Women business owners surf the Internet to access credit

Women who own small businesses are increasingly turning to digital platforms to source capital for growth as they battle discrimination from formal channels.

Small and medium-sized enterprises consistently cite access to credit as the biggest constraint on growth and trade, and a 2016 survey commissioned by the Asian Development Bank confirmed that export firms headed by women reported greater difficulties getting finance than other trading firms.

Globally, 10.1% of all formal-sector firms are led by women and only 3% in Asia and the Pacific.

Banks are less likely to extend credit to SMEs as they tend to apply for smaller loans, have poorer financial documentation than big firms, and lack collateral, which banks say make it difficult for financial institutions to profitably assess risk and offer finance.

Data from the ADB and the World Bank show that apart from lack of access to basic banking services, women-owned trading businesses have difficultly securing trade finance—capital that will allow them to become exporters.

There is no evidence that banks reject woman-owned firms because of gender, but there is a gender gap in trade finance.

Women-owned firms are more likely to be small, making them less attractive to lenders, and the firms blame high collateral requirements for not being able to access formal credit.

Spurned by formal lenders, women-led trading firms have become more aggressive in tapping digital platforms, or financial technology, to source credit.

In 2017, 77% of users of fintech, essentially peer-to-peer markets lending worth more than $4 billion, were woman-owned firms. Fintech introduces borrowers to sources of credit that are more affordable and accessible than the formal channels.

Peer-to-peer lending involves an online platform where individuals can post information to attract unsecured direct loans from lenders, bypassing financial institutions. The lending website records transaction data that can be used for analysis, and low transaction costs increase the feasibility of making microloans. Borrowers can combine numerous small loans to fund larger projects.

The first online peer-to-peer lending platform, Zopa, was established in the United Kingdom in 2005 and it has been adopted in other countries such as the United States, Denmark, Japan, and the People's Republic of China.

Once rejected by a bank, 41% of surveyed firms sought alternative sources of finance either in the formal or informal sector. Woman-owned firms are about 10% more likely to seek alternative financing.

However, while male-led firms are more likely to find formal sources of financial alternatives, woman-led firms are more likely to identify informal sources of finance, with a third of women-led firms using informal financial providers.

Although fintech plays more of a role among women-owned firms than it does among firms that are owned by men, more research is needed to understand this relationship.

Already, institutional investors, corporates, and banks are experimenting with online platforms, crowdfunding, and peer-to-peer or marketplace lending.

Outside of fintech, policy makers can bridge the gender gap in trade finance by helping women business owners overcome challenges relating to improving company performance and collateral.

Requiring banks to lend to women may not improve credit access as they require collateral deposits and credit assessments, which these firms have difficulty meeting. Instead, credit assessment systems should be revamped to adopt some of the practices increasingly common in the fintech space. Moveable assets such as cars, equipment, or even jewelry should be considered as women-led firms are more likely to have them.

The novel credit assessment mechanisms coming out of the fintech sector are a good starting point for extending access to trade finance among women.

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