce the gender gaps in financial inclusion?

• Research that models the role of household dynamics/social norms/gender differences in cognitive and non-cognitive skills in the impact of actual policies that provide training for credit access.

2. Discrimination and social attitudes

Discrimination and social attitudes can pose serious constraints on developing country entrepreneurs, as found in Nigeria, Senegal, Cameroon, and Bolivia. While no direct discrimination of women with regards to eligibility for loans was found in any of these studies, the findings from Africa suggest that addressing underlying social and cultural factors, rather than discrimination per se, is essential in interventions to improve access to credit for women. Also, evidence from Ethiopia shows that factors like marital status, level of education and financial literacy, and business type make women entrepreneurs significantly more risk-averse than their male counterparts. In Bolivia, non-indigenous women are twice as likely as non-indigenous men to be approved for credit, while indigenous women are 1.5 times more likely than indigenous men to receive credit. Indigenous and non-indigenous men have the same likelihood of receiving credit. It also raises issues on the effects of geographic discrimination on credit access, where disadvantaged groups (women, minority ethnic groups, etc.) live in regions with less access, requiring policy action. Further, gender-sensitive, research is now needed to test possible policy solutions to address or counteract structural discrimination, building on these findings to inform policy decisions more effectively.

SOME EXAMPLES OF POLICY RESEARCH ISSUES (for each issue, explore gender differences)

• Could policies addressing structural discrimination yield better outcomes by targeting individual entrepreneurs operating within an organized group (cooperatives, associations, etc.)?

• Many grassroots-level micro-entrepreneurs prefer to borrow from informal lenders at higher interest rates because of familiarity with the lenders and fast and easy procedures. How can initiatives aimed at entrepreneur-friendly banks help improve access to formal finance for the marginalized?

• Can information and communication technology (ICT) address structural discrimination in accessing credit? The lack of documented earnings streams is often an obstacle in obtaining loans for informal sector entrepreneurs, making it necessary for banks to lend based on background checks. Can data from the use of ICT-enabled payment platforms provide unbiased means of assessing creditworthiness and reduce structural discriminations in access to finance?
• The impacts of **heterogeneity in institutional structures** on discrimination and their implications for institutional and policy changes. Could the operational procedures and governance structures of institutions lead to discrimination? Or could their processes of promotion and recruitment do so?

• Does discriminatory treatment of women persist in **legal or common practice systems**?

3. **Policies and programs targeting female entrepreneurs**

Several PAGE projects focus on the impacts of policies and programs targeting female entrepreneurs. In **Ghana**, policies supporting female entrepreneurs have been found to have a variety of positive effects, including increasing household income, reducing poverty and empowering women. In **Ethiopia**, female entrepreneurs—unlike their male counterparts—were found to not benefit from general (i.e., not focused specifically on women) credit and training interventions. These findings support the need for deeper analysis of how programs and services for entrepreneurs should be differentiated by gender so that female entrepreneurs also benefit. In a separate study on **Ethiopia**, an alternative SME development strategy focusing on female labour-intensive SMEs reduced poverty more than the government’s current strategy. Further, gender-sensitive, research is now needed to assess the impacts of **female-focused entrepreneurship policies and programs**, as well as **gender differences in the impacts of general entrepreneurship policies and programs**.

**SOME EXAMPLES OF POLICY RESEARCH ISSUES** (for each issue, explore gender differences)

• Could entrepreneurship policies and programs targeting individual entrepreneurs operating within an organized group (cooperatives, associations, etc.) yield better outcomes?

• Are there differences in entrepreneurship programs impacts between **individual and family enterprises**?

• Policies to **scale up** labour-intensive small and medium enterprises (SME).

• Policies that **improve sustainable opportunities for entrepreneurs in smallholder agricultural supply chains**, to boost incomes and enhance food security.

• How can **public support for childcare and elderly care services** improve the benefits from entrepreneurship policies for females?

• Are **gender-oriented policies more effective** than policies that do not specifically target gender? Which gender-specific components of entrepreneurship programs have positive impacts, and on which outcomes?

• What is the role of **formalization policies** for entrepreneurs? More specifically, do female entrepreneurs value the higher flexibility of the informal sector? How does this relate to the burden of domestic tasks?