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Insight


# How can digital financial services drive women's economic empowerment in South Asia?

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# Foreword

Across South Asia, the low participation of women in formal entrepreneurship is a cause for concern. Access to finance is persistently the biggest barrier for many female entrepreneurs. In India and Bangladesh, fewer than 40 per cent of women have their own bank account. In Pakistan, this figure falls below 10 per cent.

Yet, despite this challenging environment, women increasingly own and lead micro, small and medium-sized enterprises (MSMEs), which are an essential engine for economic growth. Supporting women's access to finance can spur economic progress and expand markets. In turn this can improve health and education outcomes for communities at large. To drive up women's economic participation in South Asia, it is vital to focus on untapped markets of women business leaders, including – though not limited to – the 'missing middle' of finance for MSMEs and, specifically, on those owned and led by women.

British International Investment (BII) has a track record of 35 years of investment in the region. To date, we have made close to 95 investments in Asian financial service providers spread across India, Pakistan, Bangladesh, Sri Lanka and Nepal.

Our experience has heightened our awareness of the importance of digital financial services. These can be a key driver of inclusion, particularly for those who have been historically excluded from traditional financial systems, for example, low-income populations, rural populations, minorities and women.

That's why one way we work with our partners is to accelerate digital transformation. Approaching digital transformation and digital financial services with a gender lens is critical as well as effective – for financial sustainability and impact.

The role of transparency through digitisation and financial service providers can help the combined goal of inclusion of women while targeting the financial needs of women-SMEs to grow their businesses.

This study provides guidance for South Asian financial service providers to deepen their digital financial services to offer greater transparency and access to much-needed capital.

**Srini Nagarajan**

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## Executive summary

In South Asia, MSMEs – and women-owned and led MSMEs (WMSMEs) in particular – have historically been underserved by financial markets. This has been driven by structural and economic gender inequalities. For example, women have lower levels of access to the collateral needed as part of lending requirements. Loan application processes can involve complex paperwork and procedures that are often challenging for customers with limited time and lower financial literacy levels – challenges disproportionately faced by women. In addition, the application might require documents such as national ID, which women are less likely to have.[1] As a result, women entrepreneurs have little or no access to the credit needed to invest in their businesses, business growth remains low, and FSPs at large continue to underestimate the demand and market that women's businesses represent.

This represents a missed opportunity. Data and evidence show that women are a profitable customer segment, with fewer non-performing loans than men.[2] Fewer than 10 per cent of WMSMEs in the region feel that their financial needs are being met, making this a significantly untapped market.[3]

> *Fewer than 10 per cent of WMSMEs in the region feel that their financial needs are being met, making this a significantly untapped market.*

This rise of digital financial services offers a streamlined, low-cost, scalable solution for FSPs to rectify this. For this report, digital financial services include all financial services that rely on a digital tool to access or distribute.[4] For example, this includes a loan that is applied for and approved through an online portal, access to government or family member remittances through a mobile app, and more.

South Asia has been experiencing significant growth in digital connectivity, and a combination of COVID-19 and government policies have accelerated the adoption of digital financial services by both individuals and MSMEs. Smartphone penetration was almost ubiquitous among survey respondents, enabling women entrepreneurs to access internet services through their phones. Digital payment adoption is also growing promisingly among WMSMEs in some markets – namely Pakistan and Nepal (see the country-level review for specific cases of financial and fintech products that are driving this).

This research carefully outlines the challenges and opportunities of digital financial services for WMSMES, making the business case for FSPs to consider their adoption as they look to grow their customer base. Surveys, interviews and desk research were conducted on FSPs across four key markets: India, Pakistan, Bangladesh and Nepal, aiming to understand how digital financial services can enable access to finance for the remaining 90 per cent of underserved WMSMEs. The findings point to four key recommendations:

### 1 Develop tailored value propositions for WMSMEs, taking into consideration differences and preferences in terms of sector and size.

WMSMEs often value simplicity in financial services and digital financial services platforms can provide a streamlined and user-friendly interface that meets the requirement of being easy to use and reduce the learning curve for users. Moreover, digital financial services can enable the bundling of various financial products and services into a single, comprehensive package. This addresses the concern of offering individual financial products separately, which can lead to complexity for WMSMEs. By consolidating these offerings within a digital ecosystem, WMSMEs can access a range of services without increasing their mental load or management burden. The proliferation of digital financial services providers allows for increased competition and innovation in the market. This competition can drive FSPs to adopt a customer-centric approach, focusing on delivering value to WMSMEs. Digital financial services providers that understand the diverse segments of WMSMEs and customise their offerings accordingly are more likely to gain traction. FSPs can more easily and quickly customise their digital solutions (as compared with services delivered through branches and agents). This will help FSPs cater to and target different sub-segments within the WMSME community and ensure that services remain relevant to the specific business needs of each group.

### 2 Address digital capability and trust constraints of WMSMEs through clearer, more transparent, and more effective communications.

WMSME loan applications are often rejected and receive little to no information about the reasons why, eroding trust. Providers can improve communication by embracing simplicity, eliminating jargon, and designing user-friendly interfaces that clearly communicate costs and associated fees or penalties, terms and conditions, and consequences of default in layperson's terms. FSPs might also consider using digital technologies to communicate reasons for a loan application's rejection (digital solutions may be necessary, as layers of approval can make communication reasons for rejections very difficult for FSPs that digitise customer information after approval but not after rejection).

Technology can help disseminate financial awareness messages at a very low cost, with targeted and timely interventions that can improve WMSME decision-making and encourage better financial actions by women entrepreneurs. Providers can use text messages, social media, audio/video messages, and digital applications to deliver such messages. Local language audio (voice) blasts may be more effective in rural areas than local language text messages.

Considering women have lower rates of digital and financial literacy, providers may also consider offering training and guidance on these topics into the suite of digital product offerings, developing communication campaigns specifically targeted at WMSMEs to highlight relevance. Providers could also consider including business skills development and networking opportunities within the virtual environment. Where offering these services directly is not an option, providers should explore partnerships with local organisations focused on women's entrepreneurship development. FSPs can consider attracting more women entrepreneurs by making successful women customers brand ambassadors for their marketing and advertising campaigns.

## 3 Improve WMSME experience with digital financial services through improved customer support

Low levels of trust in FSPs, perceived lack of relevance, and limited information often lead WMSMEs to stay away from digital financial services or limit their use to personal needs. WMSMEs are also less likely to be aware of the existence of financial products than their male counterparts. Providers can address this by ensuring their marketing and outreach efforts clearly articulate the relevant use cases to WMSMEs, explaining product benefits and linking them to the WMSME's context and growth strategy to encourage adoption and use.

WMSMEs are more likely to sign up and continue to use a service if the onboarding process facilitates trust. Providers can invest in adopting a tech-touch hybrid approach that ensures women feel supported on their customer journey in the first steps. Adopting strategies such as trial periods, transaction limits and issuing targeted warnings and notifications can also help WMSMEs understand the product better and encourage ongoing use.

Leveraging technology might also expose WMSMEs to an increased risk of fraud and online harassment. Therefore, FSPs should fully understand the potential risks and have mitigation strategies in place. Risks can range from unauthorised disclosure of personal information and data to system failures, frauds, phishing, and cyberattacks. This should also be an important component of financial awareness training for WMSMEs.

## 4 Increase representation of women working at FSPs to better integrate a gender lens in all processes and products.

A key reason for gender disparity in financial access comes to the fore when products are not intentionally designed with women in mind.[5] By making financial products gender-neutral, and ignoring the specific constraints women face, the offerings end up actually being gender-blind. Closing the gender gap in financial services requires FSPs to be more gender intentional, acknowledging the realities of women in their context and building financial services and products that address existing barriers, simultaneously creating opportunities for prosperity and economic growth for women. Evidence from India[6], for example, shows that women banking agents can have higher sign-up and cross-selling numbers, facilitate bigger transaction sizes, and build longer-lasting relationships with women customers, compared to male agents. Evaluating processes and products through a gender lens, setting industry targets, updating agent hiring and training processes, and analysing gender-disaggregated data on agents, can contribute to the growth of both financial inclusion for WMSMEs and women banking agent networks.

# 1

## Introduction: how digital financial services present growth opportunities for WMSMEs

Women entrepreneurs in South Asia do not access products provided through so-called 'brick-and-mortar' banks as frequently as men entrepreneurs due to a combination of constraints including product design, mobility and time constraints, and, in some cases, bias. Digital financial services can and do address many of these shortfalls, by providing effectively-priced financial products accessible from homes or places of business.[7] Studies have also shown that digital financial services increase consumption and occupational mobility, and can contribute to reducing poverty levels for low-income families.[8]

In many countries, access to digital services has helped women overcome gender-related barriers, such as restrictions on mobility and prohibition on interacting with men who are not relatives. In Pakistan, for example, where women's mobility is a major constraint, digital financial services can facilitate access to e-commerce platforms where electronic payments are required, as well as commerce through social media channels, such as Facebook and Instagram.[9] This means that digital financial services can, in some cases, open access to digital technology more generally. Overall, for WMSMEs, the use of digital and information and communication technology (ICT) technologies builds connections with suppliers and customers; enables business promotion through digital channels; and provides access to information and training.[10] WMSMEs are increasingly using digital technologies to promote their businesses on social media platforms and through WhatsApp. Digital know-how also makes it easier for them to access government e-services, information and business training.

*The use of digital and information and communication technology (ICT) technologies builds connections with suppliers and customers; enables business promotion through digital channels; and provides access to information and training.*

# 2

## Methodology

With these benefits and opportunities in mind, this paper outlines the financing needs of WMSMEs and how digital financial services could potentially address these. Focusing on four key markets, India, Pakistan, Bangladesh, and Nepal, this research paper consists of secondary research (in the form of a literature review) and primary research that includes interviews with key FSP stakeholders across the four countries; interviews with key stakeholders; a survey of a select set of 33 women-owned and led MSMEs (WMSMEs) in India, Pakistan, Bangladesh and Nepal[11]; and an ethnographic study of selected individual women entrepreneurs.

In conducting the interviews with women entrepreneurs, the research team adopted a gender-sensitive data collection approach. This included taking care to ensure women were interviewed in an environment where they felt comfortable, and reassuring them that their identity would be protected. Across Bangladesh, Nepal and Pakistan, survey participants were interviewed by a team of women, and in India, although the surveys were conducted by men and women, all team members were trained on the sensitivities of the context and gender-sensitive data collection practices.

MSMEs are defined using the IFC definition for microenterprises:
- firms with fewer than ten employees
- total assets lower than $100,000
- total sales lower than $100,000
- loan size at origination less than $10,000

Women-led and women-owned are defined by the 2X Challenge criteria:
- ≥ 51 per cent women-owned, or
- if ≥ 30 per cent women in senior management.

# 3

## Sizing the opportunity

### 3.1 The WMSME funding gap

Access to finance is frequently identified as a critical barrier to growth for WMSMEs. The public and private sectors can address this gap more effectively with appropriate data. This makes the specific sizing of MSMEs and WMSMEs critical. The SME Finance Forum estimates that 131 million (41 per cent) of the formal MSMEs in developing countries have unmet financing needs, estimated at $5 trillion. Women-owned businesses comprise 23 per cent of that MSME finance gap.[12] In South Asia, millions of enterprises are unable to access finance or have inadequate access to finance. Figure 1 illustrates the number of financially constrained MSMEs for each country relative to the overall MSME market. Table 1 quantifies the gap between the availability of finance for WMSMEs and the requirement estimated by the SME Finance Forum.

**131 million**

(41 per cent) of the formal MSMEs in developing countries have unmet financing needs.

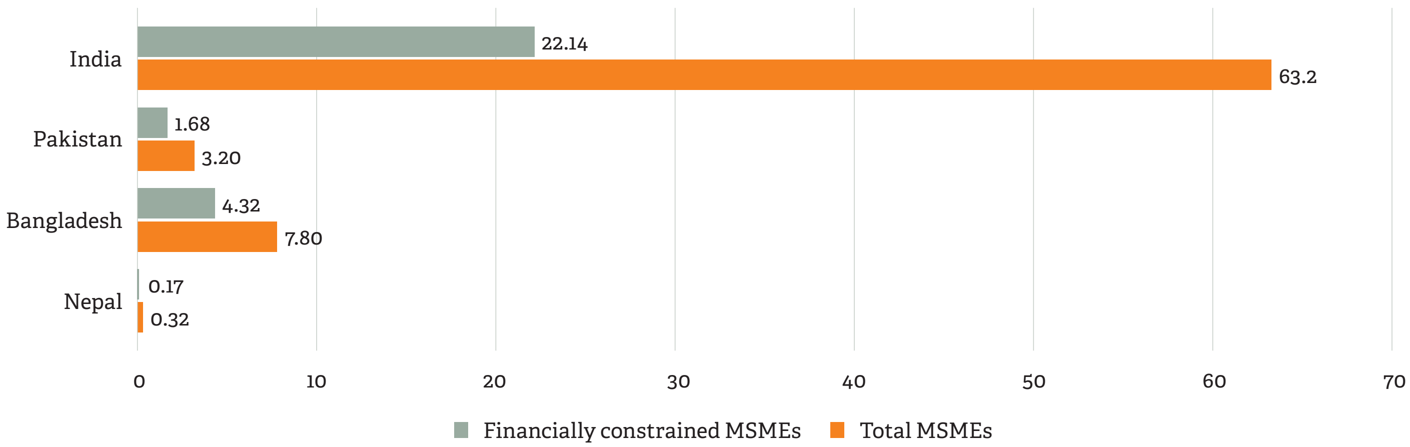



*Figure 1: Country-level Analysis of Total Number of Financially-Constrained MSMEs (millions, 2022),* *https://www.smefinanceforum.org/data-sites/msme-finance-gap*

Financially constrained MSMEs represent a possible market for FSPs – one which fintechs are already exploring thanks to the relatively quicker access to services (see case studies on Indifi and Kinara Capital in Boxes 2 and 3). Although WMSMEs are a small segment across the four markets researched, they represent an untapped customer segment that could be interesting to explore in South Asia, and digital financial services could act as a catalyst first mover. Several studies show that once women are familiar with a service, and are comfortable using it, they tend to be more loyal customers of financial institutions than men, yielding sustained commercial benefits.[13] Studies have also cited women as low defaulters and better savers.

*Once women are familiar with a service, and are comfortable using it, they tend to be more loyal customers.*

Furthermore, targeting this market could have a multiplier effect, where the more women engage with digital financial services and platforms, the more their data can influence credit decision-making, as well as product and service innovations by financial institutions[14], attracting even more women into the customer base. In support of this, for example, a survey conducted by the Financial Alliance for Women found positive relationships between women customers and usage rates, customer acquisition costs, and lifetime values, because they are more loyal, have better repayment rates, and refer more customers.[15]

| Countries | MSMEs | WMSMEs | MMSMEs | WMSMEs/Total MSMEs |
|---|---|---|---|---|
| **India** | 230,063 | 20,166 | 209,897 | 9% |
| **Pakistan** | 41,025 | 3,548 | 37,477 | 9% |
| **Bangladesh** | 38,973 | 2,504 | 36,469 | 6% |
| **Nepal** | 3,601 | 322 | 3,279 | 9% |

*Table 1: Financing Gap ($ in millions), Source: SME Finance Forum*

Across Asia, India has 63.2 million MSMEs; Bangladesh has 7.8 million; Pakistan has 3.2 million; and Nepal has 0.32 million.[16] This points to a vast number of MSMEs in South Asia, including WMSMEs, that represent a substantial financing opportunity.

## 3.2 Understanding the market: WMSMEs and their preferences

Survey findings show that, in most cases, women started their businesses to contribute to the family income, and some of the most successful businesses have grown to become the main source of income in the family. Particularly successful businesses surveyed showed husbands giving up their current (usually low-paid) jobs to join women founders and maximise the family's returns from the business.

### The sectors they work in

The WMSMEs covered in the primary research engaged in a variety of enterprises. Figure 2 provides a broad aggregation of these sectors (for those 33 WMSMEs analysed in this report's primary research). Most of the enterprises covered follow the conventional pattern of low-margin, home-based enterprises, enabling women to combine entrepreneurship with childcare and household activities. Women in South Asia do not typically engage in enterprises such as machinery manufacturing and car rental, which are usually male-dominated.


*Figure 2: Types of WMSMEs covered*

### Who are the founders of these businesses?

Table 2 captures the founding mechanisms across the 33 WMSMEs studied through the primary research conducted for this report in India, Bangladesh, Nepal, and Pakistan.

| How was the MSME founded? | Number of WMSMEs |
|---|---|
| Inherited from a family member | 7 |
| Started from scratch | 25 |
| Took over this business from another owner | 1 |
| **Total** | **33** |

*Table 2: How WMSMSEs are founded*

### What is the maturity of these businesses?

| Years | Number of WMSMEs |
|---|---|
| 1-5 | 10 |
| 6-10 | 16 |
| 11-16 | 4 |
| 16-20 | 2 |
| 21+ | 1 |
| **Total** | **33** |

*Table 3: WMSME maturity in years*

Table 3 shows the enterprises covered are mostly less than ten years old, reflecting the age of the entrepreneurs interviewed (30-45 years). FSPs usually take enterprises/entrepreneurs seriously after they have been operating reasonably successfully for at least three years. Even so, business maturity alone is insufficient to unlock financing, as reflected by those businesses that have been operating for more than six years and still lack access to finance. While the sample is small, it indicates more investigation is needed at the individual FSP level to determine what factors are and should be used to determine a WMSME's creditworthiness.

Figure 3 shows that 15 of the 33 enterprises employ six or more people, emphasising the importance of the MSME sector from an employment perspective. Just ten of the 33 are pure family businesses with no paid employees.

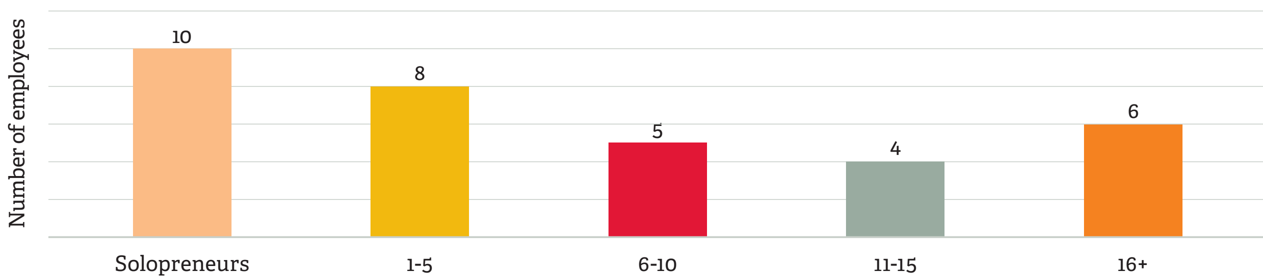



*Figure 3: Number of employees*

How are these businesses currently financed? Savings and conventional banks are the most common sources of finance for WMSMEs (Table 4) studied through the primary research. These enterprises start in a small way, with savings or family contributions, and are then financed by microfinance institutions (MFIs), that offer financial services to low-income populations. Almost all MFIs give loans to their members, and many offer insurance, deposits, and other services.

Enterprises are also often financed by conventional banks (including scheduled commercial banks, investment banks, internet banks, microfinance banks, and, in the context of this report, retail and commercial banks) through government-subsidised programmes intended for MSMEs. These institutions are for-profit, commercially focused, and supervised by a regulated government agency.

The qualitative research found that, in Bangladesh, MFIs provide a significant part of the finance for WMSMEs.

| Sources | Number* | %WMSMEs |
|---|---|---|
| Savings | 21 | 64% |
| Family | 4 | 12% |
| MFIs | 13 | 39% |
| Banks | 16 | 48% |

* Multiple responses (non-exclusive count)

*Table 4: Sources of additional financing for WSMSEs*

Furthermore, based on primary research, 23 of the 33 WMSMEs surveyed reported a need for additional financing (Table 5), driven by business expansion. The rest of the WMSMEs cited other factors, like greater liquidity for working capital. While this provides valuable insight, we acknowledge the sample size is relatively small and therefore there are limitations to this research.

| Purpose | Number* | %WMSMEs |
|---|---|---|
| Expansion | 23 | 70% |
| Regular operations | 6 | 18% |
| Paying off debt | 1 | 3% |
| No need | 6 | 18% |

* Multiple responses (non-exclusive count) – above and below

*Table 5: Sources of additional financing for WSMSEs*


*Figure 4: WMSME financing methods*

Figure 4 shows the methods of financing favoured by the WMSMEs interviewed. Savings would be the least costly source of capital but, for many low-income families, savings are hard to accumulate given the relatively limited income surplus. As savings are largely excluded from collateral by FSPs, particularly banks, their importance for women entrepreneurs is limited in terms of increasing access to formal finance. MFIs are better in this context, but MFIs in India are prohibited from taking deposits from clients (although not in the other three countries in this study). In addition, access to savings accounts with banks has its challenges, as shown by the data in Figure 5.

Women's mobility is a key constraint in accessing finance from the banking system, and women self-report that this is amplified by the gender bias of bank staff (as reported by some WMSMEs). Social and gender norms, as well as family constraints, also play an important role.

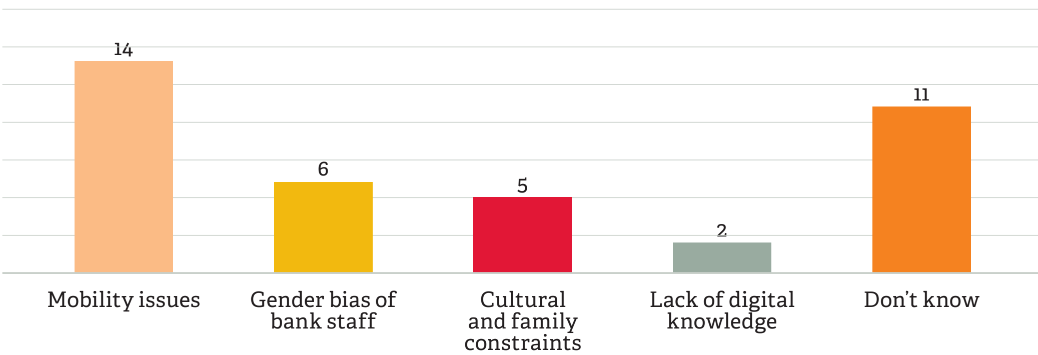



*Figure 5: Women's constraints to financial access*

## 3.3 Identifying the barriers: A challenging environment

Social and gender norms have a profound impact on women's ability to access and benefit from financial services, hindering their success as entrepreneurs. These norms often impose specific challenges and barriers that limit women's capacity to start, grow, and thrive in business.[17] Factors such as a woman's life stage, cultural beliefs, and geographic location can all contribute to the context-specific nature of these norms. They dictate access to education, define gendered roles in the economy, prescribe sectors of operation, and curtail control over resources and income.[18]

Across the four countries studied in this research, there were several common social and gender norms impacting WMSMEs. Unequal property and inheritance rights restrict women's access to loans due to collateral requirements. Limited asset ownership, particularly in land or buildings, accepted as collateral, poses significant obstacles for women entrepreneurs. India, despite legal reforms, still faces social and cultural constraints preventing women from utilising family assets for obtaining loans.[19] Gender norms also burden women with unpaid care responsibilities, leading to time constraints on business pursuits. In South Asia, women have traditionally performed substantially more unpaid care and domestic work than men, resulting in small and informal enterprises due to limited focus and availability. Financial decision-making has been predominantly reserved for men, even when women are involved in running their businesses, leading to restricted control over enterprises and income.

Mobility restrictions influenced by social and legal norms can also impede women's entrepreneurship opportunities. Many countries exhibit gender-based limitations on travel and freedom of movement, hindering network building and access to vital market information and financial services. For example, women in Pakistan often experience severe mobility constraints, which were exacerbated by the COVID-19 pandemic.[20] Furthermore, social norms and gatekeepers can impede women's ownership of mobile phones and digital literacy in South Asia. In Pakistan and Bangladesh[21], family disapproval can be a significant barrier to mobile phone ownership. Those women who do own mobile phones often share passwords with male gatekeepers, compromising privacy and control.

Lastly, gender norms typically dictate roles within households, with men as primary 'breadwinners' and women viewed as 'caregivers'.[22] This dynamic can restrict women's control over their businesses and income, causing them to downplay their economic contributions and conform to traditional gender roles to maintain the image of male family members as the primary breadwinners.

## 3.4 The disconnect: FSP perceptions of WMSMEs

FSPs are sometimes at risk of relying on outdated or misinformed assumptions that benefit neither the institution nor the consumer. Surveys and interviews with FSPs indicated some common assumptions which are likely to have influenced a historic lack of interest in targeting women entrepreneurs. These include:

- WMSMEs largely operate in the informal sector, making it difficult for them to be recognised by FSPs or to obtain loans from them.[23] This also means many of them work from household premises, resulting in an intermingling of household and business finances and responsibilities.
- The informal composition of most WMSMEs means they also tend to borrow from informal sources, thus lacking proper credit histories.[24] They are also less likely to have physical assets in their own names, limiting their ability to provide collateral for loans. Also, even when they have movable assets, the lack of appropriate financing products from FSPs limits their access to credit.

- Small loan requirements are relatively time-consuming and costly for FSPs to service. Thus, many do not believe it can be profitable to finance women entrepreneurs.[25]
- FSPs can assume women entrepreneurs have lower business and financial literacy, interpreted as a need for increased time to support the development of a proper business plan or the securement of appropriate documentation, which increases the cost and time needed for loan disbursement.[26]

FSPs interviewed reported that these perceptions and assumptions arise from a lack of knowledge and available research on women-owned businesses. These perceptions and assumptions are misinformed and ignore the vast potential within WMSMEs. FSPs should revise their approach for the following compelling reasons:

- WMSMEs often blend household and business finances, offering a unique opportunity for FSPs to provide tailored solutions.
- Specialised financial products can bridge the gap for WMSMEs, helping them establish credit histories and access credit.
- Focusing on WMSMEs can be profitable when approached correctly.
- FSPs can play a role in enhancing the business and financial literacy of women entrepreneurs, reducing the time and resources needed for loan processes.

FSPs also cited a lack of gender-disaggregated data at national and financial institution levels, making it difficult for policymakers and service providers to design products, track women-centric requirements, and measure outcomes. Rather than directly addressing FSP misperceptions of WMSMEs, this research seeks to better understand the external constraints faced by women entrepreneurs, thereby opening up the space for further research in this area. It also considers the extent and ways in which an increased emphasis on digital financial services can counter biases in credit provision. Finally, it identifies opportunities to expand lending to MSME women borrowers through differentiated digital financial services strategies.

*Perceptions and assumptions are misinformed and ignore the vast potential within WMSMEs.*

# 4

## The solution: digital financial services

FSPs have often overlooked the unique needs and circumstances of WMSMEs, meaning the opportunity to increase women's access to finance through the provision of gender-inclusive digital financial services that cater to the specific requirements of WMSMEs remains significant. Some examples of how digital financial services can do this include:

- Offering flexible loan products specifically designed for small businesses that require minimal documentation, reducing the burden of compliance and making it easier for women entrepreneurs to access credit. These platforms can also use alternative data sources, such as transaction histories and social media activity, to assess creditworthiness and build credit profiles for women who lack formal credit histories. This also addresses the challenge of lack of collateral that is especially acute for women.
- Addressing the issue of intermingling of household and business finances by providing separate but linked accounts for business and personal transactions. This would enable women entrepreneurs to keep their finances separate and track their business income and expenses more accurately.
- Facilitating access to financial management tools, such as budgeting and accounting software, that help women entrepreneurs better manage their finances, manage their cash flows, and plan for future growth.
- Offering bundled insurance products that can protect movable assets, such as livestock or machinery, so that women entrepreneurs can use these assets as collateral for loans.
- The adoption of hybrid delivery models that leverage digital technology and acknowledge the need for some human touch points, ensuring WMSMEs can build trust and gain familiarity and comfort with new technologies.

## 4.1 Understanding the current digital financial services landscape

Smartphone use was almost ubiquitous among survey respondents (only three of the 33 respondents covered by the survey have feature phones (Figure 6). Internet access is common, with 15 of the 24 WMSMEs with access saying they used it for business growth. WMSMEs use their phones for calling/texting customers, in addition to sending and receiving money. The modes of payment accepted by customers (Figure 7) show the importance of Internet access.

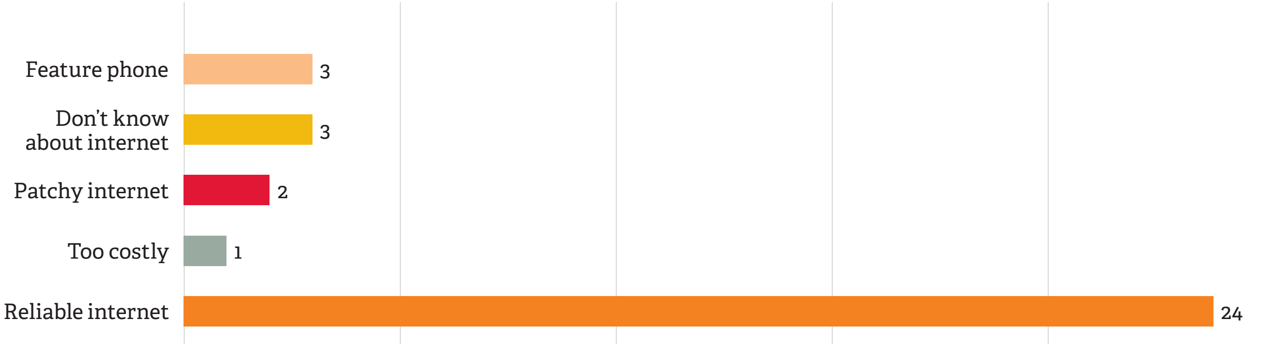



*Figure 6: Internet access of surveyed WMSMEs*

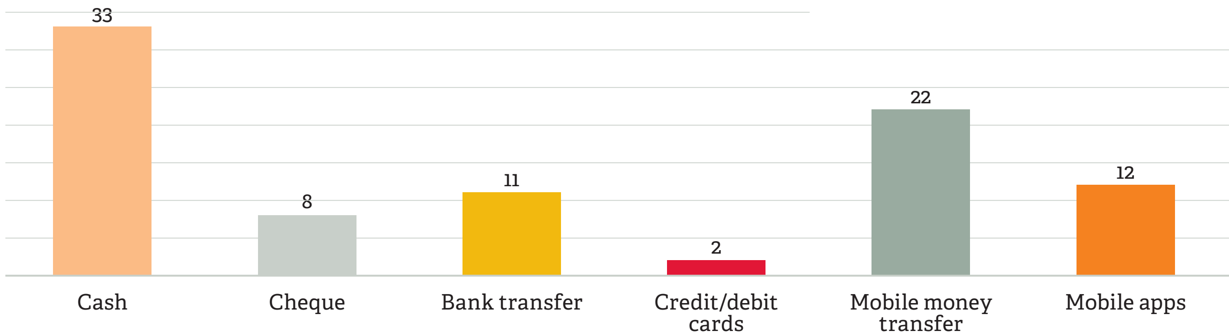



*Figure 7: Modes of payment accepted by WMSMEs*

All those with reliable internet access accept mobile money transfers. Table 6 shows the extent to which mobile money services and apps are used for transferring and receiving money from customers.

| Mobile money services (Payym, PhonePe, Googlepay) and mobile wallets | Number of WMSMEs |
|---|---|
| Have not used | 9 |
| Received only | 1 |
| Sent and received | 21 |
| Sent only | 2 |
| **Total** | **33** |

*Table 6: Uses of mobile money services by WMSMEs*

Survey findings match the general perception that India has become the fastest-growing mobile app development market in the world "thanks to the rapid increase in mobile app usage".[27] Nevertheless, some entrepreneurs are excluded, mainly due to their lack of digital knowledge. Money transfer services (Table 7) are better known and used in Nepal and Pakistan than in Bangladesh and India. This can be explained by the outreach of the banking system in India and of MFIs in Bangladesh, which are used more extensively compared to money transfer services.

| Western Union/Zest Money/Khalti | Number of WMSMEs |
|---|---|
| Don't know | 2 |
| Have not used | 21 |
| Sent and received | 8 |
| Received only | 2 |
| **Total** | **33** |

*Table 7: Money transfer services uptake*

## Box 1: Khalti: Digital wallet in Nepal

Khalti is a mobile wallet and payment gateway trusted by millions in Nepal. Launched in January 2017, it is an online payment solution that lets users make fast and secure payments for a range of services including basic utility bills, mobile recharge, direct-to-home television and internet service provider recharge, hotel bookings, movies and events. It also helps customers to pay school and college fees, insurance premiums, buy domestic flight tickets, and pay for services like ride-sharing, all with just a few taps. Khalti also offers payment solutions to merchants across Nepal, and has partnered with a digital cross-border payment company WorldRemit to offer international remittances from more than 50 countries directly to the Khalti app. It provides seamless payments using e-banking, smart banking, cards and a wallet. Alongside the mobile app is a network of more than 80,000 point-of-service machines and agents (Khalti Pasal) providing Khalti services to end users. It is very easy to register as a merchant on Khalti's platform. With a vision of inclusion for all in Nepal, Khalti is now focusing on other financial servies including lending and insurance.

Khalti is trying to empower women by improving women's entrepreneurial skills and reducing the digital gender gap. One of its initiatives is the SmartChhori 'in-app' programme that encourages girls to enhance their financial literacy through in-app training about digital wallets, bank account opening, money management, online security and other financial functions. Khalti uses training and quizzes that involve tasks like paying bills and looking for part time jobs as well as referring and onboarding other girls/women, their family members, or businesses on to Khalti's platform.

Digital payment services are now commonly used by WMSMEs in the region, but a significant proportion (about one-third) of likely users are still not comfortable with such services, indicated by their infrequent use (monthly), irregularity, or even lack of use (Table 8). The lack of comfort is driven by limited digital skills and trust, as reported by the interviewed women entrepreneurs.

| **Frequency** | **Number of WMSMEs** |
|---|---|
| Daily | 19 |
| Weekly | 3 |
| Monthly | 2 |
| Irregular | 2 |
| Don't use | 4 |
| Don't know | 3 |
| **Total** | **33** |

*Table 8: Frequency of use of digital payment services*

When women entrepreneurs sign up to digital platforms, over 50 per cent report being able to use these themselves (Table 9). Only three said they relied on their husbands, though a significant proportion, around 40 per cent, do not use digital platforms at all.

| **Who signs you into the digital platform?** | **Number of WMSMEs** |
|---|---|
| Myself | 17 |
| Spouse | 3 |
| Not using digital platforms | 13 |
| **Total** | **33** |

*Table 9: Use by WMSMEs of digital platforms*

Of the 33 WMSMEs interviewed, 27 had never been approached by women mobile money agents and only four reported any interactions with them. Findings from a World Bank study[28] suggest that ensuring sufficient representation of women agents could play a role in promoting the use of digital financial services. After accounting for relevant influencing factors, women customers are on average 7.5 percentage points more likely to transact with a women agent compared with a male agent. This effect is stable across markets, suggesting a consistent preference to transact with women agents. Second, women tend to transact larger values with women agents, and significantly reduce their amounts when transacting with agents of the other gender. Finally, when they have higher balances, women clients are more likely to go to women agents. Thus, digital financial services transaction behaviour also seems to be influenced by agent gender, and understanding gender-lensed usage patterns can contribute to advancing women's financial inclusion further.

# 5

## Country-level review

### 5.1 India

**Sizing the market**

MSMEs in India are crucial drivers of economic growth, contributing significantly to employment generation, innovation, and poverty reduction. With approximately 63.4 million MSMEs in India as of 2020, they form the backbone of the country's economy, accounting for over 90 per cent of all enterprises and employing about 40 per cent of the workforce.[29] Women-owned MSMEs account for just under 21 per cent of total MSMEs and by sector, MSMEs in trade accounted for 36.3 per cent of total MSMEs, followed by other services such as land transport and food services (32.6 per cent) and manufacturing (31.0 per cent). Rural MSMEs accounted for 51.3 per cent, with 48.7 per cent in urban areas.

**Identifying the barriers**

While MSMEs in India have witnessed substantial growth and development, they face numerous challenges, particularly in accessing finance. A significant number struggle to obtain formal financing, hindering their growth and expansion prospects. A report by India's Ministry of Micro, Small and Medium Enterprises suggests only around 17 per cent of MSMEs in India have access to formal finance channels, while the remainder rely on self-financing, family and friends, or informal sources.[30] According to the IFC, women entrepreneurs in India have expressed an annual finance demand of $29.16 billion.[31] Despite their significant contributions to the economy, women entrepreneurs face additional hurdles in obtaining financial support. Social and cultural norms, limited mobility, and lack of collateral pose barriers to women's access to finance. Moreover, women-led enterprises often operate in sectors with limited access to formal finance, such as handicrafts or other home-based enterprises, further exacerbating the challenge.[32]

Recognising the importance of addressing these issues, the Government of India has undertaken various initiatives to enhance access to finance for MSMEs, including those owned by women. The Reserve Bank of India (RBI) has mandated public sector banks to allocate 5 per cent of their adjusted net bank credit (ANBC) to women borrowers, leading to an increase in credit to this group, including WMSMEs. Most banks have met the target and some, such as the State Bank of Travancore, Indian Bank, Indian Overseas Bank, and Canara Bank, have even exceeded it, lending 10 per cent of their ANBC to women (RBI, 2015).

Banks are also realising the need to create women-centric governance structures and processes, incubating projects in partnership with international and national support agencies that have knowledge and experience working with the WMSME segment. For example, the Bank of Baroda (BoB), in partnership with Women's World Banking (WWB), is working on leveraging technology to better serve women retail clients and WMSMEs to improve access to and use of credit. BoB is also partnering with the RBI's Innovation Hub (RBIH), a wholly-owned subsidiary of the RBI, to promote the financial inclusion of women in India. Additionally, BoB launched Swanari, a gender finance programme that seeks to combine technology with a greater focus on women to help close the gender gap. Canara Bank, another public sector bank, promotes financial flows to WMSMEs by publishing success stories of the impact of loans to women entrepreneurs on business growth, widely disseminating this information in local print and online media.[33] At this point, several public sector banks are leveraging technology to better serve WMSMEs. However, these efforts have not yet been scaled to meet the unserved demand from WMSMEs.

**Digital financial services as the solution**

The digital financial services landscape for MSMEs in India has experienced rapid growth and widespread adoption, empowering businesses to manage their finances effectively and expand their customer base. As of March 2021, there were 1.2 billion mobile subscribers across India, comprising 663 million urban and 537 million rural users. This high mobile connectivity, along with declining tariffs, has enabled fintech firms to expand. Several alternative lending models have evolved in recent years, helping MSMEs access finance. As of March 2020, India had 4,680 fintech companies regulated by the RBI.

The RBI employs a thematic approach, using a regulatory sandbox initiative to pursue specific policy goals. The first cohort focuses on retail payments, while the second focuses on cross-border payments. The third cohort is dedicated to MSME lending. The objective is to identify innovative solutions that utilise technology and reliable data to facilitate faster and more cost-effective access to credit for MSMEs from the formal financial system. Additionally, the Indian government has introduced an alternative fintech lending platform, enabling MSMEs to obtain loans ranging from INR 100,000 to INR 50 million with 'in-principle' approvals granted within 59 minutes. SIDBI has partnered with the State Bank of India, BoB, Punjab National Bank, Vijaya Bank, and Indian Bank to establish this facility.[34]

Fintechs in India have started using digital technologies to better engage with WMSMEs. Some examples of how technology companies changed their business models to better serve WMSMEs include using algorithms for credit scoring to reduce gender bias. This was the case with Veritas, a non-banking financial company which uses an innovative methodology to evaluate consumer creditworthiness, even in the absence of conventional income documents.

*Some examples of how technology companies changed their business models to better serve WMSMEs include using algorithms for credit scoring to reduce gender bias.*

Another example of a fintech leveraging technology and alternative data sources to offer services effectively and profitably to underserved segments such as WMSME is Indifi (see Box 2 below).

### Box 2: Indifi: A digital platform to finance MSMEs in India

Indifi is a fintech start-up that offers loans to SMEs and also operates an online lending marketplace. It provides unsecured loans to MSMEs in India and delivers its loans through a differentiated, technology-enabled platform (vertical focus on sectors transformed by digitisation, distribution through digital ecosystems/partnerships, underwriting based on advanced analytics and alternative data from platform partners).

Indifi is funded by BII, Elevar Equity, Omidiyar Network, FinnFund and Flourish Ventures, among others. It works with large aggregators like Amazon, Flipkart, Zomato, Swiggly, Google Pay, First Data and banks as lending partners.

Through a robust technology and data platform, Indifi understands the customer segment and then tailors its product offering based on customer cash flow cycles, need for funds, and margins. It leverages alternative data and uses it to build algorithms to make customer-centric credit decisions besides referring to credit bureau scoring. Indifi's platform maintains 30 per cent first-time unsecured borrowers with little or no credit history particularly WMSMEs, thereby helping to mitigate underwriting challenges for WMSMEs. Indifi extends a 0.2 per cent reduction in the rate of interest to women-owned businesses. According to findings from its own customer base, 30 per cent of its loans are provided to WMSMEs, especially those involved in the e-commerce, travel and restaurant sectors. (Source: Raising capital the biggest challenge for women-led MSMEs in India: Indifi).

The experience of Kinara Capital, highlighted in Box 3, illustrates how gender-inclusive design and practice changes can improve access to finance for WMSMEs while also positively impacting the FSP's bottom line.

### Box 3: Kinara Capital: MSME fintech start-up in India

Kinara Capital is a fast-growing MSME fintech advancing the financial inclusion of small business entrepreneurs in India. It is particularly advancing women's entrepreneurship with its HerVikas women's business loan programme. HerVikas offers WMSMEs access to collateral-free business credit with an automatic discount, thereby driving the financial inclusion of an underserved segment.

The HerVikas programme is bringing a systemic shift in the MSME sector by providing the following solutions to the core challenges faced by women entrepreneurs in India:

1. Fast access to collateral-free business credit disbursed within 24 hours
2. Removing human bias from loan decisions with its myKinara app that uses advanced artificial intelligence (AI) and machine learning (ML)-based data-driven credit decisions
3. Avoiding gendered questioning of women entrepreneurs, such as insisting on a male relative's involvement with business and loan process

To date, Kinara has disbursed more than 4,305 business loans to women entrepreneurs; the social impact of HerVikas has lead to over INR 125+ crores (nearly $15 million) in incremental income generation for WMSMEs and to 32,680+ jobs supported in local economies in India. Kinara has pledged INR 700 crores (nearly $85 million) towards its HerVikas programme to drive financial inclusion of women entrepreneurs.

Note: Exchange rates used across the report as of January 2022, when the research was conducted

According to a PwC report, the Indian digital credit market is expected to experience a 36 per cent compound annual growth rate (CAGR) – from $75 billion to $350 billion – by 2023.[35] Since these institutions are backed by social impact investors, multilateral venture funds and private equity funds, they are able to provide guidance, and technical assistance, and ensure business models are inclusive.

Despite the promising growth in the Indian digital financial services landscape, several challenges persist, alongside notable opportunities, for MSMEs in India. Limited digital literacy and awareness among MSMEs, particularly WMSMEs, remain significant barriers to adoption. Inadequate digital infrastructure, particularly in rural areas, hampers seamless access and use of digital financial services. Moreover, the rapid digitisation of financial services poses cybersecurity risks, demanding robust measures to protect MSMEs from fraud and data breaches.

The following case studies have been edited to remove any identifiable information.

*The rollout of fintech services has a long way to go if women are to benefit from them. Predominantly male agents are patronising towards women and do not patiently explain and guide women who might use their apps.*

## Case study A: India: A woman entrepreneur with limited access

*"The rollout of fintech services has a long way to go if women are to benefit from them. Predominantly male agents are patronising towards women and do not patiently explain and guide women who might use their apps."*

**Background of the woman entrepreneur**

The interviewee we spoke to, a widow living in the northern part of Telangana state (south India), has a good level of education, including a master's degree from a local university. Her husband worked at a government-owned coal mining corporation but passed away in 2007. After his death, the interviewee took sewing and embroidery classes sponsored by his employers and became a vocational instructor in 2009.

**The enterprise**

The management of her husband's company recognised her skills and diligence and was happy to agree to her request to fund a cotton and jute bag-making enterprise through its corporate social responsibility (CSR) programme in 2013. The company built a workshed (worth INR 500,000/$7,000) for her near the main market of her town, and her father provided INR 200,000/$3,000 in start-up working capital. Later, the company helped the interviewee register under a state government support programme for women entrepreneurs, enabling her to get a state government grant (INR 200,000/$3,000) for raw material, coupled with a loan (also INR 200,000/$3,000) from the local branch of Andhra Bank (a government-owned commercial bank) to purchase sewing machines.

The interviewee currently employs ten women in her bag-making unit. However, before COVID-19, this figure was as high as 19 women employees. Post-pandemic, she is building up her business again. She manages the business on her own, but her father provides worker supervision when she must be away from the unit for any reason. She sells mainly to wholesale customers, and shop owners in the town, with some sales also to retail buyers.

**Digital engagement and constraints in using digital financial services**

The interviewee had a smartphone before COVID which was only used for calling and texting in relation to her business (as well as for personal interaction). With COVID, the interviewee had to quickly learn to use her smartphone to undertake basic transactions. She did this by trial and error and with the support of her neighbours, and now accepts payment from customers either in cash or by mobile money transfer (via her smartphone) to her mobile wallet, from where the money automatically transfers to her bank account if it exceeds the (INR 25,000/$350) limit of her wallet account. Payments to raw material suppliers are also made by mobile transfer. The interviewee still feels she is not using its functions as well as she could, and would like additional support to understand its business applications for outreach to both customers and suppliers.

While the interviewee has an internet connection on her phone to enable money transfers, she is sometimes frustrated by the patchy internet connection available from the local mobile service provider. The problem is that her town is relatively remote, far from the state capital, so customers there receive less attention from phone companies than those in Hyderabad or those based in towns closer to the capital.

While the interviewee is aware of fintech services, she lacks the confidence to use them, since she does not understand all the functions of the apps she has tried. She feels that the male agents of the mobile money transfer companies (and of fintechs) do not pay attention to the needs of women users on the assumption that women will not understand their instructions as easily as men. She also feels they go through instructions too quickly (reflecting their own familiarity with the mobile money app) without properly explaining to those less familiar with its functions. The interviewee believes more patient guidance is needed for potential users to understand the agents' instructions and to enable women (and men) to gain confidence in understanding and applying the commercial functions of the app for the benefit of their enterprises.

## 5.2 Pakistan

**Sizing the market**

SMEs play a significant role in Pakistan's economy, with over 5 million SMEs as of July 2023. They contribute 40 per cent to national gross domestic product (GDP), with a 25 per cent share in overall exports. Furthermore, SMEs provide employment to the highest percentage of the working population, contributing to 78 per cent of non-agriculture sector employment.[36] Women-owned MSMEs remain a minority, at 22 per cent (1.1 million). MSMEs employ around 80 per cent of the non-agricultural workforce in Pakistan and have played a significant role in the development of the Pakistani economy, contributing to the growth of the manufacturing and services sectors, a key factor in reducing poverty in Pakistan as it has created job opportunities and improved livelihoods opportunities for many.

**Identifying the barriers**

Nevertheless, MSMEs in Pakistan face numerous challenges, including limited access to finance. According to a report by the State Bank of Pakistan (SBP) only 5.7 per cent of MSMEs in Pakistan have access to formal finance.[37] The report also highlights that 50 per cent of MSMEs rely on self-financing or family and friends for their funding needs, while 23 per cent rely on trade credit. Only 8 per cent of MSMEs have a bank loan or line of credit. The challenge of accessing finance is even more acute for WMSMEs. According to the Global Findex Database of 2017, only 7 per cent of women in Pakistan have a bank account, compared to 20 per cent of men.

Several factors contribute to the limited access to finance for WMSMEs in Pakistan. Women face higher barriers to accessing finance due to factors such as social and cultural norms, limited mobility, insufficient credit histories, and a lack of collateral. Moreover, women entrepreneurs in Pakistan are more likely to operate in low-income sectors such as agriculture and handicrafts, with limited access to formal finance.[38] Banks and other financial institutions prefer to lend to larger, established businesses with a proven track record, leaving smaller enterprises struggling to access financing.[39]

The SBP and the World Bank have set several initiatives to enhance women's access to finance for entrepreneurship. The National Financial Inclusion Strategy (NFIS), for example, set a target to ensure that at least 25 per cent of adult women have a bank account by 2020. This target, however, was not met.[40] On another hand, some positive progress can be found in the new banking on equality policy, which mandates providers to service women, and has the potential to be a powerful incentive. The SBP also launched the Women Entrepreneurship Program, offering financial and technical support, while implementing policy reforms for gender equality. It introduced financing schemes such as the Refinance and Credit Guarantee Scheme for Women Entrepreneurs, which offers refinancing to banks and DFIs at 0 per cent interest for on-lending women entrepreneurs at a subsidised interest rate of 5 per cent.[41] The World Bank supports projects in Pakistan through the Women Entrepreneurs Finance Initiative (We-Fi) and provides access to finance, policy advice, and capacity building. These collaborative efforts aim to address barriers, provide subsidised credit, and foster an enabling environment for women entrepreneurs.

### Digital financial services as the solution

Digital financial services have emerged as a game-changer for MSMEs in Pakistan, providing them with access to formal financial tools, promoting financial inclusion, and driving economic growth. Pakistan has witnessed a rapid expansion of digital payment solutions, facilitated by the widespread adoption of mobile phones. Digital payments have been growing since 2016, and have rapidly accelerated since the start of the COVID-19 pandemic. According to the SBP, mobile banking grew 88 per cent year-on-year while internet banking users expanded 31 per cent during 2020, with the number of transactions growing 72 per cent.[42]

The Pakistani government has implemented several initiatives aimed at supporting women entrepreneurs and promoting their participation in digital financial services. The NFIS emphasises gender equality and inclusion, with a target of achieving 65 per cent financial inclusion by 2023, including a substantial focus on WMSMEs. Further, the Ehsaas Emergency Cash Programme used digital payment platforms to provide financial assistance to vulnerable WMSMEs during COVID-19, showcasing the Pakistani government's commitment to supporting women entrepreneurs. Raast, launched in 2020 by the SBP, is an instant digital payment system to be used for the disbursement of government salaries, pensions, and Ehsaas stipends. In its next phase, the system will expand to let individual entrepreneurs and small businesses conduct peer-to-peer (P2P) transactions using a reliable, digital, and approved channel. Thus, individual and business payments can be secured without formal bank accounts. The RBI also launched Roshan Digital Accounts in 2020 through commercial banks, allowing overseas Pakistanis to digitally open bank accounts. Using fintech, it enables financial inclusion for overseas residents and workers to transfer funds, remittances, make payments, or invest.

#### Box 4: Jazzcash: Mobile wallet in Pakistan

JazzCash, formerly known as MobiCash, is a Pakistani mobile wallet, mobile payment, and branchless banking service provider. It was launched in 2012 by Mobilink (now Jazz) in partnership with its subsidiary Mobilink Microfinance Bank. It has a market share of 64 per cent of mobile money activities in Pakistan and provides women-friendly products, such as community, savings, maternity, telehealth, insurance, women-orientated communication, and a user-friendly app to provide financial literacy. Through the app, customers can also pay utility bills, make school payments, and carry out other financial commitments, ensuring women can use the saved time to support their business or pursue their personal goals. Jazz also has a partnership with GSMA's Connected Women Commitment Initiative, which aims to increase the proportion of women in mobile money customer base and enable WMSMEs to make payments.

The growth in e-commerce has fuelled an increase in online payments and payment service providers such as NIFT, ePay, and PayFast, which aggregate payment options for merchants. Some providers, like bSecure, are developing universal checkouts. In the lending sector, companies like Finja, Tez Financial, and Creditfix have Non-Bank Financial Institution (NBFI) licenses. NBFIs are for-profit financial institutions without a full banking license that cannot accept deposits but can provide services that are not necessarily suitable to banks, which offer working capital financing to MSMEs, along with consumer lending products. To facilitate access to finance for start-ups and MSMEs, in 2020 the SECP approved an Equity Crowd Funding Platform as a regulatory sandbox. Additionally, a draft Equity Investment Policy was approved in 2021 to further bolster innovation and start-ups. This rise of e-commerce platforms has also opened up new avenues for WMSMEs in Pakistan. Online marketplaces, including Daraz and Alibaba's AliExpress, have enabled women entrepreneurs to overcome traditional barriers and reach a broader customer base, leading to business expansion and economic empowerment. Additionally, digital lending platforms, such as FINCA and the Kamyab Jawan Loan Scheme, have made it easier for WMSMEs to access credit and capital, fostering their entrepreneurial ambition.

Despite the progress made, several challenges persist in the digital financial services landscape for MSMEs, and in particular WMSMEs, in Pakistan. Limited digital literacy among women, especially in rural areas, remains a significant obstacle to adoption. Addressing this issue requires targeted efforts to provide digital training and awareness programmes tailored to women entrepreneurs. Additionally, ensuring the security and privacy of women's financial information and transactions is crucial to building trust in digital platforms.

*Women need business management training to improve their efficiency and incomes; in addition, a countrywide digital training campaign is needed to enable women to benefit from digital financial services.*

## Case study B: Pakistan: Good digital facilities and a helpful FSP contribute to enterprise success

*"Women need business management training to improve their efficiency and incomes; in addition, a countrywide digital training campaign is needed to enable women to benefit from digital financial services."*

**Background of the woman entrepreneur**

The interviewee is a 32-year-old married woman who operates three businesses – a beauty salon (running since 2015), a hostel for girls (running since 2015), and a boutique (running since 2022) – in Lahore, Pakistan. She is highly educated, having completed her master's degree in Commerce.

**The enterprise**

The interviewee started all three businesses on her own. While she was studying for her degree, she decided to open a beauty salon, as her classes only took place at the weekends. She rented two floors in the building where she lives, one each for the beauty salon and girls' hostel. Her clients are mostly women students from the adjoining areas and she employs 17 women.

She took financial support from her family to start her business but is now financially independent. Six months ago, she took her first-ever loan of PKR 50,000/$250 to finance her running costs. Her husband helped with the documentation process, but overall, the process of obtaining her loan, with a one-year tenure and an interest rate of 18 per cent, was mostly seamless. The interviewee got to know about her FSP lender, Kashf Foundation, from one of her clients, who happened to be an employee of the Foundation.

The interviewee has insurance for her beauty salon and understands the importance of business protection, as well as savings and credit, for any business. She is internet-savvy and uses social media platforms Facebook and Instagram to promote her business and sell her products and services.

**Engagement and constraints in dealing with FSPs and using digital financial services**

The interviewee has used available digital financial services frequently since the inception of her salon business. She has been using EasyPaisa for loan transactions and JazzCash for customer transactions, as most of her customers use it. As she started her business while she was still a student, she wants the government, universities, and private institutions to create awareness about business management among WMSMEs. For FSPs such as Kashf, she wants them to a) promote their business/services through channels like social media so that women become more aware of the benefit of their services, and b) provide business partnership training to their clients.

The interviewee feels that the use of digital financial services is increasing among Pakistani women, albeit at a slow pace. According to her, the use of digital financial services is very low in rural areas of Pakistan, and she attributes this to the lack of awareness among rural women. She feels the government should introduce programmes of digital training for women in Pakistan so they are able to make more productive use of this technology in future.

## 5.3 Bangladesh

### Sizing the market

As with India and Pakistan, MSMEs are vital to the Bangladeshi economy, contributing over 25 per cent of GDP and employing more than 20 million people.[43] According to a 2019 survey conducted by the Bangladesh Bureau of Statistics, there are around 7.8 million MSMEs in the country, with micro-enterprises accounting for 87 per cent of the total.[44] Gender differences exist in MSME ownership, women own only 7.2 per cent of the total, with most of them being informal.[45] The MSME sector in Bangladesh is dominated by the service sector, which accounts for around 60 per cent of all MSMEs, followed by the manufacturing sector at around 30 per cent. The remaining 10 per cent are engaged in the agriculture sector. Women's entrepreneurship is concentrated in textiles, food and agribusiness, and the handicraft sectors.[46]

### Identifying the barriers

Access to finance remains a significant challenge for MSMEs in Bangladesh, with only a small percentage having access to formal financial services. According to a 2018 IFC survey, only 15 per cent of MSMEs in Bangladesh have a formal bank account, and less than 1 per cent have access to formal credit.[47] To address this issue, the government and central bank have implemented various measures, including setting up a credit guarantee scheme, offering subsidised loans, and introducing mobile banking services. However, the financing gap for unserved MSMEs in Bangladesh is 2.8 billion, with 60 per cent of the WMSMEs having unmet financing needs.[48] MFIs have played a pivotal role in broadening and deepening financial access for the poor, especially for women entrepreneurs operating as informal micro-enterprises. Currently, several top-performing MFIs have the potential to grow and specialise as micro and small enterprise lenders and become specialists under the guidance of the supervisory agency Microcredit Regulatory Authority (MRA).

Bangladesh Bank has made regulatory provisions, policies, and programmes to enhance access to finance for women entrepreneurs. At least 15 per cent of its total refinance fund for SMEs (including MSMEs) is earmarked for women entrepreneurs. Banks and financial institutions are required to advertise all of their facilities for women entrepreneurs in both electronic and print media, and to establish 'Women Entrepreneur Dedicated Desks' with suitable personnel, such as appointing a woman officer as chief of the dedicated desk. Banks are also required to set up a Women Entrepreneur Development Unit (WEDU) at all their regional and head offices to strengthen monitoring activities of women entrepreneurs' development. Most non-banking financial companies have succeeded in fulfilling the 15 per cent target set for lending to women.[49]

**Digital financial services as the solution**

Traditional financial institutions have historically struggled to provide affordable and accessible financial services to MSMEs in Bangladesh, particularly those in rural areas. Digital financial services can help bridge this gap by providing MSMEs with low-cost, accessible financial services that can be accessed through mobile phones and other digital channels. In recent years, the adoption of digital financial services has grown rapidly in Bangladesh. According to the Bangladesh Bank, the central bank of the country, the number of mobile financial services users in Bangladesh has grown from 22.4 million in 2015 to 108.4 million in 2021, with a total transaction volume of BDT 2.4 trillion/$28.4 billion in 2020.[50] This growth has been driven by factors such as the increasing availability of smartphones, the expansion of agent networks, and the rollout of government-led initiatives such as the Digital Bangladesh Vision 2021 and the National Strategy for Financial Inclusion 2019-2024.

However, while digital financial services have the potential to benefit MSMEs, there are still several challenges that need to be addressed to ensure these services are accessible and useful for this segment of the population. For example, MSMEs may lack the awareness or knowledge to effectively use digital financial services or may face challenges in accessing physical or digital channels for these services. There may also be challenges related to trust and security, particularly in rural areas, where there may be concerns about the safety and reliability of digital financial transactions. Women entrepreneurs in Bangladesh face a gender gap when accessing digital financial services. According to the Global Findex Database 2017, only 36 per cent of women in Bangladesh have a formal bank account, compared to 65 per cent of men. This disparity highlights the need for targeted efforts to ensure women have equal access to these services. Furthermore, women entrepreneurs may have lower levels of financial literacy, which can hinder their ability to leverage digital financial tools effectively.

The government of Bangladesh has recognised the importance of women's economic empowerment and has implemented policies and programmes to promote financial inclusion. For instance, the National Strategy for Financial Inclusion 2019-2024 aims to address gender disparities in financial services and enhance women's access to formal financial tools, including digital financial services.[51] Moreover, digital financial services providers and fintech companies have recognised the potential market among WMSMEs and are developing targeted solutions. For example, bKash, a leading mobile financial service provider established by BRAC, is a typical example of how a large MFI is contributing to the development of the digital financial services ecosystem in Bangladesh. As an innovator/'first mover' in this field in Bangladesh, bKash has emerged as the largest digital money transfer service in the country.

Despite the dynamism and wide coverage of MFIs in Bangladesh, many haven't been able to capitalise on digital financial services opportunities due to operational, managerial, and regulatory constraints. Operational challenges include increased costs and the need for information technology IT infrastructure; management challenges involve redefining credit officers' tasks; client-level challenges include accountability and low-tech literacy; and regulatory challenges include cash-out limits. Removing cash-out limits could enable MFIs to disburse and collect loans digitally, reducing costs and increasing efficiency.[52]

*Access to finance for women is greatly hampered by gender bias. FSP processes that need male co-signatories for borrowing are discriminatory.*

## Case study C: Bangladesh: A woman entrepreneur using digital services

*"Access to finance for women is greatly hampered by gender bias. FSP processes that need male co-signatories for borrowing are discriminatory."*

The interviewee was a married 35-year-old woman entrepreneur in Dhaka, with a master's degree and her own clothing business, which she started 12 years ago when she was still a student. She manages this on her own, and she also speaks and liaises with clients. The interviewee has multiple business accounts with banks and MFIs, but her most recent loan was from an MFI for business expansion, which she obtained at an interest rate of 24 per cent.

Her business products are sold from a shop at a major marketplace in Dhaka. She also sells her products online through various e-commerce and social media sites such as Facebook and YouTube. In addition, she has agents spread all over Bangladesh who sell her products. She employs a total of 30 people; half work in the shop and half in the factory. The payments for her retail business are mostly made in cash, whereas wholesale dealings are conducted using cash, cheque and mobile payment apps such as bKash

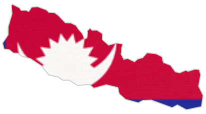
**Engagement and constraints in dealing with FSPs and using digital financial services**

The interviewee is well-versed in the use of digital technologies for making online business transactions. She runs the Facebook page and YouTube channel of her enterprise without any external help. She believes using digital means has helped her run her business more efficiently, also saving her time. Her curiosity led her to start exploring the features of smartphones when they first arrived in Bangladesh and became adept at using digital technologies. She did not report any concern or challenge on the use of the internet. Her family members are closely involved in the business and use digital services to support it.

The biggest challenge the interviewee has faced in running her business has been access to finance. She reported it is much more difficult for women entrepreneurs to receive loans due to cultural prejudices, as well as existing regulations creating barriers. For instance, she reported that women are required to have a male family member's consent to apply for and receive a loan – a huge challenge for both married and unmarried women. The interviewee recalled when one of her unmarried acquaintances could not get a loan because her father had passed away and she had no other male family member to turn to. Alternatively, married women in an unhappy relationship with their husbands face similar issues, as their partners can refuse to sign their loan applications.

The interviewee also brought up the need for microinsurance, more specifically, fire insurance, for her clothing factory, as there have been numerous instances of fire in this predominantly garment-exporting country. She stressed that no bank or MFI had approached her for insurance, and most FSPs do not offer microinsurance.

Another challenge the interviewee reported is the politically volatile nature of Bangladesh. She reports that, sometimes, business competitors leverage the muscle power of local political leaders to take away their employees. Further, these local political operators engage in rent-seeking activities, demanding 'protection money'. For instance, during the birth anniversary of Sheikh Mujibur Rahman, Bangladesh's founder, local businesses must pay amounts of the order of BDT 2,000/$100 to local party leaders. This is a manageable amount for her but a burden for smaller enterprises, and it adds to the challenges faced by MSMEs. Women have a difficult time coping with such challenges, which occur on multiple occasions each year.



# 5.4 Nepal

### Sizing the market

MSMEs are the key pillar of the Nepalese economy, contributing 22 per cent of GDP and employing 2.8 million people, with WMSMEs accounting for around 20 per cent of all MSMEs in the country. Between the full year 2010 and the full year 2019, micro and small enterprises increased 2.5 times to 390,493 firms. However, the growth rate of MSMEs has been uneven across sectors. The share of manufacturing MSMEs has steadily declined, whereas the number of MSMEs operating in the tourism and agriculture, forestry, and fisheries industries increased.[53] In addition, retail accounts for approximately 11 per cent of formally registered MSMEs, according to the Nepal Labour Force Survey conducted by the Central Bureau of Statistics in 2018. It is worth noting almost half of the existing MSMEs in Nepal are unregistered.[54]

### Identifying the barriers

Access to bank credit is fairly limited for MSMEs, with only 16 per cent obtaining funds from banks and financial institutions. According to the World Bank's 2021 Global Findex Database, only 26 per cent of adults in Nepal have an account with a financial institution, while just 10 per cent of adults use a digital payment method. The picture is even worse for women, with only 20 per cent of women having an account compared to 33 per cent of men. The adoption of financial services by WMSMEs, including digital financial services, remains low in Nepal due to several barriers. For example, the lack of gender-disaggregated data is a major constraint in identifying gender-related issues and recognising women's needs, limiting the flow of affordable financial services – especially credit – for women-led small and medium businesses. These businesses tend to be smaller in size and have limited resources, making it difficult to access the technology and infrastructure needed for digital financial services adoption.[55] Moreover, women entrepreneurs in Nepal often lack the necessary skills and knowledge to effectively use digital financial services and take advantage of the benefits they offer.[56]

To enhance access to finance for MSMEs, the Nepalese government and central bank have implemented various measures, including soft loan programmes, mandatory lending schemes (whereby 5 per cent of loan portfolios are reserved for target groups such as MSMEs), refinancing facilities, and consulting services. Other significant players in reducing the MSME financing gap include a credit guarantee corporation (DCGF), credit information bureau, and secured transaction registry. Despite these efforts, however, many MSMEs still struggle to leverage the formal financial system.[57] The SME Finance Forum has estimated the financing gap for unserved MSMEs sits at $3.6 billion.[58]

### Digital financial services as the solution

Digital financial services have the potential to enhance the growth and profitability of MSMEs in Nepal by improving access to financial services and reducing transaction costs. Despite this potential, the adoption of digital financial services by MSMEs in Nepal is still in its early stages. An IFC study found 6 per cent of adults in Nepal have mobile money accounts and the use of digital financial services is mostly limited to making payments to financial institutions.[59] The report also identified several barriers to the adoption of digital financial services, including a lack of awareness, trust, and understanding, as well as limited access to the necessary technology and infrastructure.

The Nepalese government has recognised the importance of digital financial services and has taken steps to promote financial inclusion through the implementation of policies and initiatives such as the National Payment Gateway and the Nepal Rastra Bank's directive to banks and financial institutions to increase access to financial services, including digital financial services, for underserved populations and MSMEs. One promising initiative is the Nepal Electronic Payment System (NEPS), launched in 2020, which enables interoperability between different payment service providers, making it easier for MSMEs to accept digital payments. NEPS also allows for real-time settlement and is designed to be scalable and adaptable to future developments in digital finance.

The private sector is also contributing to the growth of digital financial services in Nepal. Mobile network operators such as Ncell and NTC have launched mobile money services that let customers transfer money, pay bills, and make purchases using their mobile phones. Similarly, fintech companies such as Khalti, eSewa, and IME Pay have emerged, offering a range of digital financial services to customers.

One promising new offering is a Mega Bank loan programme, giving WMSME customers access to short-term loans up to NPR 200,000/$1,705. However, men have been found taking advantage of the concessional loan schemes provided to women. Many businesses are registered in the name of women specifically to secure government subsidies given to them – though this is a common issue across the region for WMSME lending.[60] Nabil Bank, also a commercial bank, offers another example of an innovative approach, having formed an agreement with the Federation of Women Entrepreneurs' Association of Nepal (FWEAN), a non-profit organisation, to provide lower interest rate loans and MSME loans for its members. As consumers demand convenience, and the need for digital banking has increased, many commercial banks in Nepal have started offering 'FoneLoans'. These are small, short-term, pre-approved loans to individual customers processed instantly through the bank's mobile banking platforms. Different banks have different thresholds for the credit disbursed through this mechanism. For example, Nabil Bank, through its Nabil FoneLoan services, provides virtual credit card loans using the bank's mobile banking platform for loan amounts up to NPR 100,000/$852.[61]

COVID-19 highlighted the importance of digital financial services for MSMEs in Nepal. The pandemic resulted in a significant increase in their use, as businesses and consumers were forced to adopt contactless payment methods. However, the pandemic also highlighted the need for further investment in digital infrastructure to ensure MSMEs have access to reliable and affordable digital financial services.

> *Women feel increasingly empowered in Nepal, but FSP processes are major obstacles to the flow of credit. The government should support us by enabling us to borrow and also by providing digital training to women.*

## Case study D: Nepal: A woman entrepreneur impeded by FSP restrictions

*"Women feel increasingly empowered in Nepal, but FSP processes are major obstacles to the flow of credit. The government should support us by enabling us to borrow and also by providing digital training to women."*

**Background of the woman entrepreneur**

The interviewee is a 58-year-old woman, living in one of the many rural panchayats surrounding Kathmandu, Nepal's capital city. She is married and has two children. Her education was limited to Class 6. Her husband has a dairy business and her daughter is a university undergraduate.

**The enterprise**

The interviewee started a grocery store with her own money a decade ago, and the business is registered in her name. She has no employees because the business is small, but her husband and one of her children help her to run the store.

The store was closed during lockdown, making it difficult for her to pay rent and buy supplies. She still faces considerable financial constraints and challenges, owing to a) increased market costs and b) a decline in customers, but she is pleased with the margins yielded by her business. She now wants to take out a loan for business expansion but is facing barriers in accessing credit from all the FSPs she has approached.

**Engagement and constraints in dealing with FSPs and the use of digital financial services**

The interviewee borrowed NPR 100,000/$800 two years ago from an MFI at an interest rate of 18 per cent and a loan term of three years. MFI staff informed her about the loan process, tenure, fines in case of delay in the payment of instalments, and the relevant terms and conditions. As the documents provided by the bank were written in Nepali language, she was able to read and understand them before signing the loan agreement. Her husband and daughter also helped her with the documentation process. A male and a women MFI staff member visited her once each, while she went to the MFI branch twice for the documentation process.

She wanted a loan of NPR 100,000/$800, but only NPR 50,000/$400 was provided, and the other NPR 50,000 was retained by the bank (NPR 30,000 as collateral and NPR 20,000 as documentation charges and field visit expenses). During the pandemic, she paid the entire interest due amount at once, but her interest payment was delayed due to a) the poor health condition of her spouse, and b) the lockdown at the time. Though the MFI initially demanded a fine for the payment delay, the fine was later waived, and the loan cleared.

The interviewee now wants to take out another loan for the expansion of her store, but there are FSP processes and policy impediments making this process harder. For example, she needs two guarantors and has to file various documents for this purpose. There was no such requirement or gender discrimination when she borrowed the first time. Because of the conditions imposed by FSPs, she refuses to obtain a loan from a formal organisation and, instead, will now approach an informal moneylender. She no longer has a bank account and relies on her spouse's account to transact.

She wants to use cashless payment methods through QR codes in her store for security reasons but lacks the necessary technical expertise. Her husband and one of her children use mobile banking services. Her other child learned about mobile banking and cashless payments through social media and also tried to teach her about mobile banking, but she was unable to do so due to the lack of a smartphone. The interviewee has a basic keypad phone and accesses apps like Facebook through her husband's phone. She wants to buy her own smartphone to better understand the digital space and be less dependent on her family for basic digital financial services, as her family members are not always present at the grocery store to assist her.

The interviewee feels the government, the regulator, and FSPs should take the initiative to provide training related to digital financial services and business management. She is of the view that in Nepal, women now feel empowered through self-employment and are also being supported by their families and society; therefore the government should facilitate and reinforce this process.

# 6

## Conclusion and key recommendations

Women entrepreneurship in South Asia is an untapped resource of economic and social progress, job creation, and financial inclusion. Despite lower representation in formalised entities, women entrepreneurs boast significant positive multiplier effects on society such as job creation, an increase in labour force participation, and the potential to lift families out of poverty. There is a compelling case for increased financing, to meet current demand and to increase societal impact through growth and formalisation of WMSMEs. This presents a clear opportunity for FSPs and all financial institutions in the region to tap into. Digital services are particularly suited to quickly increasing inclusion and meeting the specific needs of women. This has been demonstrated in some South Asian markets – especially Pakistan and Nepal. Opportunities to expand digital financial services in those markets remain, and even larger opportunities exist in India and Bangladesh, where digital financial service penetration is lagging behind the penetration of digital access and use. Digital financial services have benefits for all customer types, and even more for women, helping to overcome access barriers that FSPs have historically not been able to address. If FSPs intend to capture the WMSME market segment and grow their businesses, digital financial services will be an important avenue to accomplish this.

Here are the key recommendations for FSPs to adopt digital financial services and better serve WMSMEs:

1. WMSMEs are not one monolithic segment. Needs will vary depending on the sector and size. Instead of treating all WMSMEs the same, FSPs should develop tailored products and services with differences in mind, applying gender lenses to the customer segmentations they are already using.
2. Although WMSMEs have widespread digital financial services access, women are sometimes hindered by gaps in digital capabilities and limited trust in using these systems. FSPs can address this by offering bundled non-financial services that include digital training and upskilling, and also improving transparent communication to build trust.
3. The customer experience for digital financial services is not generally designed with women's needs and preferences in mind. FSPs can get ahead of the curve by improving the WMSME digital financial services experience through enhanced customer support, in turn, building trust and spreading product awareness.
4. For FSPs to effectively reach and engage women, their teams should include women. Increasing gender diversity across all levels, from senior management to branch workers, will enable them to better integrate a gender lens across all processes and products.

## Annex 1: Stakeholder interviewee list

| | Name | Organisation | Designation | Country |
|---|---|---|---|---|
| 1 | Farmina Hossain | BURO Bangladesh | Director of Operations | Bangladesh |
| 2 | Khadija Mariam | BRAC | Head – Women Entrepreneur Cell | Bangladesh |
| 3 | Rom Ratha | AMRET | Head – Commercial Products | Cambodia[62] |
| 4 | Thiru R. | Kinara Capital | Chief Operating Officer | India |
| 5 | Sai K. Kumaraswamy | CGAP | Financial Analyst | India |
| 6 | Ram Ramdas | WonderLend Hubs | Founder | India |
| 7 | Abhishek Sinha | Eko Financial Services | Co-founder | India |
| 8 | Leena Datwani | CGAP | Digital Financial Services Specialist | India |
| 9 | Sharon Buteau | IFMR Lead | Executive Director | India |
| 10 | Spandan Kunwar | Global IME Bank Ltd. | Manager – SMEs | Nepal |
| 11 | Binay Khadka | Khalti | CEO | Nepal |
| 12 | Siddartha Mainali | Sanima Bank | Head – Research & Development | Nepal |
| 13 | Arjun Bhadra Khanal | Siddhartha Bank | Head – SME & Consumer Banking | Nepal |
| 14 | Archana Thapa | Laxmi Bank | Manager – SME | Nepal |
| 15 | Anaum Ather Rana | Kashf Foundation | Deputy Manager – Research | Pakistan |
| 16 | Syed Mohsin Ahmed | Pakistan Microfinance Network | CEO | Pakistan |
| 17 | Samra Noori Malik | FINCA Microfinance | Head – Marketing | Pakistan |

## Annex 2: List of institutions/persons who supported the illustrative survey of WMSMEs

| Country | Institution | Facilitators |
|---|---|---|
| Bangladesh | BURO Bangladesh | Raihan Parvez (BURO); Riad Azam and Ammaar Mohammad (M-CRIL) |
| India | M-CRIL | Tiru Namani and others (M-CRIL) |
| Nepal | Laxmi Bank | Archana Thapa (Laxmi Bank), Amrita Shah, Ammaar Mohammad |
| Pakistan | Kashf Foundation | Anaum Ather Rana (Kashf Foundation), Ammaar Mohammad |

# Annex 3: End notes

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