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ACCESS TO FINANCE FOR FEMALE-LED MICRO, SMALL & MEDIUM-SIZED ENTERPRISES IN BOSNIA AND HERZEGOVINA

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1. The Importance of Female-led MSMEs: Challenges and Opportunities

Female-led Micro, Small, and Medium-Sized Enterprises (MSMEs)^{1, 2}, play a vital role as job creators, driving female participation in the economy, and boosting inclusive GDP growth. In addition to the direct economic impact of MSMEs, research shows that female-led enterprises employ more women,³ and that increased control over resources by women leads to improved health and education outcomes for children, among other socioeconomic benefits.⁴ Reducing poverty and boosting inclusive growth are therefore directly linked to the economic participation of women in general and women-led MSMEs, in particular.

Gender equality, while essential and desirable on its own merits, also yields well-documented economic benefits channeled through female labor force participation and, relatedly, through women's participation in entrepreneurship and leadership in MSMEs. In the US, women-owned firms generate USD 3 trillion worth of economic impact annually and are responsible for than 23 million jobs (16 percent of all jobs);⁵ women entrepreneurs have a 5 percent greater likelihood of innovation than male peers;⁶ and Credit Suisse finds that Fortune 500 companies with female representation perform better than those without.⁷ According to the International Monetary Fund,⁸ higher gender inequality is associated with lower economic growth. This finding is confirmed in other research⁹ showing that gender inequality is associated with lower per capita income growth, particularly in low income countries. Estimations for seven Balkan countries and Turkey suggest significant GDP gains from enhancing gender equality. For Bosnia and Herzegovina (BiH), if working-age women were to participate in the labor market at the same rates as their male counterparts, there would be a gain of 16 percent in GDP per capita. About 25 percent of this potential gain (4 percent of GDP per capita) would come from closing the gender gap in entrepreneurship.¹⁰ In this scenario, women's entrepreneurship is a key pathway for economic participation and overall economic gains. In fact, excluding all women entrepreneurs would reduce average output per worker by 12 percent globally.

Female-led MSMEs face a range of constraints that keep them from realizing their full potential. Social norms, difficulties in balancing work and family time demands, and limited access to collateral, among an array of other multidimensional barriers, result in a low percentage of female-owned MSMEs among

¹ This note defines MSMEs as business enterprises with employees: less than 10 (microenterprises); 10-49 (small); 50-249 (medium).

² Female-led MSMEs, for the purposes of this note, means enterprises both owned and managed by women. While the BiH MSME Survey investigates four categories (male-owned-and-male-managed; male-owned-and-female-managed; female-owned-and-female-managed; female-owned-and-male-managed), the note focuses on two primary ones – female-owned-and-managed MSMEs (FOFA) and male-owned-and-managed MSMEs (MOMA).

³ <http://documents.worldbank.org/curated/en/301891468327585460/pdf/92210-REPLACEMENT-Supporting-Growth-Oriented-Women-Entrepreneurs-A-Review-of-the-Evidence-and-Key-Challenge.pdf>

⁴ <https://siteresources.worldbank.org/INTWDR2012/Resources/7778105-1299699968583/7786210-1315936222006/Complete-Report.pdf>

⁵ The Economic Impact of Women-Owned Businesses In the United States, 2014

⁶ Global Entrepreneurship Monitor Women's Entrepreneurship Report 2016/2017

⁷ Credit Suisse, 2012

⁸ <http://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Catalyst-for-Change-Empowering-Women-and-Tackling-Income-Inequality-43346>

⁹ <http://documents.worldbank.org/curated/en/360871468338373049/pdf/WPS7172.pdf>

¹⁰ Cuberes and Tegnier, 2015. <http://documents.worldbank.org/curated/en/999501467991022574/pdf/WPS7319.pdf>

all MSMEs and constraints in realizing their full potential.¹¹ Women-led enterprises are more likely to be smaller, informal, and home-based. The World Bank Gender Strategy¹² identifies the multidimensional constraints that hold back women's participation. Globally, female-owned MSMEs are 38 percent or less of all MSMEs, they are more likely to be smaller, informal, and home-based. They are concentrated in services like health, social work, hairdressing, and beauty treatment. Sectors dominated by women entrepreneurs show lower growth in value-added and turnover.¹³

Access to finance is a key challenge for MSMEs in general and female-led MSMEs in particular. This challenge stems from limited financial capabilities and management, mismatched financial products and financial institutions that do not consider MSMEs a profitable customer segment (and that are often unable to appropriately assess the risk profile of MSMEs), and high collateral requirements. Approximately 70 percent of MSMEs in emerging markets lack access to credit and the total global credit gap, among informal and formal enterprises, is estimated to be between \$2.1-2.6 trillion.¹⁴ A recent International Finance Corporation report¹⁵ finds that 40 percent of formal MSMEs in developing countries have unmet financial needs, amounting to \$5.2 trillion (1.4 times the current level of MSME lending). Similarly, while 28 percent of MSMEs are owned by women, they account for 32 percent of the MSME financing gap.

1.1. Female-led MSMEs in Bosnia and Herzegovina

In BiH, relatively slow GDP growth over the past few years, combined with high unemployment rates, especially for women, exacerbates the socioeconomic challenges facing the country. According to the Organization for Economic Co-operation and Development's Social Institutions and Gender Index,¹⁶ BiH ranks 'low' or 'very low' on the index measures of restricted civil liberties,¹⁷ restricted resources and assets,¹⁸ and restricted physical integrity.¹⁹ While the legal code does not discriminate, social customs restrict women's inheritance rights in practice, and thereby their access to assets. These disparities are also seen in the labor market. In 2015, the long-term unemployment rate for women was more than 25 percent compared to 21 percent for men.²⁰ This situation persists despite relatively equal male and female educational attainment at the secondary and tertiary levels,²¹ indicating gaps in women's transition into the labor market.

¹¹ Globally 38 percent of all SMEs are female-owned (REFERENCES)

¹² <http://documents.worldbank.org/curated/en/820851467992505410/pdf/102114-REVISED-PUBLIC-WBG-Gender-Strategy.pdf>

¹³ Statistical Data on Women Entrepreneurs in Europe, 2014

¹⁴ <http://www.worldbank.org/en/topic/financialsector/brief/smes-finance>

¹⁵ <http://www.smefinanceforum.org/data-sites/msme-finance-gap>

¹⁶ <https://www.genderindex.org/country/bosnia-and-herzegovina/>

¹⁷ Whether women face restrictions on their freedom of movement and access to public space, such as restricted ability to choose their places of residence, visit their families and friends or to apply for a passport; Whether there are legal quotas to promote women's political participation at national and sub-national levels; Share of women in national parliaments.

¹⁸ Whether women and men have equal and secure access to land use, control and ownership; Whether women and men have equal and secure access to non-land assets use, control and ownership; Whether women and men have equal access to financial services.

¹⁹ Whether the legal framework offers women legal protection from domestic violence; Whether the legal framework offers women legal protection from rape; Whether the legal framework offers women legal protection from sexual harassment; Percentage of women who agree that a husband/partner is justified in beating his wife/partner under certain circumstances; Percentage of women who have undergone any type of female genital mutilation; Percentage of married women aged 15-49 with an unmet need for family planning, i.e. who do not want any more children for the next two years and who are not using contraception.

²⁰ [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Long-term_unemployment_rates_\(persons_aged_15%E2%80%9374\)_by_sex,_2005%E2%80%932015_\(%25_of_labour_force\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Long-term_unemployment_rates_(persons_aged_15%E2%80%9374)_by_sex,_2005%E2%80%932015_(%25_of_labour_force).png)

²¹ Ibid

The most recent Enterprise Survey (only for manufacturing firms) in BiH shows that 27.2 percent of SMEs are female-owned and only 9.3 percent enterprises have majority female ownership.²² These rates compare unfavorably with the Europe and Central Asia average where more than 30 percent of firms have female representation in ownership and nearly 13 percent of firms have majority female ownership. However, on a more positive note, the 24 percent of BiH enterprises with female top managers, exceeds that in Europe and Central Asia where this is true of less than 19 percent of enterprises. While MSMEs in BiH employ more than 48 percent of the total employed population,²³ a recent study by the European Investment Bank reports that while 9 percent of men are self-employed (a reasonable proxy for entrepreneurship), the proportion is much lower for women at 3.3 percent.²⁴

Scarce data on MSMEs, and particularly on gender dynamics, makes informed policymaking and even the identification of the challenges difficult. Available data does not provide the detailed, gender-disaggregated insight necessary to develop robust policy recommendations and implement support programs essential to advance inclusive economic growth in BiH. The 2016 European Investment Bank report on SME financing needs in BiH, for example, does not consider the access to finance challenge for female-led enterprises.²⁵ The Central Bank of BiH does not collect gender-disaggregated data on loans issued by banks. It is unsurprising then that a challenge unreflected in data is a challenge unaddressed in policymaking and development.

A recent BiH MSMEs survey²⁶ is one of the first efforts to address data and knowledge gaps in terms of characteristics of women-led enterprises and their access to finance, it was commissioned by the World Bank and financed by the Swiss Agency for Development and Cooperation. Enterprises in BiH are characterized by microenterprises, where 68 percent of the MSMEs employ less than 9 employees.²⁷ Firms are overwhelmingly concentrated in the services sector (85 percent) followed by around 10 percent in manufacturing, and the remainder in agriculture and construction and trade. Almost three-quarters are sole proprietorships followed by 26 percent which are owned by multiple individuals, companies, or organizations (partnerships including limited liability companies). In terms of age, slightly more than a third are young firms (in operation for 6 years or less), followed by 33 percent each in the 7-15 years bracket and more than 15 years old. Ownership by gender shows a particularly stark difference – 30 percent of MSMEs are categorized as male-led (both majority owned and managed by men), while only 19 percent are classified as female-led (both majority owned and managed by women).

According to the BiH MSME Survey, female-led MSMEs tend to be younger. Female-led enterprises are concentrated in the category of newest enterprises i.e. less than 6 years old (40 percent) compared to less than 30 percent male-led enterprises in the same category. For enterprises in operation for between 7 and 15 years the proportion led by female or male is roughly equal (33 percent and 36 percent respectively). A difference emerges again in the oldest enterprises with 27 percent categorized as female-led enterprises compared to 34 percent as male-led.

²² <http://www.enterprisesurveys.org/data/exploreeconomies/2013/bosnia-and-herzegovina#gender>

²³ <http://www.smefinanceforum.org/data-sites/msme-country-indicators>

²⁴ http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_bosnia_herzegovina_en.pdf

²⁵ http://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_bosnia_herzegovina_en.pdf

²⁶ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

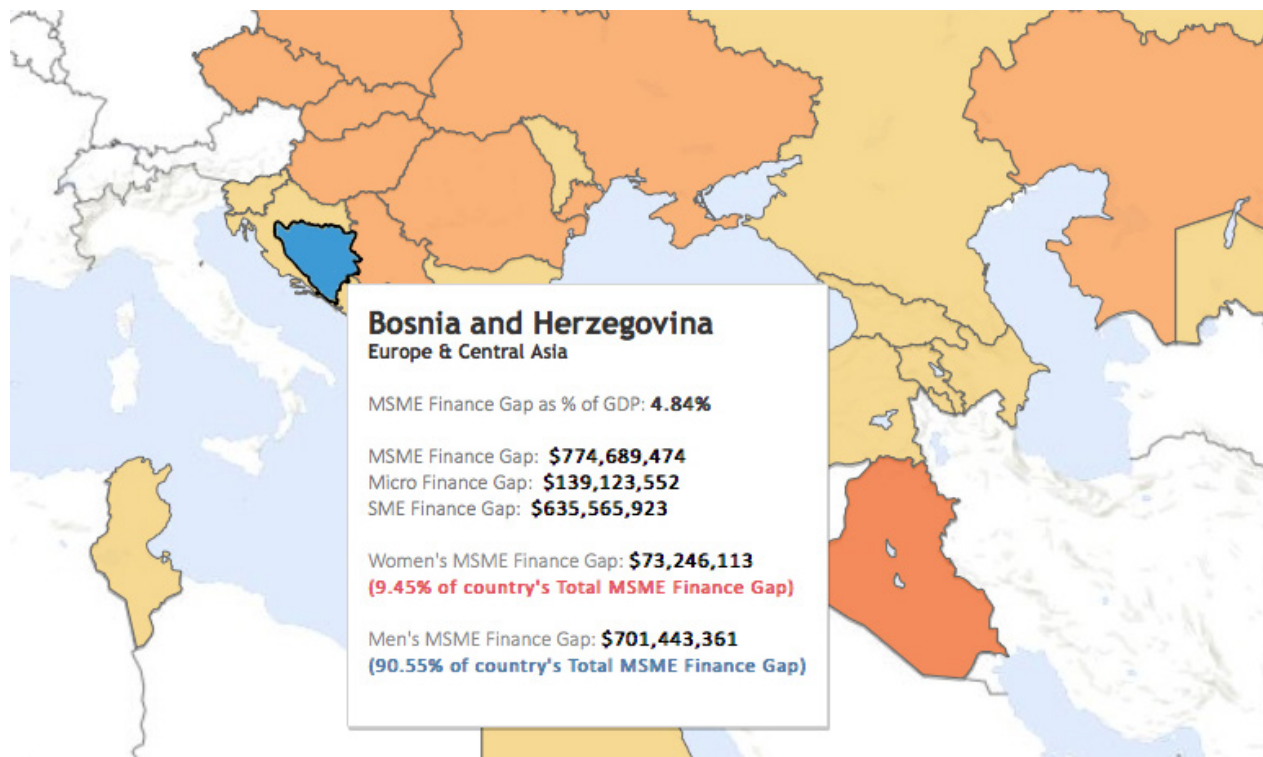
²⁷ There are 25% enterprises with 10-49 employees and the remaining 7% have 50-249 employees.

The low levels of female participation in MSME ownership and management reflect overall gender inequities in BiH. According to the World Economic Forum’s gender report, BiH ranks 116 out of 144 countries on economic participation of women, measured by labor force participation, earned income, and wage equality, among other indicators.²⁸ Similarly, the country is ranked 59 out of 77 countries on the Female Entrepreneurship Index (female entrepreneurs in BiH rank particularly low on innovation and research and development expenditure, presumably due to lack of market knowledge or resources).

1.2. Why is Access to Finance important in BiH?

Access to finance is a critical challenge in this context – the MSME finance gap in BiH is almost 5 percent of GDP, with a gap of more than \$73 million for female-led firms (Figure 1). In BiH, almost 20 percent of MSMEs consider access to finance as a major obstacle to enterprise development; of these, 66 percent are microenterprises. This is in line with global trends – while MSMEs in general face challenges in access to finance, it is particularly relevant for female-led enterprises who are underserved by financial institutions and have limited access to assets that meet traditional collateral requirements. BiH is no different, which bodes well for opportunities to leverage global lessons in order to boost access to finance for female-led MSMEs in the country.

Figure 1: MSME Finance Gap as % of GDP²⁹



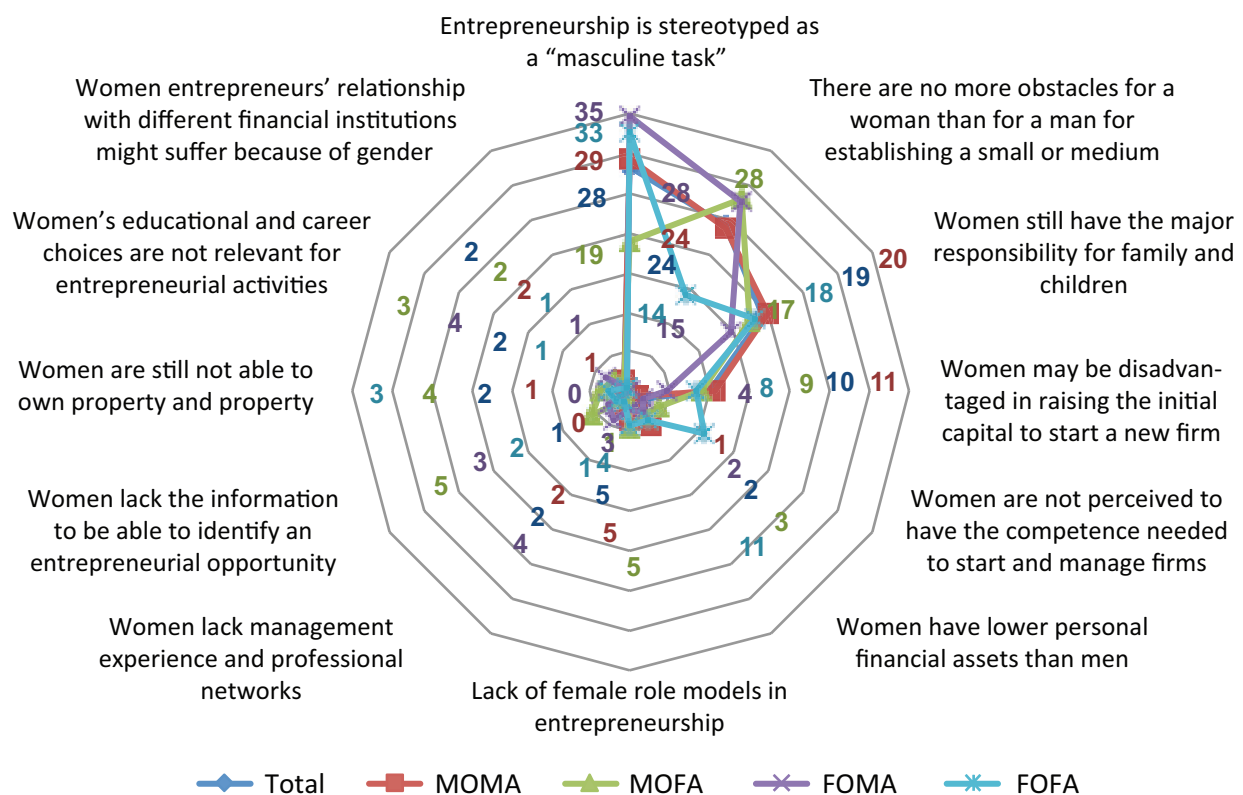
²⁸ http://www3.weforum.org/docs/WEF_GGGR_2017.pdf

²⁹ <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

2. Female-led MSMEs Face Multidimensional Constraints

Multidimensional constraints include firm characteristics, financial constraints, and non-financial constraints. Figure 2 illustrates the multiple dimensions of constraints women face in BiH. Sector concentration in low productivity activities, small size, and low value addition result from, and at the same time magnify, the financial constraints they face. Financial constraints are classified as those pertaining to access to assets, financial knowledge and capabilities of MSMEs (demand-side), and reluctance of financial institutions to lend to female-led MSMEs and limited supply of credit at the country-level (supply-side). Non-financial constraints refer more to social norms that influence the role of women, access to information and networks, educational attainment, and the self-confidence of female entrepreneurs. The categories are not mutually exclusive and distinct, but in fact influence (and reinforce) financial barriers.

Figure 2: Overview of Perceptions of Most Dominant Problems that Limit Women Entrepreneurs in Establishing a Firm (%)³⁰



³⁰ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

2.1. Firm Characteristics

Female-led firms are concentrated in low productivity sectors and tend, on average, to be smaller. They are primarily, in fact almost exclusively, located in the services sector (92 percent) with limited participation in manufacturing (6 percent). Similarly, female-led businesses have lower value added (average BAM 206,749 compared to average BAM 1.3 million for male peers) and considerably lower level of assets (although it is important to note that this differentiation may be due to the fact that female-led businesses tend to be microenterprises). More than 90 percent of female-led enterprises are sole proprietorships.

Box 1: Ownership vs management: Any form of female ownership of MSMEs constrains access to finance

The WBG Gender MSME Access to Finance Survey, BiH 2018 takes a more in-depth look into the ownership and management structures of MSMEs using four categories – female-owned-and-female managed (female-led), female-owned-and-male-managed (FOMA), male-owned-and-male managed (male-led), male-owned-and-female-managed (MOFA). Looking at usage of financial products, the survey finds that access to finance is worst for enterprises with female participation in ownership, even when the enterprises are managed by males, compared to enterprises with male ownership, even when the management is female.

The lowest average levels of credit are awarded to FOMA enterprises, followed by MOFA enterprises. Female-led enterprises do better than both these categories, attaining an average of BAM 547,000 albeit falling significantly behind male-led enterprises, with an average credit line of BAM 21.9 million.

Use of bank loans is highest for male-led and MOFA enterprises, followed by FOMA; female-led enterprises have the lowest usage of bank loans. Similar trends are observed in use of leasing and debt securities where female-led enterprises and FOMA enterprises perform the worst. Similarly, a higher proportion of enterprises with any form of female ownership (female-led and FOMA) report that access to medium-to-long-term-financing instruments (bank loan, leasing, and debt securities) is becoming more difficult compared to enterprises with male ownership (male-led and MOFA).

FOMA enterprises perform generally better on access to and usage of financial products compared to female-led enterprises, MOFA enterprises outstrip both these groups, but male-led enterprises dominate. One potential explanation may be that as long as male applicants are pursuing access to finance in their capacity as owners (as it is generally MSME owners who tend to apply for finance even if the decision is made by management), the management role of women is not a concern for financial institutions. Taken another way, this implies gender bias in decision-making by financial institutions, whereby any form of female ownership constrains access to finance for firms but female management under male ownership does not. Further analysis can reveal whether these trends persist if everything else (firm sector and size among other dimensions) is equal.

These trends are further highlighted in the **WBG Gender MSME Access to Finance Survey, BiH 2018** report.

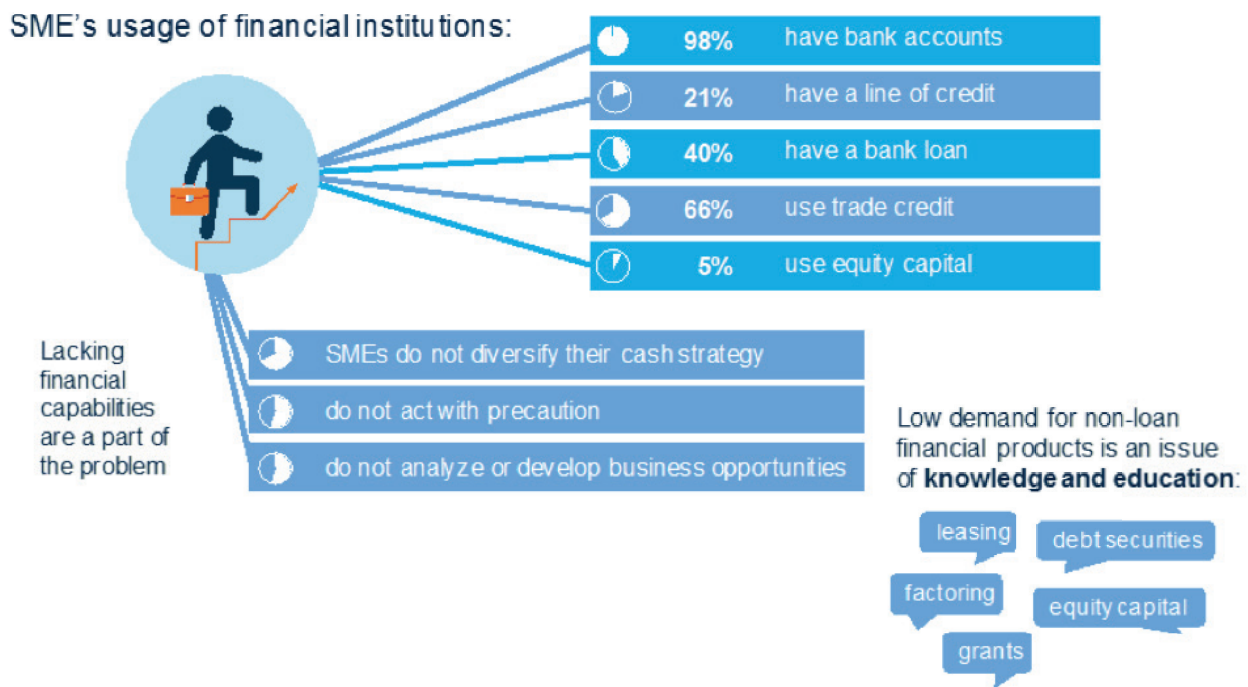
2.2. Financial Constraints

Demand for finance is high among female-led enterprises. The BiH MSME Survey finds that 28 percent of female-led enterprises need financing and intend to apply for a loan compared to 22 percent of male-led enterprises. Female-led enterprises also cite plans to mobilize financing from more diverse sources, in addition to commercial banks (77 percent), ranging from government agencies (21 percent) to leasing companies (10 percent). Surprisingly, a greater proportion of female-led enterprises (8 percent) report venture capital funds as their potential sources of finance compared to only 4 percent of their male peers.

However, use of traditional financial services is low. A basic service like a bank account is held by only 91 percent of female-led firms, compared to 99 percent of male-led firms. The difference is even greater for internet banking and e-money accounts, the former used by almost 40 percent of male-led firms but 28 percent of female-led firms and the latter by 16 percent of male-led firms and only 7 percent of female-led firms.

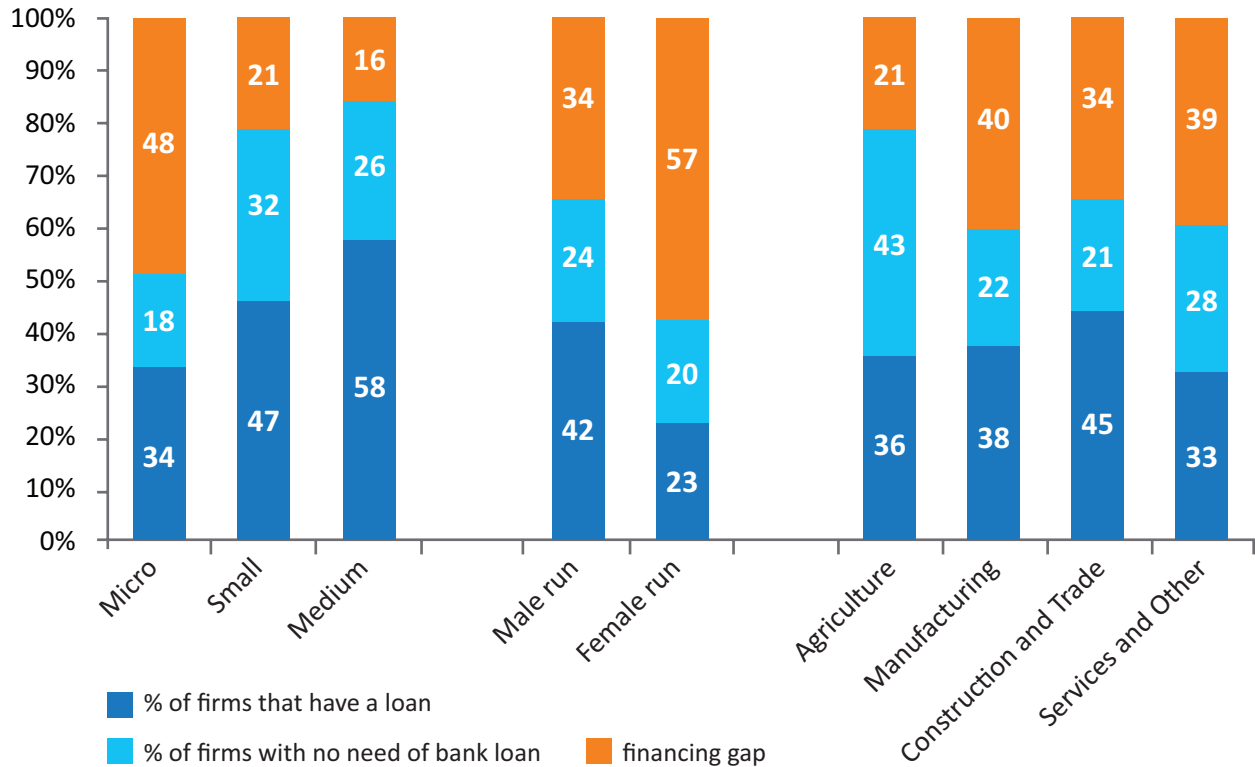
Use of financial services varies greatly between instruments; the financing gap is much larger for female-run businesses compared to their male peers. As Figure 3 shows, the use of financial services varies from 5 percent using equity capital to 66 percent using trade credit. This gap is much larger for female-run business than male-run businesses (Figure 4). The BiH MSME Survey also finds that low demand for diverse products is a result of gaps in financial knowledge. This is reinforced by the finding that MSMEs in BiH do not have diversified cash strategies and do not focus on business opportunities.

Figure 3: Usage of financial products and services³¹



³¹ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

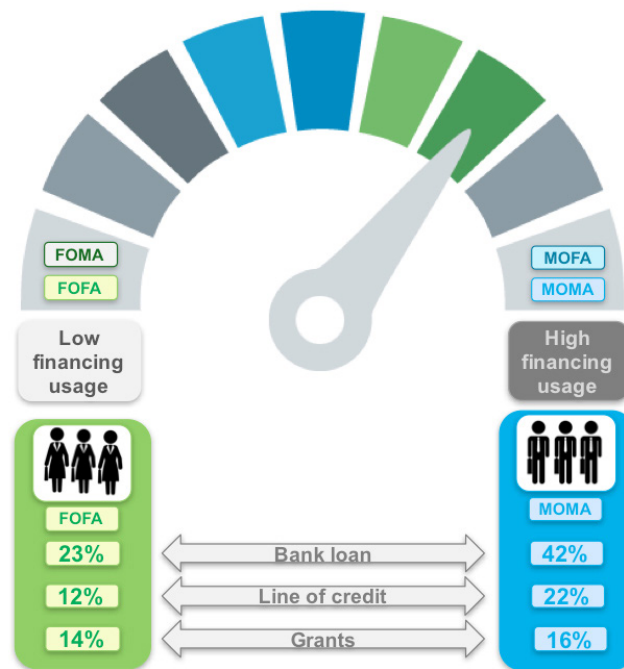
Figure 4: Financing Gap is Larger for Female-led Businesses³²



Female-led enterprises have the lowest levels of request and approval ratings for both trade credit and lines of credit which are, in general, popular short-term financing instruments. Only 53 percent of female-led enterprises request trade credit compared to 71 percent of their male peers; of these 94 percent of female-led enterprises obtain approvals compared to 97 percent of their male peers. Similarly, as Figure 5 shows, only 12 percent of female-led enterprises have lines of credit (LOCs) compared to 22 percent for male-led entities. Moreover, 50 percent of female-led enterprises have trade credits compared to 68 percent for male-led entities. Female-led entities are also underserved in terms of medium- to long-term financing in comparison to their male counterparts: only 25 percent of female-led entities have taken out a bank loan compared to 41 percent of male-led enterprises.

³² Ibid

Figure 5: Usage of financial services and products³³



Women in BiH face constraints in access to assets like land, traditionally the collateral required by financial institutions. The BiH MSME Survey finds that all refusals of requests for LoCs by female-owned enterprises are due to a lack of collateral. High collateral is also cited by female-led enterprises as a reason for not requesting bank loans. Moreover, of female-led enterprises with bank loans who provide collateral, roughly equal proportions offer land (owned by the business) or machinery and other movables. Given that more than 70 percent of the land is owned by men, with the share of female ownership rising slightly from 24.7 percent to 26.8 percent between 2003 and 2013,³⁴ this presents a clear gap which drives limited access to finance for female-led enterprises.

Women are perceived to be disadvantaged in their ability to raise startup capital. This perception is higher among male-led firms than female-led firms and may imply a wider social attitude that does not consider women to be good businesspeople. If the predominance of men in the financial sector is taken into account, it may also imply that male loan officers do not consider female applicants creditworthy. In addition, if this perception is accurate, it also indicates why female-led enterprises tend to be smaller – it is because they are unable to raise the kind of startup capital available to male peers.

Female-led enterprises that do obtain credit face unfavorable terms. The average bank loan for female-led firms is almost 2.5 times smaller than those their male-led peers, although this may well be a function of the overall smaller size of female-led firms. Relatedly, loan maturities vary from an average of 57 months for male-led enterprises to 44 months for female-led enterprises.

³³ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

³⁴ <http://documents.worldbank.org/curated/en/754241467992483659/pdf/97640-ESW-P132666-and-P152786-Box385353B-PUBLIC-BiH-Gender-Disparities-in-Endowments.pdf>

2.3. Non-Financial Constraints

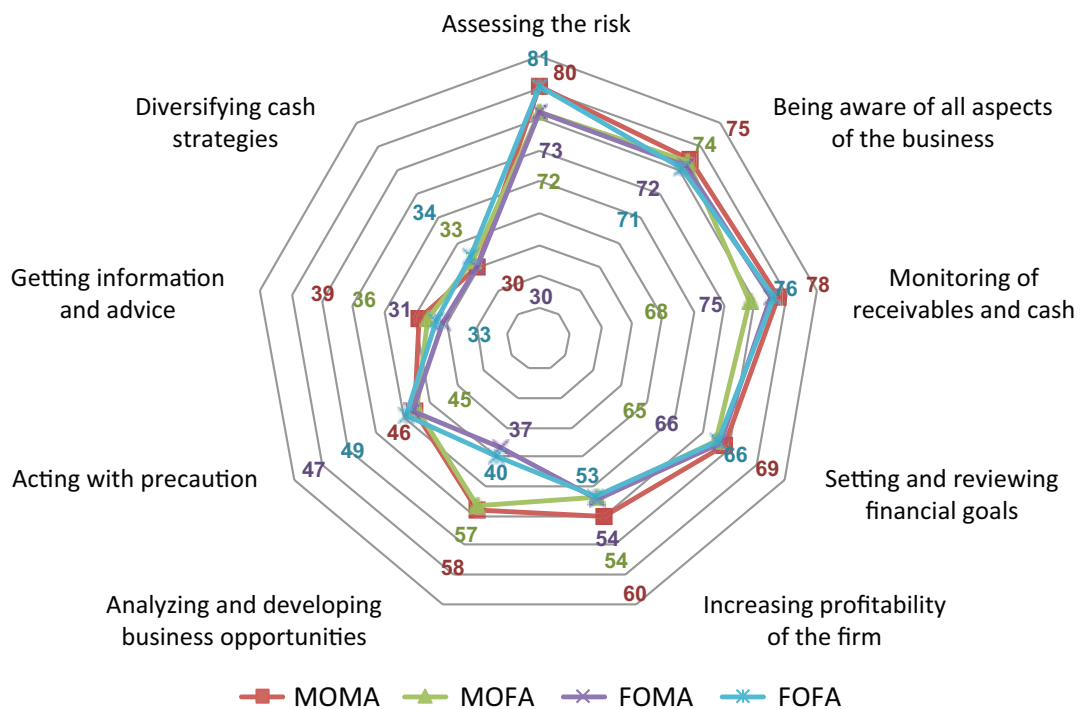
Entrepreneurship is reported as being stereotyped as a ‘masculine’ undertaking. Roughly equal proportions of female (33 percent) and male (29 percent) led enterprises report that the most dominant problem that limits women entrepreneurs in establishing a firm is that entrepreneurship is stereotyped as a ‘masculine’ undertaking.

Relatedly, domestic responsibilities are still seen as primarily female activities, thereby contributing to women’s time poverty and social pressures not to undertake economic activities that may take them away from those duties. In BiH, as in many other countries, responsibilities for child and elderly care fall primarily to women. This significantly impacts their ability to dedicate time and effort to economic activities which in turn affects the growth and productivity of their businesses, including the ability to qualify for finance.

Female-led MSMEs in BiH perform well on key financial capabilities metrics. In general, female-led firms perform better than male peers with respect to cash diversification strategies and acting with caution and perform as well (or nearly as well) on monitoring of cash receivables and setting and reviewing financial goals. They do, however, fall behind on increasing the profitability of their firms, analyzing and developing business opportunities, and getting information and advice.

Female-led firms with high value added have higher financial capability scores than their male peers. In general, high value-added enterprises display higher financial capability scores and high value-added female-led firms outperform male-led firms by up to 12 points on key financial capability dimensions.

Figure 6: Average Financial Capabilities Score by Gender Composition³⁵



³⁵ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

Higher financial capability scores are not positively correlated with access to finance for high value-added female-led businesses in BiH. This is a troubling finding, highlighting that there are factors beyond financial capabilities that influence access to finance for FOFA and FOMA firms. This may potentially be due to gender discrimination by lenders or overall low supply of MSME finance in BiH leading to low prioritization of female-led enterprises. Other potential explanations include women’s limited access to collateral and/or limited financial knowledge among women entrepreneurs.

Interestingly, women in the sample ranked constraints like a lack of role models, limited information, and access to assets relatively low. However, asymmetric information may also lead to similar findings i.e. people don’t know what it is that they don’t know and therefore do not recognize the importance of access to information and access to assets. The perception that access to assets, for example, is not a particular challenge, is clearly belied by women’s land ownership and size of firm assets.

Perhaps unsurprisingly, the greatest difference among female-led and male-led firms emerges on the question of whether women face greater obstacles than men in establishing MSMEs. Almost a quarter of the male-led firms in the sample report that women do not face greater obstacles while the proportion is only 14 percent for female-led firms in the sample. This dichotomy of sorts is seen in other places where formal legal rights for women being enshrined in code lead to a belief that equality has similarly been established in all facets of life.

3. Policy recommendations

3.1. Support Policy Reform and Regulations to Improve the Business Environment for Female-led MSMEs

Even as the legal code in BiH provides for full gender equality, its implementation has much room for improvement. At the macro-level, it is important to fully integrate a gender lens into MSME-focused policy-making. As the 2016 EU report notes, while formal laws provide for gender equality, their implementation is lacking.³⁶

A moveable collateral registry was introduced in BiH in 2005 and overall firm access to credit did rise in the aftermath with a larger effect observed among smaller and younger firms.³⁷ However, as the BiH MSME Survey findings show, access for female-led MSMEs remains challenging. The Central Credit Registry, operated by the Central Bank of BiH,³⁸ maintains data from all banks, microcredit organizations, and leasing companies in the country; however, data from insurance companies is voluntarily submitted. The

³⁶ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_bosnia_and_herzegovina.pdf

³⁷ <http://www.ifc.org/wps/wcm/connect/8891c280415edb709ba3bb9e78015671/Collateral+Registries+for+Movable+Assets+Does+Their+Introduction+Spu+Firms+Access+to+Bank+Finance.pdf?MOD=AJPERES>

³⁸ <https://openknowledge.worldbank.org/bitstream/handle/10986/22369/Bosnia0and0Her0usion0technical0note.pdf?sequence=1&isAllowed=y>

Financial Sector Assessment Program in 2014 identified gaps in the quality of data shared with the credit registry, especially by organizations that purchase claims from financial institutions. Private credit bureau coverage is 12 percent of adults in BiH compared to more than 22 percent in Europe and Central Asia.³⁹ Further research is needed to identify the gender composition of the coverage.

In the case where de jure rules appear to prevent gender discrimination (which is the case in BiH), there is a concurrent need to review de facto rules. In this context, some aspects to consider include: do financial institutions discriminate in practice if not in theory? Are financial institution staff (loan officers, account managers, credit committees and others) adequately trained to serve female clients e.g. in use of psychometric testing. This points towards the need for a supply-side diagnostic that can delve deeper into the actual practices prevalent in BiH's financial sector.

3.2. Boost Financial Education and Management Capabilities of Female Entrepreneurs

Even for high value-added female-led enterprises, financial capabilities do not translate into access to finance, pointing towards the need for additional support to female entrepreneurs. This implies that in addition to traditional financial capabilities, female MSME owners and managers need to be trained on interacting with financial institutions e.g. on identifying the right products and services, ensuring they are well-informed about rights and responsibilities, and understanding the financing needs of their enterprises. This would need to be done in coordination with financial service providers.

The finding that financial capabilities and access to finance are not positively correlated in the case of female-led enterprises, even high value-added enterprises, in BiH is singularly concerning. This indicates that it is not the lack of financial knowledge and capabilities that drives low credit to women-led enterprises; the reason lies elsewhere. Possible hypotheses may include: gender discrimination whereby even qualified female applicants are not deemed good bets; or a lower likelihood of female applicants seeking access to finance; or an inability to acquire collateral that would allow them to qualify for certain financial products. It is also important to remember that more than financial capabilities on the part of applicants are needed to access finance – the overall supply of finance, financial products, and services that are suited to market demand, and targeted outreach to underserved market segments are all factors that potentially influence access to finance for female-led enterprises in BiH. Further research is needed to determine the underlying causes of this finding.

Beyond high value-added enterprises, there is a capabilities gap for microenterprises. This requires extensive financial education programs, delivered through public sector organizations (e.g. as part of consumer protection initiatives), academic institutions (e.g. through basic financial education and financial management programs), and other service providers (e.g. financial institution-led training for their customers).

³⁹ Doing Business 2017 (<http://www.doingbusiness.org/data/exploretopics/getting-credit>)

Linked to financial capabilities is the very low uptake of even traditional financial instruments, like savings. This points to a supply-side gap in the ability of financial institutions to market existing products or develop new ones, more suited to an underserved and profitable market segment. One potential way to address this is to combine financial services with technical assistance to firms.

Getting information and advice is identified as a particularly weak area, MSMEs are likely to require technical assistance in obtaining and using market information. This can be done through networking and mentoring programs, sector-specific market intelligence programs, and broadly through facilitating linkages. Business development services including financial management are a core requirement of MSMEs.

As female-led MSMEs tend to be concentrated in services and within the microenterprise segment, there is a need to catalyze their entry into higher value-added, more profitable sectors. This implies a broad need to increase the incidence of women-led MSMEs especially in high-productivity sectors and the need to support their growth across the firm life cycle (for example, in the transition from micro to small enterprises or small to medium enterprises).

Mentorship is a crucial element in enhancement of women's management capacity and to address gaps in their access to markets and networks. It stimulates their connections with the broader business community, helps expand their networks, gain advisors they may otherwise not have access to. Moreover, it helps them move into higher value-added activities. In Uganda,⁴⁰ for example, it was found that while women are concentrated in low-productivity sectors, for those who participate in male-dominated, more productive and profitable sectors, mentorship was a key element that drove their entry into the particular sector. Technology opens up the potential for regional and international networks.

Underlying these recommendations is the need to develop high-quality, well-targeted programs. Experience shows that even when training is offered to women entrepreneurs, take-up may be low due to competing demand and inadequate outreach. Once women start to attend trainings, content should be gender-sensitive and delivered using appropriate tools (e.g. local language, relatable case studies, interactive, experiential exercises) or it may fail to engage participants. In addition, wraparound services like childcare or transport may also be useful in mitigating some of the domestic constraints faced by potential participants willing but unable to join.

3.3. Provide Advisory Services to Financial Institutions to Operationalize Business Case for Serving Female-led MSMEs

There is a strong business case for serving female-led MSMEs and financial institutions in BiH have yet to recognize the opportunities in targeting this underserved market segment. The BiH MSME Survey finds that there is significant unmet demand across the spectrum of products and enterprise types. Even though female borrowers tend to demonstrate better repayment rates than their male peers,⁴¹ they find it difficult

⁴⁰ <http://www.worldbank.org/en/news/feature/2016/02/19/breaking-the-gender-earnings-gap>

⁴¹ https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-women-and-repayment-in-microfinance-mar-2009_0.pdf

to access credit and other financial products. Leveraging existing survey findings, initial steps can be taken to boost access to finance for female-led enterprises in BiH. For example, a dedicated credit line for high value-added female-led enterprises that utilizes financial capability scores combined with innovative credit assessment techniques like psychometric testing to assess applicants.

Non-performing loans are highlighted in the Financial Sector Assessment Program⁴² as an area of concern, as they constrain the repayment capacity of firms. This may contribute to the reluctance of banks to lend to MSMEs in general and female-led enterprises in particular. However, innovative credit assessment mechanisms (like psychometric testing)⁴³ or business models like cashflow lending offer potential avenues. Essentially, banks may need to be convinced, through markets assessments and likely through lines of credit for on-lending, to downscale their operations and actively target SMEs. Similarly, MFIs will require incentives to upscale their operations.

There is a role for microfinance institutions in BiH. There may, for example, be a need to work on regulations that can allow for increasing the cap on microfinance institution loans and for aligning laws and regulations governing their operations across the regions.

In addition, there is a whole range of products beyond loans, including long term finance, that can serve the needs of MSMEs. Take-up of savings products is extremely low among both female-and-male-led enterprises (3 percent and 5 percent respectively). Moreover, only 6 percent female-led enterprises have access to leasing or hire-purchase agreements compared to 13 percent of their male peers. This may indicate that these products are not in demand or that they are not offered to female-led businesses. Demand-side analysis can help identify the gaps.

The venture capital and private equity sectors are also underdeveloped in BiH. In fact, there are no registered venture capital funds in the country. However, the BiH MSME Survey does reveal demand, especially among female-led enterprises and finds that 5 percent male-led enterprises did manage to obtain equity financing.

3.4. Address Social Constraints that Limit Women's Ability to Lead and Grow MSMEs

Legal and regulatory changes alone are unable to fully change social attitudes towards women and their perceived role in society and the economy.⁴⁴ As the BiH MSME Survey findings reiterate, social norms constrain their role as entrepreneurs and as business leaders. This creates a self-fulfilling cycle where women are perceived as being less capable of running MSMEs and therefore are unable to access the resources to do so. The role for policymakers may be limited in this regard – social norms are slow to change and can-

⁴² FSAP BiH, Financial Inclusion Technical Note, 2015, World Bank

⁴³ <http://blogs.worldbank.org/voices/both-feet-forward-putting-gender-lens-finance-and-markets-mobile-banking-movable-collateral>

⁴⁴ <http://documents.worldbank.org/curated/en/754241467992483659/pdf/97640-ESW-P132666-and-P152786-Box385353B-PUBLIC-BiH-Gender-Disparities-in-Endowments.pdf>

not be legislated. This is however an opportunity for a concerted public outreach and narrative-changing campaign. For example, through building a coalition of stakeholders across the public and private sectors to highlight women's economic achievements, the potential economic contributions from increased participation, and the role of MSMEs.

For any sustainable change, public perception of women's roles, particularly their economic role, has to be a focus. This is not an easy undertaking and requires a grassroots approach with public and private sector contributions. Families and particularly male family members have a crucial role to play. Including men and boys in these efforts needs to be culturally sensitive and take a localized approach. Male role models who can advocate for change within their communities are important. Prominent community members, from arts and entertainment to religious and faith communities to the business world, all have a stake in supporting women's economic participation and should be engaged in this process.

3.5. Continue to Address Data Gaps

While the BiH MSME Survey is important as one of the first in-depth efforts to disentangle the multidimensional constraints that hinder women-led enterprises and addresses key data gaps, further work on the diagnostic and operational sides would complement the findings and bring nuance to the discussion. Additional analysis that would enhance our understanding includes analysis of financial institutions and microfinance providers in BiH in order to identify constraints in the supply of finance and financial products to female-led enterprises. Further demand-side analysis of how female entrepreneurs interact with the market would also reveal additional actionable aspects; it could, for example, be that women find financial institutions inhospitable places to do business (as is the case in many other countries) or that there is limited understanding of the products on offer locally, despite relatively high levels of financial capabilities. Similarly, ecosystem diagnostics, integrating insight into policymaking and implementation with other components like infrastructure (e.g. information and communication technology, transport, and logistics), access to finance and markets, and entrepreneurial culture would offer broader, more qualitative insight into the interplay of various sectors. Given the sectoral concentration of female-led enterprises, sector-level analysis would allow for greater understanding of how female-led enterprises seek and possibly obtain access to finance, what form the finance takes, and how it is utilized in the business.

Table 1: Summary of Key Recommendations

Recommendations	Term
Improve implementation of laws and regulations to boost gender equality especially in the context of obtaining credit.	ST/MT
Improve reporting of gender-disaggregated data by financial institutions.	ST
Provide advisory services to financial institutions to allow for improved credit risk assessment, develop new products, and expand services to female-led MSMEs.	ST/MT
Address gaps in financial capabilities of female-led MSMEs, especially for those that do not have high value-added.	MT
Coordinate and consolidate efforts of private and public institutions, including the private financial sector, non-governmental organizations and training centers, to effectively enhance MSMEs' financial capabilities.	MT
Support development of mentorship programs that can catalyze entry of female-led businesses into high productivity, high value-added sectors.	MT
Develop dedicated support programs like partial credit guarantee schemes and counterpart guarantees for expanding supply of credit for female-led MSMEs.	MT
Influence social and cultural norms that restrict women's economic participation and through public education and outreach activities.	LT

⁴⁵ ST, short term, indicates action can be undertaken in 0-6 months. MT, medium term, indicates 6 months-1 year. LT, long term, indicates 1+ years.

Annex I: Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender⁴⁶

A nationally representative survey, commissioned by the World Bank and financially supported by the Swiss Agency for Development and Cooperation, was conducted in BiH between September 2016 and February 2017. It provides a baseline analysis of the status of access to finance for micro, small, and medium-sized enterprises (MSMEs) with a particular focus on women entrepreneurs' ability and constraints in accessing finance in order to develop and grow their businesses.

The survey was intended to be representative along the following dimensions: geography, size of companies (micro having between 1 and 9 employees, small having between 10 and 49 employees, and medium having between 50 and 249 employees) and gender. The survey sample was designed based on a stratification by number of employees and location, but also took into consideration the entities' various gender compositions and their estimated occurrences in the population.

Four categories of firms were included: majority male-owned and male-managed (MOMA), majority male-owned and female-managed/female-influenced management (MOFA), majority female-owned and male-managed/male-influenced management (FOMA), and majority female-owned and female-managed (FOFA).

The survey shows that 30 percent of MSMEs are categorized as male-owned and male-managed (MOMA), 34 as male-owned and female-managed (MOFA), 17 percent as female-owned and male-managed (FOMA), and 19 percent as female-owned and female-managed (FOFA). The highest proportion of microenterprises are male-owned and female-managed while both small and medium enterprise categories are dominated by male-owned enterprises (both MOMA and MOFA).

The objective of the survey is to further analyze the demand side constraints to private sector growth and enterprise performance related to or arising from lack of access to finance. The survey has the specific aim to determine the level of women entrepreneurs' ability and constraints in accessing finance in order to develop and grow their businesses. Detailed findings are provided in the survey report.

⁴⁶ Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

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