Enterprise Development & Microfinance, 34:1, 70–79
<https://dx.doi.org/10.3362/1755-1986.24-00006>

Upscaling with a focus on microfinance institutions' largest market: women entrepreneurs

TETSURO NARITA, FRANCISCO ROJO and LUIS EDUARDO MARQUEZ

As microenterprises grow, so do their financial and non-financial needs. Entrepreneurs may eventually need larger loans than microfinance institutions (MFIs) typically offer. To respond to the demands of clients that are transitioning into the small business segment, many MFIs, especially in Latin America and the Caribbean, have undergone upgrading and upscaling in order to provide a wider range of financial products and services. However, even though MFIs have a significant number of female clients in their portfolios, their upgrading and upscaling processes rarely integrate a gender focus and thus lack a value proposition tailored to that growing client base. Hence, this article seeks to open the discussion on how MFIs can implement successful upgrading and upscaling processes by recognizing the key opportunities presented by their largest market: women entrepreneurs.

Keywords: small business lending, SME finance, women entrepreneurs, MFI upgrading and upscaling, microfinance

Over the last decade, microfinance institutions (MFIs) in Latin America and the Caribbean (LAC) have been upgrading and upscaling. 'Upgrading' – transforming non-governmental MFIs into formal financial institutions regulated and supervised by banking authorities – allows MFIs to offer a wide range of financial products and services in addition to microcredit (Berger et al., 2006). According to a recent market study (Trujillo, 2013) conducted by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB), 62 MFIs have been upgraded in LAC as of 2012, and these MFIs have a total loan portfolio of $6.2 bn distributed among nearly 6 million clients. Meanwhile, 'upscaling' allows MFIs to develop and implement operations that satisfy the financial needs of small and medium-sized enterprises (SMEs), usually in addition to continuing to provide microfinance products and services to the microenterprise segment. As margins in microfinance operations

Tetsuro Narita (tetsuron@iadb.org) and Francisco Rojo (franciscoro@iadb.org) are small and medium enterprise (SME) finance experts at the Multilateral Investment Fund of the Inter-American Development Bank (IDB/MIF), Washington, DC, and structure loan, equity and grant projects for financial intermediaries in the Latin America and the Caribbean (LAC) for their SME portfolio expansion. Luis Eduardo Marquez (lmarquez@iadb.org) is a consultant within the IDB/MIF's Women's Economic Empowerment (WEempower) initiative where he is tasked with implementing the IDB/MIF's gender mainstreaming strategy and developing innovative projects that promote women's economic empowerment.

ISSN: 1755-1978 (print) 1755-1986 (online)

narrow due to increased competition, several MFIs in LAC have decided to upscale. More importantly, many MFIs see small enterprise segments as new business opportunities, and wish to continue to serve long-term and well-tested clients as they grow from micro to small and require a more diversified product mix (Glisovic and Martinez, 2012; MIF and IPC, 2011).

In fact, in a worldwide survey of MFIs conducted by the Consultative Group to Assist the Poor (CGAP), 78 per cent reported that the small enterprise segment is already part of their strategy, and almost 70 per cent expected to increase their small business portfolio (Glisovic and Martinez, 2012). The trend of upgrading and upscaling has been especially remarkable in LAC. This has been possible thanks to the many professionalized MFIs nurtured by a relatively sound business environment for the microfinance industry (EIU, 2013a). At the same time, this trend has been boosted as the region's economies have grown, because a general consensus has formed on the important role SMEs play in terms of job creation, which is a central part of helping the 'vulnerable' – a newly recognized population segment situated above the poverty line, but not yet fully integrated into the middle class (Ferreira et al., 2013) – rise to a position of security and stability.

Women entrepreneurs, in particular, have tremendous potential to contribute to job creation, national growth, and competitiveness. There is a strong positive correlation between economies that have more favourable and enabling environments for women entrepreneurs and national competitiveness, which suggests that a thriving base of women entrepreneurs supports a country's overall growth (Goldman Sachs Global Markets Institute, 2014). Furthermore, organizations seeking to reduce poverty know that women spend a higher share of their earnings on their children's education and health, diminishing the intergenerational transmission of poverty (Jayachandran and Lleras-Muney, 2009). Most importantly, beyond the social bottom line, MFIs looking to upgrade or upscale should note there is a strong business case to be made for focusing on women entrepreneurs.

The purpose of this article is to open a discussion on how to implement upgrading and upscaling processes successfully by recognizing the opportunities presented by MFIs' largest market: women entrepreneurs. According to the database available on the Microfinance Information eXchange (MIX), for example, approximately 60 per cent of microfinance borrowers in LAC are women. To the authors' best knowledge, no such 'how-to guide' exists yet for the microfinance industry. We expect that this article will help MFIs, not only in LAC, but also worldwide, to develop their own value proposition for targeting growth-oriented women clients. The structure of the article is as follows. The first section reviews what is known and unknown with regard to the related topics. We also briefly review what has been happening in downscaling – commercial banks' strategy for approaching the SME segment. The next section presents some recommendations, or 'how tos', for MFIs on implementing upscaling processes to tailor their value proposition toward women-led businesses. The paper concludes with some ideas on possible directions for future discussion.

What we do and do not know

The business case: debunking myths about women entrepreneurs

Conventional wisdom holds that male-owned firms are larger than women's businesses in terms of sales and physical capital, and that they grow more rapidly over time. This view is reinforced by the belief that most women entrepreneurs struggle to grow their businesses from very small microenterprises to the SME level. However, as a first step toward differentiating fact from fiction, it is worth mentioning that all too frequently, women's businesses are grouped in a single 'gender' category without regard to size, industry, and growth stage. In reality, when compared with male-owned peer firms of the same size and industry, women-led businesses often perform on par with men's, and sometimes outperform.

Women entrepreneurs are also believed to be more risk-averse than men; however, evidence shows that 67 per cent of women-owned businesses in LAC are opportunity-driven, not necessity-driven (Amorós and Bosma, 2014). Furthermore, 56 per cent of women in LAC believe they have the right skills to start a business (Kelley et al., 2013). The latest information available shows that there are over 1.3 million SMEs owned by women in LAC, which make up approximately 39 per cent of the *total* number of SMEs in the region (IFC, 2014).

Once segmentation goes beyond just men versus women and correctly identifies target sub-segments, it is clear that women are more loyal customers of financial institutions, which poses a huge market opportunity. They are frequently repeat customers of the institutions from which they receive their initial loans, whereas male peers are more likely to shop around. According to the Global Banking Alliance for Women (GBA), a global consortium of financial institutions for knowledge exchange and peer learning with the purpose of supporting member institutions' implementation of women's market programmes,

> research indicates women are loyal customers who are more relationship than transaction driven. If satisfied with the products and services, women customers are more likely to refer business through word of mouth advocacy and are also less likely to defect. But women are also four times more likely to complain to others if they have a bad service experience (GBA, website).

Thus, formulating a value proposition for attracting women business owners is a sound strategy for financial intermediaries, especially for MFIs that work more closely with the lower end of the SME segment than commercial banks do.

Women entrepreneurs face particular challenges in business growth

The dynamics of female entrepreneurship in LAC are also evidenced by the fact that approximately 60 per cent of the region's microfinance borrowers are women (MIX Market, website). Despite women's entrepreneurial spirit, the majority of women-led microenterprises continue to stay at the micro level. all the factors negatively affecting women's business start-up and growth (IFC, 2011), access to finance is the most frequently mentioned obstacle. Seventy per cent of women-owned SMEs in

LAC are underserved or unserved financially. On average, only 13 per cent of women entrepreneurs' working capital needs and 17 per cent of their capital investment needs are financed by banks (World Bank Enterprise Survey, website). The latest report on the credit gap for formal SMEs indicates that the gap across LAC is close to $235.3 bn, of which $85.6 bn corresponds to women-owned SMEs (IFC, 2014; for this calculation, women-owned SMEs are enterprises with at least one woman owner). The gap for women-owned SMEs in LAC is larger than that of any other region in the world; $61.2 bn of the total amount corresponds to very small and small enterprises, and $24.4 bn to medium enterprises, illustrating the urgent need of women-owned enterprises in the lower end of the SME segment.

In addition, the Women's Entrepreneurial Venture Scope, or WEVentureScope (EIU, 2013b), a recent study on the environment for women entrepreneurs in LAC commissioned by the MIF, found that

> [m]ore advanced and diversified financial instruments at the SME level present the greatest financial gaps for women-led businesses in the region. Women enjoy the greatest access to microcredit, yet growth oriented women entrepreneurs are often unable to access more sophisticated forms of financing, especially with appropriate terms and conditions.

The WEVentureScope also asserts that '[t]o accommodate women's needs during their micro-to-SME transition, financial institutions must expand the scope and size of their credit and other basic financial products and services'.

As clients' businesses grow, so will their financial needs – not just in terms of loan amounts, but also in terms of the types of financial products and services they will require. Given that the number of upgrading and upscaling MFIs has been increasing in LAC and that the potential of women entrepreneurs in the region has not yet been fully unleashed, if MFIs wish to retain these 'prime' women clients over the long term, they have to find ways of tailoring products and services to the changing needs of women clients whose businesses have been growing thanks to access to microcredit.

As far as access to finance for women entrepreneurs is concerned, it is not all about credit. Low access to formal savings means that women's businesses start smaller and grow more slowly than men's (Magnoni and Powers, 2013). The Global Financial Inclusion (Global Findex) Database that measured the use of financial services in 148 economies, representing 97 per cent of the world's population, finds that 36 per cent of adults save globally and 25 per cent do so in a bank. It also finds that significantly fewer women than men have bank accounts. In LAC, less than 6 per cent of women use an account at a formal financial institution for business purposes (with the exception of Jamaica). Informal saving systems, which are used more by women than by men, come with significant costs, including risk of fraud and collapse (Demirguc-Kunt and Klapper, 2012).

Moreover, as the businesses of clients grow, so will their non-financial needs. The demand for business support services can be critical during the enterprise's transition from micro to small. Women are less likely to access training and business development services, especially when family obligations are involved. Therefore, training with content, curriculum, and schedules tailored to women can also be a differentiator that financial institutions can provide to attract women entrepreneurs and keep them as clients.

What is happening in downscaling?

Downscaling is a strategy for commercial banks to deepen the outreach of their financial products and services, particularly credit, to smaller-scale businesses (Berger et al., 2006). Since downscaling of commercial banks is often mentioned together with upscaling of MFIs as complements in the context of SME finance, it is worth briefly mentioning what commercial banks have been doing through their women-focused downscaling strategies, which provides certain inputs and insights for MFIs in launching upscaling strategies.

According to a 2013 MIF survey of 100 commercial banks in LAC, 96 per cent of banks consider SMEs to be strategic to their business, and 92 per cent of banks already have an active financing policy put in place for these enterprises (MIF, 2013). However, even though there are some examples of banks in LAC that have tried to position themselves in the women's market, the survey also found, surprisingly, that many banks do not collect, and therefore do not use, basic sex-disaggregated data on their clients.

Even so, a growing number of commercial banks in LAC have started implementing programmes to reach women entrepreneurs with a clearly defined value proposition, as part of their downscaling strategy to increase their SME loan portfolio. A good indicator of this trend is the number of banks that are members of the GBA. Before 2012, no banks in LAC had joined GBA, but now there are five LAC members and others are expected to follow.

The following is an example of the kinds of innovations some commercial banks have been implementing to further expand their downscaling strategies.

Evaluating risk with non-traditional methodologies: psychometric credit scoring. Commercial banks' conventional lending methodologies require data on potential clients, such as their tax records, credit history, financial statements, and legal status. SMEs in general, and women-owned SMEs in particular, often lack sufficient credit history, reliable financial statements, and collateralizable assets, and most of their transactions are made on a cash basis. Therefore, financial institutions are unable to identify creditworthy and high-potential entrepreneurs using their existing methodologies (Klinger et al., 2013). As a result, many businesses lack much-needed cash to grow, while financial institutions miss the opportunity to tap into the huge pool of potential SME borrowers (World Economic Forum, 2012).

In order to overcome such barriers, banks have begun piloting non-traditional credit assessment methodologies. One example was developed by the Entrepreneurial Finance Lab (EFL), whose innovative approach does not rely on well-formatted financial statements, business plans, high-value physical assets, or borrowing histories. Academic research uncovered systematic associations between entrepreneurial success and personal attributes measured by science- and statistics-based 'psychometrics.' Successful entrepreneurs consistently score higher on certain aptitude tests and have particular personality traits and cognitive styles. This type of screening has been already used extensively for pre-employment screening by human resource departments; EFL's idea was to apply it to credit risk assessment processes.

The psychometric tool evaluates the entrepreneur rather than his or her business, using personality, intelligence, and character as direct measures of a potential borrower's ability and integrity. This type of innovation is expected to accelerate small business lending in a profitable and sustainable manner, especially for women entrepreneurs who are usually disadvantaged in terms of physical asset accumulation. The test is self-administered by loan applicants in 30 to 40 minutes on a touch screen computer and does not require a banker's supervision. It is estimated that the administrative cost of running this assessment is 45 per cent of the cost of existing traditional assessment tools (Chironga et al., 2012). Several financial institutions have implemented this innovative credit assessment tool, and the results demonstrate a powerful risk separation capability. SMEs that previously could not provide sufficient information and collateral now have greater access to financial products and services.

The implementation of this non-traditional credit assessment methodology is an indication of commercial banks' interest in discovering ways of effectively downscaling toward the SME segment. Furthermore, some banks have been trying to combine the psychometric tool with programmes to reach more women-owned SMEs. A study to measure this impact is under execution by the MIF in collaboration with EFL.

Implementing an upscaling strategy to continue supporting growing women-led businesses

This section is intended to provide MFIs with some basic advice on how to implement an upscaling strategy with a gender lens, so that they can formulate value propositions to appeal to the targeted segment of women clients whose businesses are growing from micro to small. Applying a gender lens to the upscaling process is not charity, but a business strategy for profitability and sustainability; therefore, basic institutional soundness (financial, operational, and in corporate governance) is a prerequisite for the successful and sustainable implementation of an upscaling strategy.

- The upscaling process in general has to be understood as adding a new business area, not 'just adding new products and services.' In the case of upscaling with a gender lens in particular, the process involves intensive efforts to create a shared understanding throughout the whole institution. The process involves more than simply providing sales training to staff; implying training for board members and senior and middle management, adjustments of internal processes and procedures, management information systems (MIS) to follow the relevant key performance indicators (KPIs), and even organizational restructuring (defining clear reporting lines, functions, and responsibilities). Establishing small business lending operations that have a shared understanding of the value proposition that the MFI is trying to offer to women entrepreneurs takes time, and requires the involvement of the whole institution. Introducing a successful and sustainable women's programme is a process, not a one-time event.

- Identifying and understanding the needs of targeted women clients, as well as analysing competitors' strengths and weaknesses, is a precondition for successful implementation of internal and external communication. This, in turn, results in successful implementation of upscaling, which allows the MFI to accompany women clients through their business evolution. Internally, all staff should be aware of the upscaling process and its purpose, goals, and any internal changes that may affect the staff. Internal communication demonstrates the organizational leadership's commitment, from the board of directors to senior and middle management. Externally, an upscaling MFI needs to translate its knowledge about the target group into materials and advertisements adapted to that group.
- As upscaling is a process that generally takes time, the initial set-up might need to be tested on a small scale or pilot basis, even though the shared understanding should be put in place at a complete institutional level from the beginning. The implementation performance, especially predefined KPIs, should be monitored closely, and necessary and appropriate adjustments should be made during the pilot phase. However, overly frequent revisions may cause confusion among staff and clients and have negative implications for management, risk control, and institutional image.
- Hiring and training staff may involve significant investment, with a greater amount of financial and human resources than initially expected and estimated. The best loan officers in microcredit are not necessarily good loan officers in small business lending, because the qualifications and personality profile for these two segments differ considerably. Depending on the cultural context in which the MFI operates, women business owners with certain levels of business growth and sophistication may prefer female loan officers to male loan officers (or vice versa), want to be served at their places of business rather than at branch offices, and/or need much more time to make a decision about taking out business loans than male business owners and microfinance clients would. The area of internal control also needs to be strengthened for early detection of procedural deficiencies and potential risks stemming from confusion and misunderstanding that may exist among operational staff.
- Initial products and services should be straightforward, simply designed, and easy to understand for both staff and clients. Clients' financial and non-financial needs change as their businesses grow, not only in terms of loan amounts, but also in terms of types of financial and non-financial products and services they seek. Upgraded and upscaled MFIs are well-positioned vis-à-vis other (non-regulated) MFIs to offer a wider range of financial products and services beyond credit alone. In addition, as previously mentioned, women clients tend to purchase a higher number of financial products and services from the same

financial institution because they are more loyal customers than men clients. However, the potential for cross-selling should be estimated carefully and realistically. Given the fact that many small businesses are still operating on a cash basis, overly sophisticated banking products and services may not yet be required.

- It is worth exploring innovations that have recently become available in the banking industry. In addition to the psychometric credit scoring model described in the previous section, several other ideas have emerged for increasing access to financial products and services for SMEs. Examples include using suppliers' credit data or social media data to augment existing credit scoring models, using specialized SME ratings to complement banks' underwriting processes, and even the use of crowdfunding as a way to connect businesses to investors directly. These ideas are going through the process of fine-tuning to be commercially and operationally feasible; however, if these non-traditional credit assessment tools prove to be as viable as psychometric credit scoring, they may function in a more gender-neutral way than traditional methodologies based on assets and credit history.
- The value proposition that MFIs want to offer to women business owners through the upscaling process should involve a training/learning component. Such non-financial services are difficult for MFIs to offer directly; therefore, strategic alliances should be formed with appropriate business development service (BDS) providers. The fact that the impact of BDS for women-owned businesses is bigger if combined with follow-on technical visits by experts should be taken into consideration. Additionally, women business owners value not only one-way learning, but also peer learning. Therefore, market studies or focus groups will make it clear whether a mentoring programme for women clients, an interactive online platform for them, or a combination of both is needed.

Final remarks

This paper summarizes some elements for successfully implementing MFI upscaling with a gender lens. It does not intend to be exhaustive and conclusive, but is rather a starting point for formulating a well-structured 'how-to guide' that may be developed in the future. This paper's discussions were based on LAC experiences, but around the world studies and initiatives have begun to answer the question of why women represent a disproportionately small fraction of financial intermediaries' SME loan portfolio despite the fact that MFIs have long nurtured women's entrepreneurship. Combined with a growing generalized recognition of the key role small and growing women-owned businesses play in terms of job creation and national economic growth, the current momentum shaped by MFI practitioners and academics will eventually necessitate a comprehensive 'how-to guide' for upscaling with a gender lens. This paper hopes to serve as part of the initial efforts toward this goal.

References

Amorós, J. and Bosma, N. (2014) *Global Entrepreneurship Monitor: 2013 Global Report*, London: Global Entrepreneurship Monitor (GEM).

Berger, M., Goldmark, L. and Miller-Sanabria, T. (2006) *An Inside View of Latin American Microfinance*, Washington, DC: Inter-American Development Bank (IDB).

Chironga, M., Dahl, J., Goland, T., Pinshaw, G. and Sonnekus, M. (2012) *Micro-, Small and Medium-sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity*, New York: McKinsey & Company.

Demirguc-Kunt, A. and Klapper, L. (2012) *Measuring Financial Inclusion: The Global Findex Database*, World Bank Policy Research Working Paper 6025, Washington, DC: World Bank.

Economist Intelligence Unit (EIU) (2013a) *Global Microscope on the Microfinance Business Environment 2013*, London: supported by the Multilateral Investment Fund (MIF), CAF – Development Bank of Latin America, the Center for Financial Inclusion at Accion, and Citi Microfinance.

Economist Intelligence Unit (EIU) (2013b) *Women's Entrepreneurial Venture Scope 2013*, London: commissioned by the Multilateral Investment Fund (MIF).

Ferreira, F., Messina, J., Rigolini, J., López-Calva, L., Lugo, M. and Vakis, R. (2013) *Economic Mobility and the Rise of the Latin American Middle Class*, Washington, DC: World Bank.

Glisovic, J. and Martinez, M. (2012) *Financing Small Enterprises: What Role for Microfinance Institutions?* CGAP Focus Note No. 81, Washington, DC: Consultative Group to Assist the Poor (CGAP).

Goldman Sachs Global Markets Institute (2014) *Giving Credit Where it is Due: How Closing the Credit Gap for Women-owned SMEs Can Drive Global Growth*, New York: Goldman Sachs.

International Finance Corporation (IFC) (2011) *Strengthening Access to Finance for Women-owned SMEs in Developing Countries*, Washington, DC: IFC.

IFC (2014) *Women-Owned SMEs: A Business Opportunity for Financial Institutions*, Washington, DC: IFC.

Jayachandran, S. and Lleras-Muney, A. (2009) 'Life expectancy and human capital investments: evidence from maternal mortality declines', *Quarterly Journal of Economics* 124: 349–97 <http://dx.doi.org/10.1162/qjec.2009.124.1.349>.

Kelley, D., Brush, C., Greene, P. and Litovsky, Y. (2013) *Global Entrepreneurship Monitor: 2012 Women's Report*, London: Global Entrepreneurship Monitor (GEM).

Klinger, B., Khwaja, A. and del Carpio, C. (2013) *Enterprising Psychometrics and Poverty Reduction*, New York: Springer.

Magnoni, B. and Powers, J. (2013) *Pure Perseverance: A Study of Women's Small Businesses in Colombia*, Washington, DC: Multilateral Investment Fund (MIF).

Multilateral Investment Fund (MIF) and Internationale Projekt Consult GmbH (IPC) (2011) *IPC Guide for Small Business Lending*, Washington, DC: Multilateral Investment Fund (MIF).

MIF (2013) *SMEs in Latin America and the Caribbean: Closing the Gap for Banks in the Region*, Washington, DC: MIF.

Trujillo, V. (2013) *Microfinance in Latin America and the Caribbean: 2013 Sector Data*, Washington, DC: Multilateral Investment Fund (MIF).

World Economic Forum (2012) *Redefining the Emerging Market Opportunity: Driving Growth through Financial Services Innovation*, prepared in collaboration with the Boston Consulting Group, Geneva: World Economic Forum.

Websites

Global Banking Alliance for Women (GBA) website, 'The business case: women drive the global economy' <www.gbaforwomen.org/index.php/our-work/business-case> [accessed 14 July 2014].

MIX Market website <www.mixmarket.org> [accessed 30 June 2014].

World Bank Enterprise Surveys website, 'Argentina (2010)' <www.enterprisesurveys.org/data/exploreeconomies/2010/argentina#finance--gender-of-top-manager> [accessed 30 June 2014].