



# ASSESSMENT OF WOMEN-OWNED SME BORROWERS

ACGF

## GENERAL SUMMARY

At no time in Afghanistan's modern history have women had as many opportunities and support as they do now to become an entrepreneur. Despite this fact, women deal with a myriad of constraints that are financial and cultural compounded by the political and economic situation of the country. Women's entrepreneurship is rooted in the microfinance sector since 2003 as a nascent and informal financial sector promoted loans to women. While women-owned businesses account for about 35% of the number of microfinance loans lent in 2018, larger-scale lending to women-owned small and medium enterprises (SME) is less than one percent of the total number of outstanding SME loans disbursed by bank and non-bank financial institutions.<sup>1</sup>

A study that determines the market size and demand for SME loans by women has not been conducted but numerous organizations are tracking female SMEs in internal databases. This study is an initial effort to gather knowledge on women-owned SME borrowers in Afghanistan as part of the Afghan Credit Guarantee Foundation's (ACGF) participation in the World Bank's "Improving Access to Financial Services for SMEs" program. Women currently represent a very minor fraction of the portfolios of ACGF's partner institutions (PIs). The exact number of SMEs operating in the country is not known though numerous organizations maintain databases of their SME program participants; however, they are not integrated and quite possibly have duplications.

### Women in Private Sector

Women make a significant contribution to the Afghan economy. According to the Afghanistan Chamber of Commerce and Industry<sup>2</sup>:

- **USD 70m of investment** by women since 2001;
- **77,000 jobs were created** by women employers;
- **300 factories were established** by women entrepreneurs in 2018;
- **73% of women-owned SMEs are in production sector**;
- **15% of urban and 20% of rural women** contribute to household income.<sup>3</sup>

*"It is intended for this study to provide informed business intelligence on women-owned SMEs operations, challenges, opportunities, and desires. While several financial institutions (FI) have committed to attracting SME female borrowers, FIs must offer real solutions to female entrepreneurs and not just make a few tweaks to their existing approach, including perfunctory products offerings and marketing efforts to potential female clients."*

Per a 2013 Afghan Women's Economic Participation (AWEP) report, the majority of the 1,424 women they surveyed entered the workforce during the decade before the study. Half of these joined the labor market since 2008 and just over a quarter entered between six to 10 years ago. This points to a positive and growing trend for a small (17.3% or 2.6 million)<sup>4</sup> but substantial number of women in Afghanistan who are part of the estimated 15 million people active in the labor force.<sup>5</sup>

### Goals of the Study

- To enhance the institutional knowledge of ACGF and its partners in relation to women-owned SME borrowers;
- To provide ideas for potential means by which the partner institutions (PIs) of ACGF could begin to develop a strategy oriented towards this underserved segment;
- To provide PIs support in increasing lending outreach and to expand ACGF's loan guarantee operations.

<sup>1</sup>: Microview Report No. 22 by AMA and DAB Annual Report 1396 (2017).

<sup>2</sup>: Tolo TV news report Feb. 2, 2019 <https://bit.ly/2EhAaTC>

<sup>3</sup>: Afghanistan in 2018: A Survey of the Afghan people.

<sup>4</sup>: Source: World Bank website.

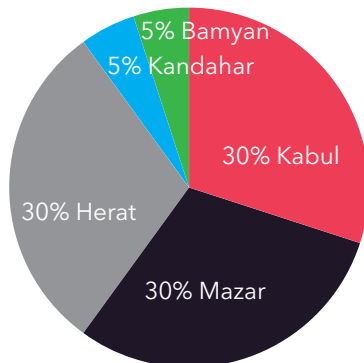
<sup>5</sup>: Afghan Women's Economic Participation Report 2013

The landscape of stakeholders who are engaged with the growth and development of women in the private sector are made of three types:

**Financial Institutions** comprised of commercial banks and microfinance institutions.

**Afghan Government Ministries** with dedicated units to support female SMEs.

**Numerous Meso-level Organizations** that are providing a range of support services such as technical assistance, business education, awareness-raising, market linkages and networking.



## Methodology

This study was prepared by using a three-part methodology:

- Literature review
- A quantitative survey of female entrepreneurs
- A qualitative survey of stakeholder and actors engaged in supporting women SMEs either directly or indirectly in the development finance sector of Afghanistan.

One hundred female SMEs primarily from three large cities, Kabul, Herat and Mazar, participated in the quantitative survey.

## Recommendations

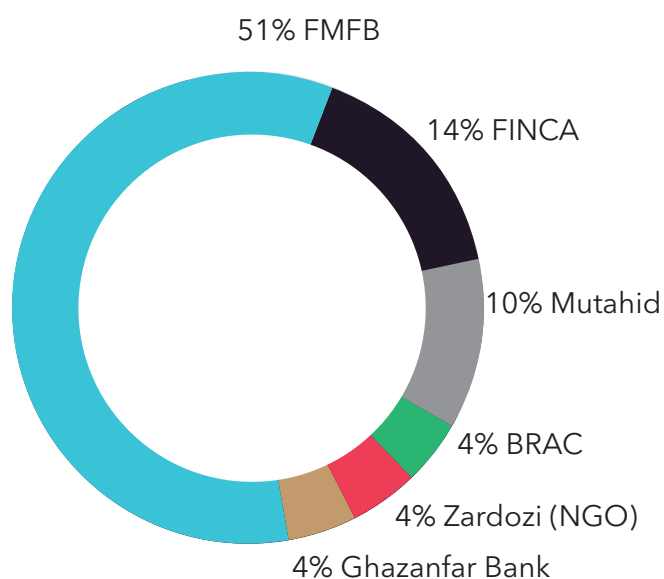
The recommendations and suggested approaches in this study are based on strengthening current practices at financial institutions and contextualizing international best practices to expand access to finance to further gender equality and development of Afghanistan's financial sector in a meaningful way.

## KEY FINDINGS

**Over 90% of participants** want to obtain credit.

**Only 45% had successfully borrowed** one or more loans (in series of time) from a financial institution (FI) to expand their business.

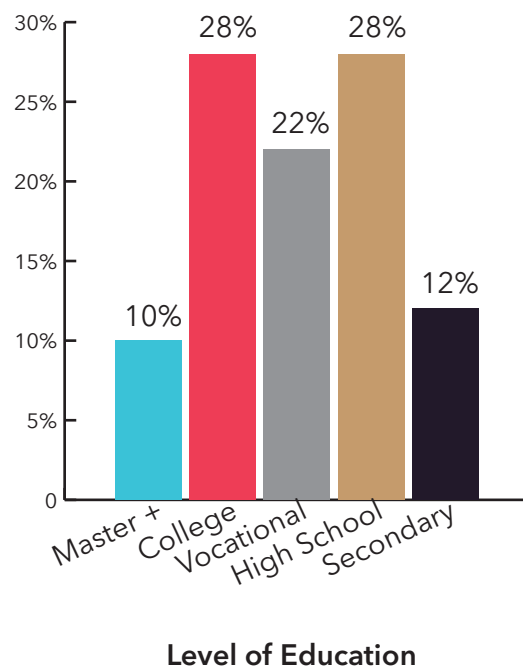
While almost half of the participants accessed a loan, 66 percent were for amounts under AFN 50,000 and no loans exceeded AFN 500,000. This is despite 75% of the demand being for loans in excess of AFN 50,000 and 22 percent wanting loans over AFN 500,000. Clearly, there is a wide gap in the number of loans and loan sizes desired and the interest or ability of banks or microfinance institutions to supply them.



**FIs that women entrepreneurs applied and successfully borrowed a loan at least once**

**About 88% of women business owners are educated**, having completed high school at a minimum. At least 22% had at least some vocational training beyond high school and 37% had a college degree (bachelor's or higher degree). Less educated respondents (with only a secondary school education), were less likely to have registered their business, as only 33% did versus 67% for those educated at the high school level or above. The percentage of college graduates that registered their business was 84%.

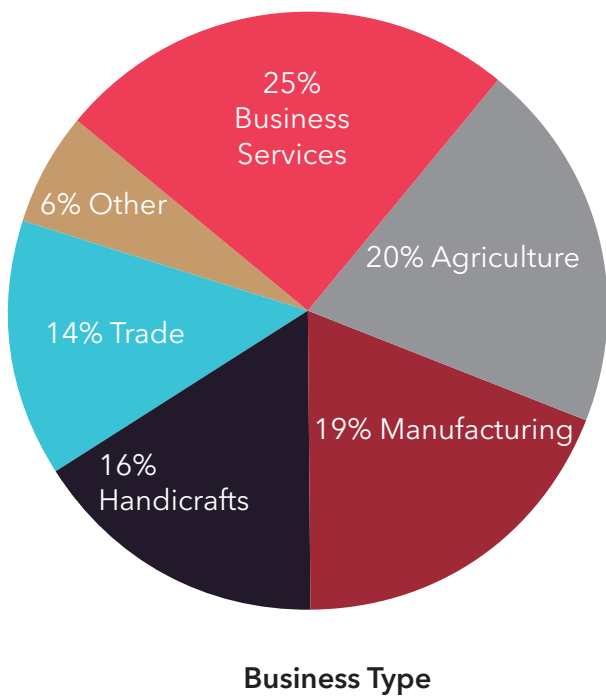
Respondents with higher education have tendency to follow the technological trends. Using computers/tablets in order keep their data enables them to apply and get loans easier. This also leaves an impact on registered businesses in which both SMEs and Afghanistan's economy benefit.



	Secondary	High School	College +
<b>Technology</b>	All respondents rely on pen & paper for record keeping	45% usage of computers/tablets	73% usage of computers/tablets
<b>Access</b>	33% borrowed funds for their business None accessed formal loans	26% borrowed funds for their business About half accessed formal loans	
<b>Business Registration</b>	33% registered	67% registered	87% registered

**Education appears to have a bearing on access to "formal" finance from a financial institution.** While 33% of the respondents who only completed secondary school borrowed funds for their business, none accessed formal loans. In contrast, 26% of those who completed at least high school borrowed funds and about half of them accessed formal loans to fulfill their funding needs versus borrowing from a self-help group, association, or family and friends.

**Younger female business owners up to 35 years old have the highest percentage (62%) of "slow and stable" growth** in the last one year, likely due to educational improvements over the last 20 years and their facility with IT. Only 36% classified their business status as "struggling." These well-educated, young entrepreneurs hold the most promise to continue to expand and further professionalize their SMEs as well as become increasingly bankable clients.



The most common **type of business** surveyed was business services sector, which includes activities such as tailoring (48%), restaurant (12%), beauty parlor (12%) and a variety of other business types such as taxi driving, IT service provision, art gallery and cloth/textile manufacturing.

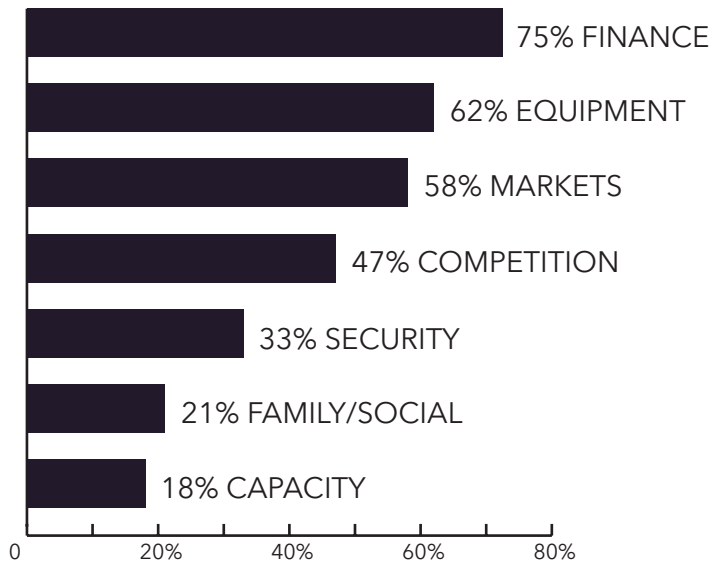
In agriculture, 66% is engaged in primary processing, 33% is in processing of agricultural products.

Manufacturing came in third, although there is a small amount of overlap between the categories as can be seen in the cloth/textile manufacturing mentioned above that was captured under the business services/service provision category.

Such SME diversity was well-recognized by the owners surveyed, with 99% stating that **loan amounts, maturities, repayment structures and interest rates need to be adapted to the cash flows and investment requirements of their particular sector** and further refined for their individual business needs.

**Non-financial support is essential to women business owners.** 53 respondents out of the 100 expressed interest in receiving financial education if offered by a financial institution. Belonging to an association or business network was critical as evidenced by two-thirds (65%) of women business owners already belonging to one or more associations, chambers of commerce, or sector-specific organizations, among others. The ability to participate in national and international exhibitions and markets was beneficial for the success of women business owners, with 75% of respondents noting that participation in (81% national and 19% international) exhibitions was an essential part of their business.

**About 56% of women-owned businesses were sole proprietorships, operating on average seven years or more.** Even though many women-owned businesses are organized as sole proprietorships, they average 17 employees and a few of these businesses reported having 50 or more employees. About two-thirds of them (66%) were SME's as per Ministry of Commerce and Industry's (MoCI) definition, having between 6-99 employees.



Rank	Characteristics	%
#1	Low interest rates	48%
#2	Urofi collateral to be accepted	32%
#3	Less collateral requirements (cours documented/title deed, expensive to register)	31%
#4	Grave period (with no or interest only payments)	27%
#5	Sharia-compliant finance such as Murabahah (cost-plus) and Ijara (leasing)	25%
#6	Easier/simpler application process	20%

The top three challenges women entrepreneurs cited were lack of access to finance (75%), lack of equipment and machinery (62%), and access to markets (58%).

Over 90% would like to borrow funds to alleviate these and other business challenges, but on better terms, more suited to their sector and business needs. The top loan feature for women are shown above.

## OVERVIEW OF BARRIERS TO WOMEN-OWNED SME GROWTH



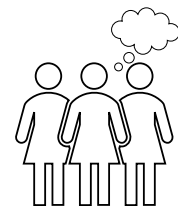
### Financial

- High Interest on Loans
- Lack of Tailored Products
- Lack of Startup Funding
- Poor Record-Keeping
- Collateral: Requirements & Restrictions



### Country-Level

- Security & Uncertainty
- Political Upheavals
- Macro-economy
- Low Investor Confidence
- Cultural Restrictions



### Non-Financial

- Grant Culture Distortion
- Awareness of Banks & Services
- Weak Business Knowledge
- Stigma Associated with Loans
- Lack of Entrepreneurial Mindset

## KEY RECOMMENDATIONS

Financial institutions committed to increasing female lending should move beyond just access to finance and focus on providing a value proposition, offering a combined range of products and services that demonstrate the institutions' commitment to the success of the female borrower above meeting her capital needs.

While there is no magic solution to make SME loans to female borrowers less risky and more accessible, especially in a challenging environment such as Afghanistan, there are several steps that financial institutions which are serious about expanding their female customer base can implement.

Key recommendations are described below for financial institutions and other SME sector stakeholders that highlight the importance of taking a holistic approach across three major areas:

- A)** strategy and operational execution capabilities;
- B)** market segmentation, products and services;
- C)** sales culture and delivery channels.

SME sector stakeholders such as government and donor-funded projects also play a key role and can contribute to an enabling business environment for women businesses to establish and grow.

### Recommendations to Financial Institutions

It is recommended that the decision to focus on the female SME target market, must be approached in the context of a business case that involves commitment from leadership of the institutions and buy-in at the the operations level.

**Create a strategy with clear vision for female SME outreach** and a plan on how to institutionalize it across all financial institution's functions such as marketing, risk, operations and training.

**Establish a risk appetite for female SME product** prior to launch that is realistic and allows for high risk tolerance than normal SME lending.

**Have solid track record of SME lending** foundation upon which to build a female SME product.

**Assess existing capacity; staffing and operational infrastructure** to develop a tailored female SME loan product that meaningfully addresses women's constraints.

**Define target, profitability, growth and sustainability metrics for female segment.**

**Invest in the core banking system** at the onset to desegregate data by gender and continuously collect relevant data.

**Make financial investments in product development, marketing and additional staffing.**





Market segmentation, product development and services are the next pillar upon which financial institutions can build a female SME department.

**Focus on the younger generation**, especially those female entrepreneurs who are 35-year-old or younger.

**Commercial banks can link with MFIs** that need to “graduate” their borrowers to higher levels of loans that may only be offered at a commercial bank.

**Develop partnerships with SME support organizations** to generate solid referrals of successful clients and create a market niche.

**Check with the established public credit bureau** to weed out bad borrowers and an opportunity for good borrowers to become a client.



Loans are often not the primary drivers of SME banking profitability but may be best used to attract and retain clients. Strong revenues come from providing a suite of effectively bundled, value-added products—including deposit and transactional products—reflecting a sophisticated vision of the client’s needs.

**Simplify collateral requirements**, that are especially hard for women to satisfy, aligned with newly issued Central Bank guidelines.

**Streamline loan approval process and simplify required documentation** by loan size and/or type to make it proportional to the risk.

**Diversify product offering beyond the typical 1-2-year loans** to promote business credit lines, purchase order finance (POF).

**Promote Shariah-compliant financial products**, especially for equipment and machinery purchases.

**Structure repayment schedules based on cash flows** and investment needs of the business, especially relevant for agribusinesses.

**Lower interest rates and fees when possible especially for low-risk borrowers.**

**Utilize credit guarantees from ACGF** to access partial loan guarantees targeted for female SMEs who are hindered from accessing finance by prohibitive collateral requirement.





## Long-Term Partnership between FIs & SMEs

International experience demonstrates that access to non-financial services has been a very successful selling point for SMEs in choosing a bank to borrow from and they maintain long-term relationships with the FIs as an added outcome. According to all the stakeholders interested in the SME market segment, there is a clear need for female business owners to build their business knowledge and capacity in order to manage the growth of their enterprise.

There are two paths by which financial institutions can provide non-financial services: in-house or outsource by establishing partnerships with providers of financial education. While developing an in-house service may be a costly endeavor, it institutionalizes a framework for female SME support within the institution and demonstrates commitment to potential borrowers. Free or cost-efficient resources upon which financial education materials may be build up on are available from credible sources<sup>6</sup> who have experience in the field.

FIs also have the less costly option of partnering with one of several female SME support organizations that are engaged in providing financial education to build the capacity of their borrowers. A few steps that FI may consider are:

**Leverage female branches.** Financial institutions that have female-only branches can leverage the environment and offer regularly-held financial literacy training.

**Organize networking events** individually or in partnership with an association and highlight female success stories, provide a Q&A opportunity with an existing female client, provide useful and relevant information regarding macroeconomic policy updates and business impacts.

**Link female SME client with an intermediary organization** such as Afghanistan Women's Chamber of Commerce and Industry (AWCCI) or Promote's Women in Economy (WIE) program that have developed financial education curriculum for SMEs training. Other available options are outreach to start-up incubators.



## Success of FMFB & FINCA: Female Branch

FMFB's female-only branch, opened in Kabul in 2017, was championed by the CEO and anticipated with hesitancy by the board. The branch reached profitability months before it was expected to and FMFB plans on opening two more female branches in Mazar and Herat by the end of 2019. Similarly, FINCA established a woman-only branch in March 2018 in Kabul which is already sustainable. Its success has prompted the decision to open two additional woman branches in Herat and Mazar in 2019-20.

FMFB's and FINCA's quick success of female branches can be a good model to be adapted by other FIs, increasing FIs' outreach to women SME owners.

<sup>6</sup>: The IFC's <http://smetoolkit.org/> complete with trainings from how to start a business to controlling costs and marketing. Other free resources also include <https://dreambuilder.org>



Financial institutions that have developed a corporate culture of respect for women and an environment that women feel comfortable working in and interacting with, have not only earned the loyalty of their female customers but also have increased their bottom line.

The most successful institutions worldwide have focused on building a female “brand” by positioning themselves less transactional and more as a partner of their female SME client thus preventing the institution by being defined only for their loan cost.

A solid example of how well women respond to a financial institution that provides them personalized service. The three female-only Microfinance Institution (MFI) branches in Kabul that have reached profitability months ahead of their projections.



**Increase number of female staff in credit and SME units.**

**Provide training to all staff to overcome gender bias** resulting in an approachable and female-friendly environment.



**Incorporate multiple delivery channels** such as online, mobile and if possible Fintech financial facilities to reduce transaction costs and improve efficiency for bank and client.

**Commit senior management and board of directors to meet with female clients** regularly to provide them the “face” of the challenges and success of female clients.



## Success of FINCA: Easy Loan

FINCA is an unregulated MFI active since 2003. As one of the first MFIs to begin its operations in Afghanistan, 59% of FINCA’s clients are female.

FINCA considers its competitive advantage to be its quick loan processing, a full-fledged credit scoring mechanism launched in November 2018, and Easy Loan service for repeat borrowers with good credit history that provides a top-up loan within 30 minutes. As a result, their client retention rate has increased to 10%. The new service will be rolled out to other provinces in 2019. Future plans include use of tablets, already in pilot phase, transformation to deposit taking institution and agency banking.

Over half of the women surveyed (and confirmed by intermediary agencies) are not aware of financial institutions' offerings and hesitate to approach banks for fear of being turned down. The general perception by the female SME community is that financial institutions are not "women friendly" when in fact several institutions are catering to female MSMEs with relaxed collateral requirements, Shariah loans and lower interest fees.

Financial institutions are distinctively lacking an active approach to disseminate their products and services effectively to female business owners. It is especially imperative for banks to raise awareness about new policies based on DAB's new collateral guidelines. The components of the branding and an active outreach campaign could include the following features:

**Position the financial institution as a business partner for women-owned SMEs** and offer value-added services such as training, networking or institutional linkages.

**Structure targeted marketing campaigns to females** that generate awareness about products and services.

**Sponsor events in the private and civil service sector** that are geared to women to build name recognition.

**Conduct targeted social media outreach and advertising of products and services.**

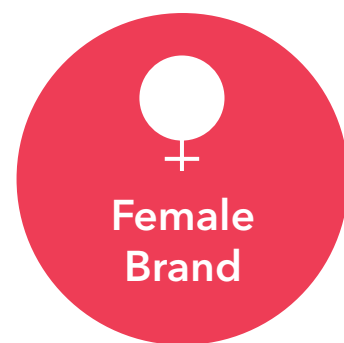
**Hold annual customer appreciation events for female clients** and offer recognition and reward to successful borrowers.

**Sponsor national female entrepreneur competition** directly or in partnership with an intermediary organization.

**Encourage board of directors to meet with female clients** regularly to provide them the "face" of success of female clients and their challenges.

**Align with female SME stakeholders:** Developing a partnership will create a symbiotic relationship and will promote the FIs commitment to female SMEs and link business women to the financial sector.

**Promote women ambassadors:** Experience shows around the world that women on Boards of Directors and senior management positions create a women-centric environment and they are natural ambassadors for advocating and improving access to finance for women.



## Recommendations to Sector Stakeholders

There are several government entities and donor supported organizations such as DAB, MoCI, Women's Economic Empowerment - National Priority Program (WEE-NPP), AWCCI, Microfinance Investment Support Fund for Afghanistan (MISFA), ACGF, etc. that have the resources and the mandate to promote female SMEs. These organizations can take several measures in the areas of advocacy and financial and technical assistance to improve the enabling environment for women which ostensibly will also improve access to finance.



DAB has plans to draft an SME regulation in 2019. While DAB is to be commended for their recent circulars that loosen some of the collateral requirements thus making it easier for women-owned SME to access credit, financial sector actors and government stakeholders can actively advocate for favorable SME regulation regarding women.

**Property rights, land ownership, and inheritance rights are on top of the barriers list** preventing women from becoming economically independent, much less obtaining a loan. Given that the current administration is pro-women and a new younger parliament will resume this year, sector actors such as WEE-NPP, Ministry of Commerce and Industry (MoCI) and AWCCI should advocate for amendments in laws and stricter enforcement of women inheritance rights and ease around cost and processing of land title registration for women.



Development finance institutions such as MISFA and IFC can play an instrumental role in supporting the female SME sector by providing credit lines and equity schemes to financial institutions enabling FIs to address the needs of women entrepreneurs. Development Financial Institutions (DFI)<sup>7</sup> such as ACGF can support financial institutions through providing guarantee facilities, to mitigate risks perceived by financial institutions wanting to lend to women entrepreneurs.

**Technical assistance funds jump start the willingness of financial institutions to build a female SME department** that addresses women's barriers meaningfully. These initiatives from DFIs combined with advocacy and policy efforts from the government partners and meso-level organizations can create a powerful momentum to address the needs of women entrepreneurs and level the playing field for women to have the same opportunities as men to build successful businesses and contribute to the economy of Afghanistan.

<sup>7</sup>: DFI in this report, refers to MISFA, ACGF and IFC

## ACKNOWLEDGEMENTS

The funding for this report is provided by the Afghan Government under the World Bank Access to Finance Project agreement with ACGF.

IDEA Consulting wishes to thank the staff of ACGF for their guidance and feedback during the report writing process. This report could not have been produced without the contributions of many organizations and individuals that enriched the analysis and findings. In particular IDEA Consulting would like to thank H.E. Acting Minister of Ministry of Commerce and Industry as well as MoCI representatives whose assistance informed the development of this report. In addition, the following financial institutions and organizations' feedback were instrumental: First Microfinance Bank Afghanistan, FINCA, OXUS, Mutahid, AIB, Ghazanfar Bank, MISFA, AMA, AWCCI, WIE, Project Artemis, WEE-NPP, IFC and Da Afghanistan Bank.

IDEA Consulting is very grateful to the one hundred women entrepreneurs who participated in the survey and shared their challenges, aspirations and outlook on the role of women in Afghanistan's private sector development.

**ACGF**


Afghan Credit Guarantee Foundation (ACGF)

provides partial credit guarantees to SMEs through its partner financial institutions (PFIs) for SME loans. It also operates a technical assistance (TA) facility to introduce enhanced SME lending practices for PFIs and facilitate new lending opportunities and products to underserved groups. In 2005, the Credit Guarantee Facility for Afghanistan (CGF-A) was established. CGF-A was implemented by DEG (Deutsche Investitions- und Entwicklungsgesellschaft GmbH) and co-funded by the German Federal Ministry for Economic Co-operation and Development (BMZ) and USAID. ACGF was founded as an independent charitable foundation in 2014 in Germany as the successor to CGF-A, along with its Kabul-based subsidiary, SME Client Support Afghanistan LLC (SCSA).

[www.acgf.de](http://www.acgf.de)



IDEA is a woman-owned consulting company and the first in Afghanistan to solely focus on the development finance sector with its founder, Katrin Fakiri, who has worked in the sector since inception for over a decade in gender and the micro/small/medium enterprise sector. IDEA has the expertise and historical knowledge of the development financial sector in Afghanistan to strengthen financial institutions on their path to creating a financially inclusive society. IDEA Consulting's background and current active engagement in the development financial sector enable it to have an unmatched depth and breadth of knowledge to design and implement relevant programs and provide quality technical assistance. Central Bank and Ministry of Finance of Afghanistan, MISFA and the World Bank are some of the macro-level partners of IDEA Consultancy.



This report was written by Katrin Fakiri, Founder of IDEA Consulting. Zia Shafaie collected data for the SME participant surveys. IDEA Consulting is a firm registered in Kabul and focuses primarily on the development finance sector and women's empowerment in Afghanistan.

The study is commissioned by the Afghan Credit Guarantee Foundation (ACGF), a development financial institution providing partial guarantees since 2014 to Afghan financial institutions that offer credit to local small and medium enterprises (SMEs). ACGF supports the development goal of gender equality and considers the issue of investigating and assessing the characteristics of women SME borrowers as being one of strategic interest for the development of the Afghan financial sector. The report is shortened and prepared for the print by ACGF.