



# 2014

## A Year of Challenge for the Banking Industry



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# Banking in Emerging Markets – Female Entrepreneurs and Financial Literacy<sup>1</sup>

*Dr. Natalie Schoon is an internationally renowned expert in finance. Following her most recent research in financial inclusion and financial literacy, GRU asked her to share her views on the increasing number of female entrepreneurs and their borrowing habits in developing countries.*

Although in developed countries it has become more common place to see women in the workplace or other public functions, this is not necessarily the same in emerging markets. In many countries such as Iraq, and Afghanistan as well as other Asian, African, and Latin American countries, women are a lot less present in the public eye. Interestingly enough, this does not mean they are less active, it just means they tend to be busy behind the scenes. This situation is, however, changing and anyone in the business of lending, and investing best take note, because these women are a force to be reckoned with.

Even though men are typically involved in public functions such as business and politics, women tend to be the strongest drivers of economic and social development. Although it is generally the husband, father, or brother who officially owns the company, deals with banks and clients, and reaps the financial benefits, women are more likely to make the important business and personal decisions, and undertake a significant share of the actual workload. In part as a result of high-profile publications like the Dress Maker of Khair Khana, detailing the story of Kamila Sidiqui, and for another part due to specific female oriented support programmes run by NGOs and international aid organisations, there is an observable trend for women to take control of their own enterprises. Many of these small



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enterprises have started from home, and although they provide a reasonable income for the family, they don't often grow beyond this stage, mostly due to a lack of access to financial services.

Financing female owned MSME enterprises appears to be a good business proposition, but they do have different requirements from male borrowers. For starters, research shows that female borrowers are much more likely to repay their loans on time and in full. In addition, personal experience tells me that the average amount women borrow is typically lower. Take for example the case of two saffron cooperatives in Afghanistan. One is a male lead co-operative, the other is run by a woman. Both needed to expand their packing facility, and both are a similar size. The male lead co-operative approached a financial institution with a request for USD 500,000. Although a justification for the amount was provided, the amount was obviously at least twice as high as what he really needed. The lady requested USD 100,000 which was probably a little on the low side, but her request was much more balanced. Female borrowers are more conservative, will consider their ability to repay in a worst case scenario, how much money they need to look after their family, and what the business can comfortably absorb at its current stage of development. Men, to the contrary, will go by the notion that bigger is better and deal with the (potentially negative) consequences later.

### Financial Literacy – Who Takes Responsibility?

An important element of providing much needed access to finance is associated with financial literacy, or the understanding of money. Who provides this type of training is technically irrelevant although banks, MSME finance providers, and governments could play a significant role in this area.

From the borrower's perspective, whether they keep their money in a bank or in a jar at home, there are four key elements to consider for individuals as well as businesses: earning, spending, saving, and borrowing.

The underlying principles are generally quite simple and have certainly been hammered into me when I grew up. You don't spend more than you earn, you save for something you really want, and only in exceptional circumstances do you take out a loan. In the end any loan will have to be repaid, occasionally just the amount borrowed but more likely there is also an additional interest or profit charge.

Understanding how interest rates are determined and how banks function is important to enable the borrower to assess the impact of savings and borrowings on personal and business budgets. Banks often are able to help with this, but it has to be considered that the primary purpose of the bank is to make a commercial profit from lending. It is therefore of the highest importance for anyone to understand their own budget, financial needs, and possible solutions prior to entering into a conversation with a financial institution. No matter who provides the information, it is the responsibility of the user of the information to make sure they understand what they get themselves into.

*The author invites your comments via email to [NS@riskrewardlimited.com](mailto:NS@riskrewardlimited.com)*

<sup>1</sup> This article is based on an article titled 'Financial Literacy' published in the inaugural edition of *Nina – The Economic Empowerment Magazine for Iraqi Women Everywhere* (April 2014)

<sup>2</sup> Lemmon, G.T. (2011) *The Dressmaker of Khair Khana*

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