

# Handbook on Women-owned SMEs

Challenges and Opportunities in  
Policies and Programmes



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The outline of the structure and content of this handbook was first worked out in conjunction with a special session on “Women Entrepreneurship and ICT: Policy & Programme Implications for Women SMEs in Training, Advocacy Strategy and Growth”, organised jointly by IKED and the GKP at the World Knowledge Forum, October 12, 2004 in Seoul, Korea. That session highlighted that many women embrace entrepreneurship with great skills and depth of knowledge in a particular area, but with limited experience in management. The presentations and contributions of that event inspired continued exchange and the work that resulted in this publication three years later.

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## CHAPTER 1:

# CHALLENGES AND OPPORTUNITIES

*Friederike Welter and Ingrid Andersson*

### 1.1 General introduction – a Changing Landscape

Declining costs of information and communication technology, globalization and changing conditions for innovation and entrepreneurship are bringing new opportunities as well as challenges for countries and business alike around the world. In this rapidly evolving playing field, the role of large and small firms is changing. Large firms are downsizing, outsourcing and off-shoring while raising productivity around a narrowing core business. Small and medium sized enterprises (SMEs), on the other hand, account for a growing share of the work force in most countries. In parallel, they are becoming more important for economic growth, exports, local development and innovation. SMEs do not only constitute of enterprises, however, but are clearly led and strongly influenced by people, and most of all by the *entrepreneurs* behind them.

There are different kinds of entrepreneurs. They may be classified on the basis of, for instance education, motivation, age, business characteristics and gender. One of the most rapidly expanding categories is that of women owned enterprises (WOEs), which require attention for a number of reasons. The potential of women, who represent half of mankind, is greatly underdeveloped in many societies. Yet, women clearly play a very important role in many respects, including in the local economy. By forming WOE, women are often able to overcome traditional boundaries. WOE now account for a growing share of all new enterprises in many economies. New technologies and associated societal and organizational changes represent great opportunities. However, barriers remain.

The issues confronting women-owned enterprises are not unrelated to those confronting male entrepreneurs or entrepreneurs in general. Still, the emphasis may be different, as may the effective solutions. For instance, while there are limitations in information or reliable statistical data on WOE, female entrepreneurs often represent (or are viewed as associated with) activities in the “informal economy”. They commonly pursue (or are viewed to pursue) low-key businesses with little growth potential. In many instances, they meet with special cultural and economic barriers throughout the registration and start-up process, as well as during later business development. For WOE, there are special issues with respect to opportunities for networking and partnering with other firms, and there are managerial and skills issues.

In this book, a number of authors who come from different parts of the world and who have complementary experience, venture into issues confronting WOE with respect to knowledge and competence development. The seed of the book was sown during a special session on “*Women Entrepreneurship and ICT: Policy & Programme Implications for Women SMEs in Training, Advocacy Strategy and Growth*”, organised jointly by IKED and the GKP at the Global Knowledge Forum on October 12, 2004, in Seoul, Korea. The presentations and discussions at that session highlighted that many women embark upon an entrepreneurial venture based on considerable experience and skills in a particular area, but with limited experience in management. Once

locked into the hectic task of launching a business, they find little room for strategic planning. As a result, they may be further overloaded while seeing their enterprises stagnate. The session at the World Knowledge Forum inspired continued exchange and the search for opportunities to address such issues, and set in motion the process that led to the publication of this book three years later.

Discussing and comparing the situation of WOEes in different countries and under varying circumstances, the contributions to this book assume a global outlook. To some extent, the stories presented represent a coherent set of reflections on the situation of WOEes worldwide. Special consideration is given to developing economies, and to some extent transition economies, but the material presented includes observations from developed countries as well. Although the seriousness of the issues usually is most evident in less developed countries, they are often relevant to WOEes in any country. The chapters are written for a broad range of readers, including academics, policymakers, business representatives and intermediaries. The report aims to include observations and conclusions of direct relevance to practitioners and entrepreneurs themselves.

The outline of the publication is as follows. This introductory chapter surveys the key issues that tend to plague women entrepreneurs and women-owned enterprises, with special emphasis on aspects related to skills development and the possibilities for women entrepreneurs to make use of new technologies and market opportunities. In particular, we examine various ways of improving the current situation. The four ensuing chapters venture into the different substantive issues confronting women entrepreneurs, paying attention to the specific importance of the gender dimension, employing a bottom-up analysis, and exploring the lessons of case studies in regard to what's not working and what's working (success and failure) in removing barriers and realising opportunities for WOEes. Throughout, we pay special attention to the means and ways of upgrading skills, including through training programmes as well as other mechanisms for competence development. All chapters end with recommendations for women entrepreneurs how to best upgrade their skills in various fields, for policy makers and for those involved in supporting and assisting women entrepreneurs.

This introduction sets the scene by outlining the nature and extent of women entrepreneurship. We present evidence from various studies on WOEes around the world, discuss their roles in the economy and society, and look at the environment for women entrepreneurship. This is followed by a short introduction to the main issues tackled in the three chapters on financing, procurement and alliances and networking. The final section of this chapter suggests further avenues for policy-makers and practitioners, and outlines the direction of policy initiatives that are critically needed in a broad range of circumstances.

## 1.2 The Nature and Extent of Women Entrepreneurship

The following section introduces some of the general stylized facts emerging from research on WOEes worldwide.<sup>1</sup>

### 1.2.1 Facts about Women Entrepreneurs around the World

Female entrepreneurs often tend to pursue business in a limited number of sectors, in which women traditionally are economically active. The vast majority of female entrepreneurs, applying

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<sup>1</sup> For overviews on related research across different countries cf. Brush (1992), Brush et al. (2006), Carter et al. (2001), Greene et al. (2003), OECD (2004), Welter et al. (2004a, 2004b, 2005, 2006).

to both developed and developing countries, is doing business in the retail and service sectors. Evidence from different countries in the West indicates that female business owners prefer to start their business in sectors where female employment is concentrated (e.g., Luber and Leicht 2000; McManus, 2001). Most women-owned businesses are in wholesale and retail trade, hotel and restaurants, and services because of low barriers of entry. Those engaged in manufacturing activities, are often involved in sectors dominated by women, e.g., food processing or some branch of the clothing and textiles sector. In many instances, traditional crafts (e.g., gold embroidery, carpet weaving, and silk weaving in countries such as Uzbekistan) play an important role in women's business activities. The choice of sector is accounted for by a combination of resource constraints, environmental uncertainty and specific female aversion to risk-taking, which lead them to engage in activities with low entry thresholds and low financial risk.

This pattern helps explain why female businesses are typically smaller in employment and sales than their male counterparts. The mechanisms are partly due to the start-up objectives (flexibility, personal social security, the wish to be independent, family income), partly sectoral features, and partly because of financial and other resource constraints. The majority of women-owned enterprises around the world are micro-enterprises, employing less than 10 people, hence their generally relatively limited input into total employment.

Several studies appear to confirm gender differences in business outcomes for women and men entrepreneurs, both across representative samples of firms and within specific business niches (e.g., Du Rietz and Henrekson, 2000; Kalleberg and Leicht, 1991; Rosa et al., 1996; McManus, 2001; Ruane and Sutherland, 2007). However, gender-specific differences in survival and growth rates are marginal or may even disappear when data is controlled for industry and size (Du Rietz and Henrekson, 2000; Rosa et al., 1996). The sectors women generally prefer for starting a business are mostly characterised by high turbulence rates, thus providing relatively few opportunities for rapid business growth (Storey, 1994; Robb and Wolken, 2002). Additionally, researchers often underline the presence of varying success criteria for male and female entrepreneurs (e.g., Buttner and Moore, 1997; Stevenson, 1986; Watson and Robinson, 2003).

Overall, most studies of the influence of gender on business performance and growth from western economies conclude that women-owned businesses perform less well. It also appears that under-resourcing at start-up contributes to this situation (Carter et al., 2001). Women tend to have fewer resources to start up business, which is manifested in personal savings being less available; women are investing less in their businesses; women often also appear less successful in the achievement of their business goals, in business performance and growth (e.g., Welter et al. 2006). Also a factor is that financial gain does not represent such an important start-up goal as, for instance, independence or flexibility to interface family and work commitments, full control of all aspects of their business, etc. (Brush 1992, Rosa et al. 1996; Mukhtar, 2002).

The involvement of women in entrepreneurship and small businesses includes co-entrepreneurship, as well as women as sole, or majority, owners. Interestingly, however, there is evidence that in some countries, such as Kyrgyzstan and Ukraine, female co-entrepreneurs typically are leading their businesses, with their husbands/partners playing minor roles in management (Welter et al. 2006). This may be explained by the motivations of women, who very often come into business because of the necessity to provide an income for their families.

Although there is a lack of official data, available statistics show the importance of SMEs is on the rise in most economies, and worldwide we can observe an increase in WOE's, although there are great geographical differences. According to the Global Entrepreneurship Monitor,

entrepreneurial activity can be divided into two groups of entrepreneurs. Whereas the first group refers to entrepreneurs who seek to take advantage of unique business opportunities (opportunity-based entrepreneurs), the second group refers to those entrepreneurs who cannot find a job and consequently choose to start a new business in order to survive (necessity-based entrepreneurs). This distinction is imperative for the further discussions on women owned enterprises, however. While necessity-based entrepreneurship is quite low in developed countries, this type of entrepreneurship is dominating in most developing countries, and especially in countries such as Uganda, Venezuela and Brazil where the participation of female entrepreneurs is very high (GEM, 2005). In other words, the prevalence of necessity-based entrepreneurship seems to coexist with high levels of WOE.

But there is more to it than this. While necessity-based entrepreneurship seems to co-exist with economic growth in most developing countries, opportunity-based entrepreneurial activity accomplishes economic growth in developed countries. Taking into account that developing economies increasingly are faced with the demand to reshape their production and adapt their competition to be more oriented towards innovation (and opportunity-based entrepreneurship), issues such as how to encourage the movement from necessity to opportunity-based entrepreneurship and to increase women's participation in this process, suddenly become paramount. The shift involves/requires a considerable upgrading of skills. Moreover, the simple dichotomy inherent in classifying entrepreneurship into necessity- and opportunity-based neglects both that entrepreneurs generally start their businesses for a variety of reasons and that this might shift over time and during business development.

In this context, there is a need for developing entrepreneurial competencies, in order to foster learning within the enterprise, thus preparing the ground for business development and growth. To a varying degree, the need for competence development for WOE looks different from that applying to their male counterparts. This is partly due to the fact, that women entrepreneurs often have pursued training and schooling in less business-relevant fields. Moreover, fewer women are to be found in management positions. Finally, women often have discontinuous working careers, interrupted by child-rearing periods. All of this might leave women with different (and sometimes fewer) professional experiences.

### 1.2.2 The Economic and Social Roles of Women Entrepreneurs<sup>2</sup>

With regard to their economic role, some women are contributing through setting up activities new to the economy, which is a factor influencing economic development especially in former centrally-planned economies. Moreover, they provide employment and income possibilities both for themselves and for others, thereby contributing to greater social inclusion. They also manufacture goods to substitute for imports, thus contributing to the regeneration of national economies. Women entrepreneurs also contribute to social change and to alleviating some of the negative effects of transformation, through offering positive role models and adding to a more positive image of (women) private entrepreneurship. The participation of women in economic activities has not only resulted in the productive use of labour, but also contributed to improving the quality of life for women entrepreneurs and their households.

With regard to the social roles of female entrepreneurs, their main contribution is in terms of creating job opportunities. Typically, women entrepreneurs are more likely to employ women, thus providing jobs not only for themselves but for other women, which helps to reduce the

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<sup>2</sup> See Welter et al. (2003) and Aidis et al. (2006) for a detailed discussion on this. Also cf. Kuga Thas (2005).

effect of discrimination against women in the labour market. In addition, reducing female unemployment assists in fighting women trafficking. Finally, female entrepreneurs serve as role models for the younger generations, demonstrating new employment (self-employment) opportunities.

Whilst female entrepreneurs contribute both to facilitating economic development at the microeconomic and macroeconomic levels, their social role is even more important in a society, where cultural norms and values strongly influence the nature of female entrepreneurship. Gender-related issues, cultural barriers and institutions add to economic and business-related factors in impeding women businesses from developing with full vigour (the women behind WOE are commonly confronted with opportunity costs, at work and in private life such as childcare and cultural expectations, other than male entrepreneurs, which both restrict the time they can devote to a business as well as render growth a particular challenge).

For understanding WOE and the challenges they face in setting up and growing a business, it is important to take cultural factors into account. Social expectations, norms, attitudes, and values concerning the typical role for women, family traditions, all have the potential to act as a barrier for women's expectations, entrepreneurial choices and outcomes. Besides cultural factors, the overall institutional and legal contexts play an important role for WOE. Cultural norms determining the extent of and roles for female entrepreneurship include the general *value a society attributes to female employment*, which also partly explains labour market discrimination, and the value attributed to the *family*. Whilst the former may contribute to women being pushed into self employment/business ownership, the latter might result in a gender-specific role distribution with little time for potential women entrepreneurs to pursue economic opportunities. It also refers to the role of the extended family as both a resource for entrepreneurship and a possible constraint. The cultural traditions and norms reflected here influence the responsibilities, tasks and the workload that women entrepreneurs would have to cope with as well as any assistance from their milieu they might expect when setting up their own enterprise.

In this context, female entrepreneurship already has played and continues to play an important role in modernising societies and changing public attitudes towards women, which in turn will enable governments to make better use of the economic potential of female entrepreneurs. As a consequence, assisting more women to start up businesses, and supporting existing firms to grow, can contribute to the development of a more competitive economy, as well as reducing social exclusion.

At the same time, there is a need to avoid stereotyping women entrepreneurs across the world, e.g. characterising all women entrepreneurs in developing countries as "necessity driven". Whilst most may be driven by a need to raise family income at start-up, this does not necessarily determine their subsequent development path, which may involve more "opportunity recognition", as external circumstances change and individuals grow in confidence, ambitions and competences. In summary, in a situation where the overall level of entrepreneurship is at a very low level, the engagement of women in entrepreneurial activity is making an important contribution to the overall level of entrepreneurial activity in the economy. Although under-represented in the business owning population, the contribution of women to the emerging service sector is an important one in many developing countries around the world. It can also be argued that the accumulated capital, knowledge and experience of women entrepreneurs are adding to what is a scarce human capital base of resources relevant to private sector development.

### 1.2.3 The Environment for WOE's

Institutional factors are an important influence on the nature and extent of female entrepreneurship (Aidis et al., 2006). In Kyrgyzstan, for instance, ownership and enterprise rights are not well protected; and a combination of corruption and political influence over the judicial system leads to an overwhelming mistrust on the part of business people towards public officers, particularly police and customs officials; financial capital for enterprise creation is controlled by a few major banks which are politically manipulated by the Presidential Office (Öczan, 2006).

Most developing countries and those in the former Soviet area have underdeveloped banking systems, which are not focused on small enterprises as clients. As a result female entrepreneurs very seldom apply for bank loans and prefer to use unofficial sources of finance, which has a negative impact on their growth capacities.

A key finding of recent research concerns the significance of networking and social capital for the development of female entrepreneurship. Networks and networking gain importance in environments, where the framework for entrepreneurship does not function properly or is not installed yet (Welter et al., 2004b). When starting a business, family members and friends are an important source of providing tangible and intangible help needed by a newly founded firm, including financing at start-up and for current operations; offering emotional support; mentoring and counselling; and help with premises and business contacts. However, some research showed that women entrepreneurs are weaker in networking competence and social capital assets, since they have to contract those resources through strong ties they have with family members (Drovnsek and Glas, 2006).

Cultural factors also influence the nature of WOE's. Unregistered economic activity is still a feature of SME development in developing and transition countries, manifesting itself in unregistered businesses and also in shadow operations of registered companies, which conceal turnover from state authorities. The vast practice of WOE entrepreneurs working in the shadow economy implies there are certain difficulties in getting accurate numbers of female entrepreneurs (sole proprietors and enterprises), as well the sector, size and age of women-owned businesses in individual countries. Since female businesses are typically micro- and small enterprises, they suffer the effects of the unfavourable business climate, along with other small enterprises.

## 1.3 Domains Addressed

**Financing** is often said to be a major problem for entrepreneurs. Whilst this is true for most new and small firms, it takes on additional importance in the case of WOE's, which often have less or a different access to financing sources. Skills and financing hinge together, basic education facilitating continued learning, incentives facilitating or impeding continuous learning, special training may be necessary to make entrepreneurs ready in terms of ICT use, IPR issues, business angel readiness, etc. The financing needs of WOE's depend on a variety of factors, such as socio-economic and socio-cultural conditions in the area where a female entrepreneur lives, her personal and professional background, the type of venture, size of business and entrepreneurial goals. The choice of business also correlates with the level of education and cultural background. Considering the business cycle of WOE's it is common in both developed and developing countries that women owners need pre-dominantly equity or start-up financing. On the one hand, women are often assumed to be more risk averse and risk aversion implies a reliance on equity instead of bank loans.

In this context, it is essential not only to recognise the variety of financing needs of WOE, but also to recognise the issue of a “missing middle” in terms of the availability of financial products. In many developing and least developed countries, micro-finance and finance for medium enterprises are more or less available. However, the financial needs of small-sized businesses, which are between micro and medium, remain largely unaddressed. Moreover, financing programmes often do not address the type of sectors or business fields of women entrepreneurs, partly because those are not considered sectors with any growth potential (Welter 2004). Overall, empirical evidence of gender discrimination in financing is not conclusive, as bottlenecks in obtaining finance are also determined by sector and size choices.

In this context, the chapter on financing analyses sources of finance for WOE (formal/informal capital, business angel networks, micro-credit, risk and venture capital), their financing needs in various stages of business development, the financing of international and domestic incubators, problems with receiving financing for certain business types (e.g., where intangible assets are involved, a general lack of financing for ICT businesses (computers and services not seen as assets). Moreover, the chapter outlines selected experiences with policies and support programmes for a better access to financing for WOE, concluding that an integrative approach, which does not focus on improving access to financing alone, is needed.

**Procurement Practices:** Governments often are not aware that they are actually direct competitors to their local enterprises. Government procurement is aimed at providing opportunities to qualified firms for government work. More and more governments have come to realize that simple and clear procurement practices might not only help them to save on funds, but that this might also foster small business development, in getting them involved in producing for government.

Few, if any studies have dealt with procurement issues in the context of female entrepreneurship; and information on whether women entrepreneurs have problems in accessing public procurement is scarce. This chapter sets to examine government procurement practices and their impact on WOE. It provides examples of countries that are trying to make public procurement accessible to SMEs. Moreover, the chapter also explores how countries are dealing with women-owned enterprises and public procurement, drawing on cases of countries and interviews with women entrepreneurs. Moreover there is a discussion around any good practices identified (such as in the USA) in cases of public procurement. The chapter concludes with emphasizing that any reform of public procurement in favour of SMEs needs to take into account that this does not necessarily include WOE in the procurement process, thus arguing in favour of a gender-specific perspective on public procurement.

**Alliance-Building & Advocacy:** Networking and alliance building pave the way into entrepreneurship as well as facilitating business growth. Many research studies have demonstrated that networks and network contacts are important during the establishment, development and growth of business. Social networks play a role in mobilising complementary resources, getting support and help, and establishing viable business relations, whilst in later business development networks shift to more strategic alliances. It is here where gender differences in network structures and networking behaviour may influence both the decision to start and to grow a business as well as business survival and success. Gender differences in network structures and networking behaviour may influence both the decision to start and to grow a business as well as business survival and success (Carter et al., 2001).

Research shows several gender-related effects: women networks often include fewer entrepreneurs, women entrepreneur networks are more homogeneous and less outreaching, women less frequently draw on network contacts, or their networks include a larger share of kinship relations instead of business relationships. Networks tend to be homogeneous, and have forces pushing towards more homogeneous structures, although more diverse networks can be strongly preferable. Women often face a choice whether to enter specific women networks, or even develop them, or try to find ways to enter already established (male) networks.

In this context, the chapter analyses the importance of networks; training on how to enter networks and how to create specific useful network(s) for the company and for the individuals. It also discusses important institutional patterns such as intermediaries, business organisations, chambers, incubators, etc. with a focus on what works in different countries, especially in building public-private partnerships to foster women entrepreneurs. The chapter concludes that networking and the sharing of knowledge and resources amongst a wide range of partners is no longer a choice when it comes to business development; it is an absolute necessity in order to keep businesses innovative and competitive.

## 1.4 Where to Go from Here?

Women-owned businesses share many barriers with those owned by men, e.g. tax laws, access to finance. As a consequence, improving the overall environment for business will help women as well as men. Examples in developing countries and those at an early stage of transition towards market economy include measures to reduce corruption and the violation of rules at local level, which are among the most urgent issues of the business environment influencing women entrepreneurs. Welter et al. (2006) emphasize that improving the business environment also includes capacity-building and sensitisation of administrations at national and local levels, which is an issue in both in early and advanced transition countries. State representatives need a better understanding of the issue of women's entrepreneurship, whilst women's business organisations need to work in partnership with other business associations to seek an improvement in the general business environment. For example, the concentration of women in trade and other low entry threshold activities means that policies aimed at, or influencing, these sectors can have a disproportionate impact on women.

Moreover, female entrepreneurs do not typically use bank loans for start-up or investments, which significantly restricts the number of new female entrepreneurs as well as their subsequent business development. It can be argued that the insufficient supply of bank loans, on suitable terms for small businesses, is one of the greatest barriers to female entrepreneurs in developing countries. There is an urgent need for microfinance initiatives, combined with reform and capacity building in the banking systems, which include businesses in sectors and activities in which women entrepreneurs are particularly active.

However, policies need to take into account not only the diversity of women's entrepreneurship, but also the different country contexts, which makes the transfer of good practices somewhat difficult. While in many developed countries support for WOE is aimed at bringing out their growth potential or, in terms of financial support, at integrating them into mainstream programmes, in many developing countries issues such as poverty alleviation are the foremost objective in fostering women's entrepreneurship. Both objectives, however, ask for different policy instruments and measures; and it is here that there is an ongoing debate as to the best way of stimulating women entrepreneurship that contributes to both economic competitiveness and social inclusion. Most support for women entrepreneurs today addresses existing start-ups, either

through specific programmes directed at women only, or through the overall support structures for start-ups.

In this context, we also need to discuss whether *we need specific policies to foster female entrepreneurship*. Mirchandani (1999) points out that a barrier-focused approach towards female entrepreneurship “makes it seem as though the barriers women face are removable through individual action ... what is needed, it is therefore suggested, is for women to train or educate themselves better, develop more appropriate networks and mentoring relationships, and re-assign domestic work.” The author stresses that this shifts the attention of policy makers away from environmental constraints towards the woman entrepreneur.

One implication for policy is that provided the *economic and regulatory environment is improved*, developing and transition countries may witness a sharp increase in the participation of women in business, as well as a further diversification of types of female business activity. A distinctive feature of female entrepreneurship is a diversity of types, including the forced (often unregistered) female entrepreneurs; former managers of state-owned companies privatised, professionals (teachers, medical doctors, accountants), who changed the legal status of their activities, as well as entrepreneurial female owners of fast-growing companies. Some female entrepreneurs are pushed by negative circumstances (i.e. unemployment), while others are pulled by positive opportunities. This implies different policies are required to cover the needs of all types of entrepreneur, although this needs to be seen and evaluated in a country context.

In this regard, an important question is whether women entrepreneurs face specific problems in setting up a business that are different from those faced by male entrepreneurs. As research indicates, women may have particular problems with acquiring and mobilising external resources. Moreover, they may have had less chance than most men to accumulate the resources necessary to start and run a successful business. In addition, gender discrimination by finance and support providers, customers or employees may be an issue.

While most support needs of women entrepreneurs are similar to those of men (Welter et al., 2002), at the same time, there is evidence that women entrepreneurs suffer some of the same problems more intensively than other small businesses (e.g. access to start-up finance) and perceived discrimination (whether intentional or unintentional) on the part of providers of finance or support services (Johnson and Smallbone, 2000). Here, there is a need for business organisations such as chambers of commerce, business support agencies and associations, to adapt their approach towards women entrepreneurs, ensuring that they address their needs without an implicit gender bias. Another question in this regard also concerns whether or not to employ women business consultants (not all women might feel comfortable with male advisors, and not all women might need women advisors).

Another implication for policy arising from the issues discussed in the introduction and the following chapters is the *need for an integrated framework* in fostering women entrepreneurship. For example, introducing women consultants or tackling financing issues alone is not going to help women entrepreneurs to build up sustainable and growth-oriented enterprises, if they experience unfair competition or a restricted access in the case of public tenders. There is a need for compatible policies (Welter et al., 2006), another good example of which in developed countries is the relationship between access to childcare provision and the ability of young women to engage in entrepreneurship.

When it comes to economic growth generated from women entrepreneurs, despite recent years of growing attention and awareness of WOE, many issues remain to be addressed, and still more should be done to enable and foster progress in this area. Only recently research started to pay particular attention to growth-oriented WOE and the particular difficulties, such as access to venture and angel financing or a restrictive societal attitude, which they might face in realizing business growth. One additional area important in developing countries concerns the huge share of informal businesses frequently owned by women. In order to move from “informal” to more “formal” enterprises, development of new competences is needed. The stagnation in an “informal” activity will also mean that the growth potential of individual businesses will be strongly reduced and their productive contribution to overall economic development cannot be fulfilled.

The shift from more informal to formal entrepreneurial activities is in part related to the upgrading of skills, in part to the learning capabilities and learning willingness of the entrepreneur. There are various well-known issues confronting both individuals and employers in their decisions how much to invest in skills, their own or others. The return to investment in skills has been estimated in various studies, which illustrate a discrepancy between individual and social returns, differences between countries and over time. There may be differences in the return to such investment in women and in men, for various reasons; and this is one of the issues which need to be addressed by policy makers and those involved in supporting WOE beyond the discussion in this handbook.

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## CHAPTER 2:

### IMPROVING ACCESS TO FINANCE FOR WOMEN-OWNED SMEs

*Ananya Raihan*<sup>3</sup>

#### 2.1 Background

Globally, SMEs create the majority of national output and employment; however, they have least access to institutional financing. The IFC estimates that SMEs create 57 per cent of global employment, whereas their access to lease financing is only 3.88 per cent of the total outlay.<sup>4</sup> The contribution of SMEs to national GDPs varies from 20 per cent and 85 per cent. Access to finance for WOE is further marginalised. In Bangladesh, while women contribute around 26.26 per cent in total deposit of the banking system, their access to credit is only 1.79 per cent of total outstanding loans (Choudhury and Raihan, 2000).

Whether for women empowerment and the rationale of job creation or for poverty alleviation and growth rationale, it is important to unleash the full potential of SMEs across the globe. Being a large part of the human resources, the majority of women are not tapped into income generating economic activities, which deprive, on the one hand, their families from improving their livelihood, while on the other hand, economies can not multiply their growth and development potential. While the “natural” contribution of SMEs is already high in all countries, it is now important to identify those factors, which hinder further growth of SMEs, particularly WOE.

There is consensus among practitioners, policy makers, and entrepreneurs about the major impediments for the growth of women-owned SMEs. Access to finance is one of the most critical factors for market entry, growth and survival of SMEs. This access is further complicated for women-owned SMEs in developing and least developed countries. Across the globe, access to finance is identified as either the number one or number two barrier to growth of WOE. This access is important in the whole life cycle of SME-business. Moreover, access to finance by WOE has a multiplier effect on the national economy in general, specifically on employment, GDP growth, and poverty alleviation. The flip side of the financing issues is internal financial management of the SMEs, which also hinders growth of this vibrant sector. Thanks to the active role of business associations and governments’ emphasis on SME economic growth in many countries of the South, there are innovative mechanisms of financing to SMEs.

It is very important to keep in mind when developing a set of globally recognised and practised mechanisms for a barrier-free access to finance for WOE that such a set of mechanisms is not discriminatory to any sex of entrepreneurs. Research shows that not all women in small business defined their experiences in terms of gender and quite a few women avoided women-only services and/organizations (Still and Timms, 2000). Experiences in Ukraine, Moldova and

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<sup>4</sup> Estimated on IFC dataset on SMEs.

Uzbekistan show that women, especially the older women entrepreneurs in Ukraine, are against everything they thought smelled of feminism, and gender/sex was one of the buzzwords to them (Welter et al., 2004). In designing financial products exclusively for women, the country context is important to keep in mind.

This chapter reviews differentiated needs for financing WOE, sources of finance and barriers and examines practices of improving access to finance for WOE and internal financial management issues. The chapter also provides a policy framework to be advocated for gender-friendly access to finance mechanism.

## 2.2 Financial Needs of WOE

Men and women finance their businesses differently both in the developed and the developing world. Verheul and Thurik (2001) argue that female and male entrepreneurs differ in the way that they finance their businesses, but their results for a panel of Dutch start-ups only demonstrated the well-known fact that female entrepreneurs set up their businesses with less capital. The use of less capital and consequently setting up smaller enterprises is a general tendency for WOE (Carter and Rosa, 1998). However, the debate is still on whether restricted access to finance forces women entrepreneurs to start with a smaller size business, whether this is their choice or whether other societal barriers are responsible for starting small.

The most widely used sources of capital for women business owners are: personal earnings, savings or assets, business credit cards, and business loans. In general, women are more likely to use personal savings and loans from friends and relatives, while men are more likely to secure bank financing and loans from the governments.<sup>5</sup> In developed countries, women owners with larger firms are more likely to use advanced forms of financing such as lines of business credit and business loans. Going for initial public offerings (IPOs) is rare among women entrepreneurs in both the developed and the developing worlds. Women business owners with non-service businesses are more likely than those in service industries to use more sophisticated capital sources such as commercial lines of credit and loans, vendor credit, and equity financing. The same applies to women business owners of firms that had been in business longer, while women in start-ups are more likely to use personal financing sources. The general tendency in accessing finance is shown in Table 2.1

**Table 2.1:** Financing Pattern of MSMEs

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Informal	Personal/Business earnings Savings or assets	Personal/Business earnings Savings or assets	Personal/Business earnings Savings or assets	Savings or assets
Formal	Grant Micro credit	Grant Micro credit Business Credit Line	Business Credit Line Credit Guarantee Scheme Equity Financing	Business Credit Line Credit Guarantee Scheme VC

*Source:* Synthesis for various research reports

<sup>5</sup> In Canada, women are more likely to use personal savings (66% vs. 45%) and to obtain loans from friends and relatives (20% vs. 12%), while men are more likely to secure bank financing (65% vs. 38%) and loans from the government (22% vs. 15%) (ACOA, 2000).

The financing needs of WOE's depend on a variety of factors, such as socio-economic and socio-cultural conditions in the area where a female entrepreneur lives, her personal and professional background, the type of venture, size of business and entrepreneurial goals. The choice of business also correlates with the level of education and cultural background. A woman running a micro enterprise in rural Bangladesh and a woman owner in Singapore running a high-tech business face very different financing challenges. The diversity of women's credit needs requires flexibility when choosing strategies to address these needs.

The global SME dataset of the IFC depicts that 85 percent of SMEs are in micro category; the share of small enterprises is 12 percent and only 3 per cent are medium-sized enterprises.<sup>6</sup> In general, the majority of women fall into the categories of either micro or small enterprises. At least 86 per cent of women entrepreneurs are believed to be home-based and micro-enterprises. Women micro-entrepreneurs are heavily concentrated in manufacturing of clothing, retail sales not in stores, handicrafts, agro-based products, spinning and weaving of textiles, footwear and leather, plastic products, furniture, livestock, bakery and dairy production. Small women-entrepreneurs additionally are involved in services, particularly education and training, health care, fashion and design, interior decoration, printing and publication, and ICT services.

Considering the business cycle of WOE's it is common in both developed and developing countries that women owners need pre-dominantly equity or start-up financing. On the one hand, women are often assumed to be more risk averse<sup>7</sup> and risk aversion implies a reliance on equity instead of bank loans. A demand for start-up capital is observed across all sizes of WOE's, from micro to medium. Most micro credit programmes operate with start-up capital ranging from USD 50 to USD 25'000, depending on the location of the start-ups. In Bangladesh, micro start-up capital amounting USD 50 is provided to women borrowers to start a new micro venture. In Germany, the "Startgeld" programme introduced by the German government offers a "Mikrokredit" amounting to € 25'000 for starting and new entrepreneurs (up to 3 years) (Welter, 2004).

An analysis of the value chain of individual business sectors and products shows that financing is required for setting up production and sales outlets, procurement of production inputs, product design, and export credit or loans against letter of credit in case importing. As the business runs into operation, whether it is in services or in a non-service sector, the need for working capital arises, particularly for those entities, where the sales pattern involves credit selling and production process requires costly inputs. This need is not exclusive to female entrepreneurs; however, WOE's face more challenges in accessing operating funds from formal sources.

It is essential also to recognise the issue of a "missing middle" in terms of the availability of financial products. In many developing and least developed countries, micro-finance and finance for medium enterprise are more or less available. However, the financial needs of small-sized businesses, which are between micro and medium, remain largely unaddressed. For example, in Bangladesh, a loan amounting to USD 50+ is available to more than 10 million women micro-entrepreneurs. And institutional funding amounting to USD 5'000 and above is also available. However, until recently no financing mechanism was available for the entrepreneurs requiring a fund between USD 100 and USD 5'000. The amount required for this "missing middle" may vary from country to country, but this phenomenon is present in many countries in the South.

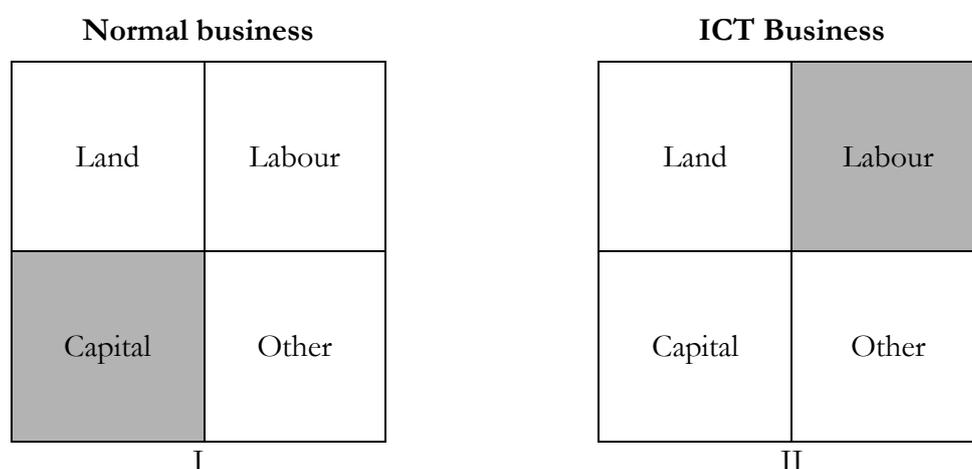
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<sup>6</sup> Estimated from IFC dataset on SMEs. The IFC categorized the enterprises based on number of employees. According to the size of enterprise by number of employees it was depicted that most of the SMEs are micro enterprises. Source: Marta Kozak, International Finance Corporation (IFC), Washington, D.C. Date of last update: May 17, 2005.

<sup>7</sup> Welter (2004), p.3

As more and more women entrepreneurs are involved in ICT services, access to financing is becoming increasingly difficult for this type of venture. Financing service business is more risky for financial institutions and there is a structural problem in financing ICT ventures regardless the sex of the owners of such ventures. Figure 2.1 clearly shows the mismatch between the financial product design of lending institutions and the structure of ICT business. In a non-ICT business the ratio of capital is higher in the total financial outlay for the inputs: land, labour, capital and other (see shaded box in Figure 2.1, part I). On the other hand, the ratio of labour (professionals) is high vis-à-vis the total financial outlay in the case of ICT businesses (see shaded box in Figure 2.1, part II). While for a financial institution it is easier to take the machines as collateral, which are readily available and easy to evaluate financially in a normal business, this is not easy in the case of an ICT business, where the cost of computers and other equipments is not significant compared to the cost of training and compensation of professionals (see Labour in part II of Figure 2.1).

**Figure 2.1:** Financial Needs for ICT Business

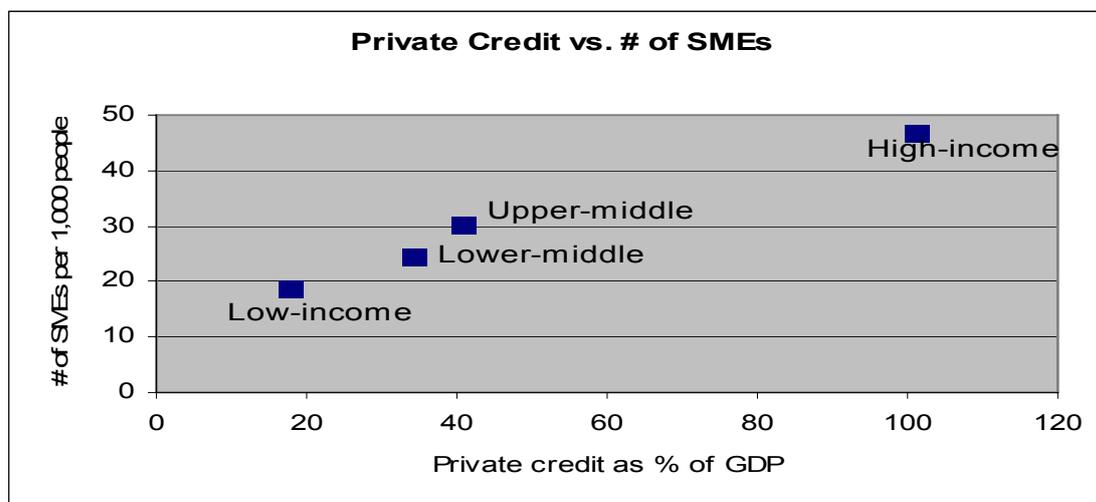


The traditional financing mechanism thus fails to address the financing needs of ICT ventures in many developing and least developing countries. For such ventures, the earning potential is more important than the valuation of either tangible or intangible assets. Generally, this aspect is ignored or financial institutions do not have the capacity to evaluate the earning potential of such ventures.

Moreover, problems with technological and skill up-grading are the factor which causes failure to many SMEs. Due to financial constraints and lack of information about new technologies and their availability, SMEs, particularly WOE, fail to adopt them and thus to take a chance for cost reduction or up-grading. In developing any policy framework it is very important to design special products for technology up-grading.

### 2.3 Sources of Financing for WOEs

Both in developed and developing countries governments, the private sector (for profit and not-for-profit) and civil society organisations are the major sources of support and finance. In developing countries, the not-for-profit private sector (NGOs) also plays a visible role in bridging the market failure related to SME financing. Private sector participation is the most important factor for the growth of SMEs. Drawing on global data, Figure 2,2 demonstrates that the higher the private credit as a percentage of GDP, the higher the number of SMEs in the economy and level of income.

**Figure 2.2:** Private Credit vs. Number of SMEs

*Source:* Kozak M. 2005. Micro, Small, and Medium Enterprises: A Collection of Published Data: Correlation Data by Income – Washington D.C., IFC, worksheet on Correlation Data by Income.

Public-private partnership is also becoming popular in many countries, for example, in Japan, USA, UK and Malaysia. The partnership is getting more ground in many developing and least-developed countries under the auspices of International and Regional Financial Institutions.

Given the importance of SMEs for national economies many countries in the developing and the developed world's set up specialised programmes for providing financial support to SMEs with various degrees of effectiveness and impact on the target groups. Specific types of financial supports refer to direct investment by governments, including investment in venture capital, credit guarantee schemes, business angels, commercial bank credit, etc. Moreover, facilitating measures like credit database, exit mechanisms for companies and stocks, credit scoring mechanisms and arrangements for financing through specialised financing institutions, etc., are also important. The availability of some of these and other mechanisms across different countries are presented in Table 2.2. It is worth mentioning that most of these programmes are not gender-sensitive.

**Table 2.2:** Availability of SME Financing Programmes in Selected Countries

Programme	Japan	USA	UK	China and Hong Kong	India	Malaysia	Sri Lanka	Bangladesh
Direct investment by government	√	√	√	√	√	√	√	√
Government investment in venture capital or equity capital financing schemes	√	√	√	√	√			√
Credit guarantee scheme	√	√		√			√	
Leveraged investment with government participation	√	√	√					
Venture capital	√	√	√	√	√	√		
Loans/ guarantees to SMEs through institutional network through public-private partnership	√	√	√	√		√		
Credit database	√	√	√			√		
Sub-contracting arrangements	√	√	√			√		
Exit mechanisms for companies and stocks	√	√	√		√			
Strong legal and regulatory framework for the capital market	√	√	√		√	√		
Credit scoring mechanism	√	√		√				
Bank syndication						√	√	√
Specialised financial institutions	√	√	√	√	√		√	√
Credit rating system		√					√	√

Governments in developed countries use grants as a major instrument to financially support SMEs, which is, in a market mechanism, nothing but a subsidy. Such a subsidy mechanism, in turn, works against SMEs in developing countries in terms of trade competitiveness. On average, in the European Union 58 per cent of the support comes in form of grants, whereas in the UK, one of the member states of the EU, it comprises 94 per cent of total support (OECD, 2000). Most of the governments run SME development funds. One such example is the Special SME Development Fund of the UK government. Equity-based schemes like the Enterprise Fund, the Coalfields Enterprise Fund and the Community Investment Tax Credit Fund etc. were recently established to support SME financing in the UK.

With assistance from international and regional financial institutions many developing and least developed countries also run a time-bound SME funds, where there is a special allocation for WOE. For example, the Asian Development Bank operates small entrepreneurship funds in Bangladesh, Sri Lanka, and Indonesia (ADB, 2004).

Many governments and micro finance institutions (MFIs) in Asia and Latin America operate micro-credit programmes for micro entrepreneurship. One of the distinct features of micro-credit is that it is the mechanism favouring female “entrepreneurs” and is used as a tool for elevating women above the poverty line. However, its effectiveness is questionable in terms of poverty alleviation, as there is no panel data available except some anecdotal evidence of successes. Nevertheless, this micro-credit serves a particular female clientele group, which may

not be extremely poor, but in dire need for micro start-up capital. Nevertheless, any improvement in access to credit for women, especially in the rural areas, is owing to the massive expansion of the credit network by the MFIs.

Initially being a phenomenon nurtured by government or government-sponsored institutions in the USA, venture capital (VC) gradually expanded and became increasingly formalized across the globe. VC has started to play a role in transition economies like the ones of Russia, the Czech Republic or Hungary. With the exception of Israel, India and very recently South Africa, VC plays hardly any role in most of Africa (except South Africa and Nigeria), Latin America, and the Middle East (Raihan, 2005). Individual venture capitalists called “Business angels”, very wealthy individuals and experienced business men, also provide capital and contribute their business experience and leadership to successfully build a new business as well.

In many developing countries governments are trying to promote equity financing for SMEs, although private sector equity financing for SMEs, not to mention WOE, is almost absent. Both India and Malaysia are successful in venture capital formation for SME financing. In India, IT companies are quite successful in procuring the necessary funds through venture capital formation. In Bangladesh, an Entrepreneurs’ Equity Fund (EEF) was established in 2000 and is providing equity to SMEs in agro-based industry and the ICT sector through commercial banks.

Credit guarantee schemes are common both in developed and developing countries and they are mainly a public phenomenon. In Europe, SMEs have access to different guarantee schemes initiated by the EU and European Investment Fund (EIF). State governments of individual EU member countries also have guarantee schemes. In many developing countries credit guarantee schemes are available, particularly for the export sectors.

Moreover, there are specialized financial institutions in many countries, which are established by the governments to finance SMEs. These institutions often are linked with institutions providing credit guarantees and venture capital under the auspices of government. In some countries, these specialized financial institutions have special financial products designed for women entrepreneurs. In a few countries, there are specialized banking institutions exclusively serving female entrepreneurs. First Women Bank in Pakistan ([www.fwbl.com.pk](http://www.fwbl.com.pk)) and Spain’s World Women Banking ([www.swwb.org](http://www.swwb.org)) are a few among them.

Introduction of a credit scoring system with focus on SMEs allows financial institutions in many countries to provide access to finance, given that the SMEs keep proper books of accounts. By implementing analytic software like a *credit scoring model* based on available data from reliable sources, banks and financial institutions in the USA, Japan, UK, Malaysia, China and Hong Kong are providing loans to SMEs with growth potential and a good track record (Latimer, 2000).

Private commercial banks are the most common source of institutional financing to small and medium enterprises in developed and developing countries. However, there is no specialized private financial institution which deals exclusively with women entrepreneurs.<sup>8</sup>

Finally, focused technology financing is a new phenomenon in some developing countries. International financial institutions and some governments are trying to take a “systems approach” in technology upgrading of SMEs with a package offer, which includes access to technology information, facilitation for deals, assistance in tying up financial and other requirements up to arrangement of financial syndication.

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<sup>8</sup> In Germany, there are private efforts to establish a bank exclusively focused on women (<http://www.frauenbank.de/>).

## 2.4 Barriers to Access for WOE

Globally, five specific barriers are identified by women entrepreneurs for start-up and growth: access to information, access to finance, access to markets, access to networks and validation (UNECE, 2004). The additional challenges faced by women entrepreneurs are: motivation challenges (encouragement for entrepreneurship as an option), the start-up challenge, which is essentially access to resources and support when starting a new business, and the growth challenge, that is gaining support and resources necessary to pursue a growth for their business. Raising start-up finance remains a significant barrier to entry into business by women entrepreneurs both in the developed and the developing worlds. A study of 600 firms in the United Kingdom shows that this shortfall in initial capitalisation which many women face could set them at a disadvantage in terms of their business's capacity for growth (Carter and Rosa, 1998).

However, empirical evidence as regards a gender-bias in accessing finance is not conclusive. On the one hand, there is a pervasive belief that women face greater difficulties obtaining bank credit than men (Riding and Swift, 1990; Haines, Orser and Riding, 1999). Smallbone et al. (2000) argue that women entrepreneurs experience a number of problems and issues that are greater than those facing small businesses in general (Welter, 2004). As a whole, there is no dispute in the literature that women business owners as a group (and growing market), have been under-served by banks (Morrall, 1993). Access to finance is identified as the second most difficult barrier by the women entrepreneurs across the globe (CWBR, 2002).

On the other hand, some authors (Kim and Gaskill, 1995) report that their study results indicate no significant gender differences in access to finance. To sum up, there also is significant empirical evidence that does not support the allegation of gender bias (Riding and Swift 1990; Buttner and Rosen, 1992; Haines, Orser and Riding, 1999).

Research also suggests that women do not just want credit; they also want (and perhaps need) assistance and guidance as well (Morrall, 1993 and Van Auken, Gaskill and Kao, 1993), which is particularly true for the entrepreneurs in many developing and least developed countries.

It is often believed that women by nature tend to engage themselves in smaller business. However, research shows that access to financial resources as determined by size and the types of women owned businesses, overwhelms the issues of lifestyle or intention or choice for having large businesses (Carter and Allen, 1997). Women entrepreneurs tend to be involved more in trade and services than in manufacturing business, but banks and other lending institutions often are reluctant to lend to these sectors. The involvement in manufacturing business by women entrepreneurs is centred on less technology intensive ventures.

When discussing the degree of barriers to finance, one has to keep in mind that generalizations are difficult vis-à-vis size and type of business. Furthermore, the degree of difficulties varies from country to country and also within a country depending whether an enterprise is located in urban or rural areas. The degree of difficulties is also related to the life cycle of business – from start-up to growth and graduation. It is also related to the value chain of a particular business.

### 2.4.1 Barriers: Supply Perspective

**Sex Stereotyping:** Women entrepreneurs' relationships with financiers suffer due to sex stereotyping and discrimination. A study of bank loan officers found that women are perceived as

being less entrepreneurial than men (Buttner and Rosen, 1988). Access to financial resources and size (usually in terms of numbers of individuals employed) are correlated. Some researchers argue that it is a stereotype that women-owned businesses are small not due to lack of financial resources, but rather due to a deliberate or socially induced choice on their part. This stereotype of the finance holder is the primary deterrent to growth of women-led businesses (Carter and Allen, 1997).

**Perception about high risk:** Commercial banks are usually wary of small businesses because of the perception that SMEs are high risk borrowers. Furthermore, banks have inaccurate perceptions of women's borrowing and entrepreneurial behaviour. Women, who typically lack collateral, are regarded as particularly risky in most countries. However, the credit history of women borrowers does not support this perception. For example, the repayment rate of SME borrowers in South Asia, particularly of women-SMEs, is high when compared to the track record of big corporate borrowers. In Bangladesh, other than agriculture credit, the repayment rate by SME borrowers was around 90 per cent of total outstanding loan, on the other hand, such rate for big borrowers (loan size at least Tk. 10 million) was 69 per cent during the 1990s.

**High Cost of Lending:** The cost of administration and servicing of small loans is high due to the same loan processing and documentation requirements for enterprises of all sizes, which is unnecessary for such loans. Additionally, the credit risk assessment process, which generally is very sophisticated, is the same for small and large loans. As a result, financial institutions fail to minimize cost which discourages them from extending credits to SME borrowers, whereas WOE's might need preferential interest rates for surviving in the market.

**Explicit or Implicit (Structural) Gender Discrimination:** Walker and Joyner (1999)<sup>9</sup> distinguish between four different types of finance discrimination:

- *Pure gender discrimination:* women are offered different (financing) terms because of their gender;
- *Institutional gender discrimination:* women are offered different terms based on individual perceptions of inferior knowledge and abilities;
- *Statistical gender discrimination:* women are offered different terms based on statistical averages of the relevant criteria for the transaction; and
- *Economic gender discrimination:* women are offered different terms because they do not meet the relevant transaction criteria and they are less qualified.

Welter (2004) adds another type of structural gender discrimination in terms of accessing financial support programmes, where programmes do not include the sectors in which women mainly set up businesses.

**Weak financial system:** An under-developed financial market in many developing countries acts as a structural barrier for accessing financing facilities by women entrepreneurs, which makes designing financial services for women entrepreneurs even more difficult.

**Inadequate Knowledge and Capacity of Financial Institutions:** The knowledge of management in financial institutions is not adequate as regards the nature and financing needs of

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<sup>9</sup> Cited in Welter (2004).

WOEs. As a result, differentiating treatment to their needs is absent in general, both in developing and developed countries, with a few exceptions.

Here, research draws attention to the fact, that a “non-traditional thinking” of female entrepreneurs and innovative business ideas also plays an additional role in restricting their access to external finance: “Financial intermediaries ... may not have the skills necessary to evaluate innovative business ideas for which there are no benchmark values to use for credit assessment” (OECD, 2000).

**Rigidity in Financial Product Design:** Banks often rely on personal profiles and track records in reviewing loan applications. Those are not often strong in the case of women entrepreneurs, often due to a lack of proper records of such relationships. There is little deliberate effort by the financial institutions to design tailored financial products. The good practices of collateral-free banking for SMEs and WOEes are not replicated. The practice of collateral-free banking by the *First Women Bank* in Pakistan is noteworthy. The R&D of financial institutions ignore this particular group of untapped clientele; as a result, the portfolio of financial products remains undiversified.

**Absence of Mechanism for Improving the Effectiveness of Government’s Credit Facilities:** Generally, there is no indicator to measure effectiveness, outreach, and impact of various credit facilities being provided by public institutions in developing countries. In some cases, this problem prevails also in many developed countries (e.g., Jung and Habschick, 2002). Such evaluation could make government support more effective, with more impact on the beneficiary groups.

**Market Failures in SME Financing:** As a whole, there is a market failure as regards SMEs, particularly WOE financing. Existing market structure can not automatically address the special situation and needs of WOEes. Problems with ownership of assets required for collateral, high interest rates due to crowding out by the government caused by high interest rates of government bonds, are largely responsible for the problems of market failure. Lack of an efficient interbank market to channel excess liquidity, nascent capital markets, lack of legal framework needed for developing alternatives for long-term financing such as securitized debt securities further aggravate the problems of access to finance by WOEes.

**Complex Procedure of getting financed:** The procedure for financing is too complex for most of the women business owners. A survey of SMEs in Bangladesh identified that the business owners have to visit on an average 15 times for one loan, whereas, the frequency of visits for getting a loan from an informal money lender is 3, from an association 2.5, from relatives and friends 2.25 (Choudhury and Raihan, 2000). Table 2.3 presents a long list of documents, which are required for getting small loans from banks. The documentary requirements are also not made explicit to the potential borrowers.

**Table 2.3:** List of Typical Documents Required for Small Loan in Bangladesh

1	Trade License/ Certificate of incorporation
2	Tax identification Number (TIN)
3	Income Statement from the bank where the entrepreneur maintains a current account
4	Land Purchase Deed
5	Via Deed
6	C/S (Cadastral Survey) Record for Land
7	S/A (State Acquisition Survey) Record for Land
8	R/S (Revised Survey) Record for Land
9	Non-encumbrance certificate
10	Mortgage registration
11	Land valuation certificate
12	4 copies of loan applications
13	Project profile
14	Credit Information Bureau (CIB) report of Central Bank
15	Certificate of ability to provide equity
16	Land map (from sub-registry office)
17	Building plans
18	Clearance certificate from the electricity office
19	Nationality certificate

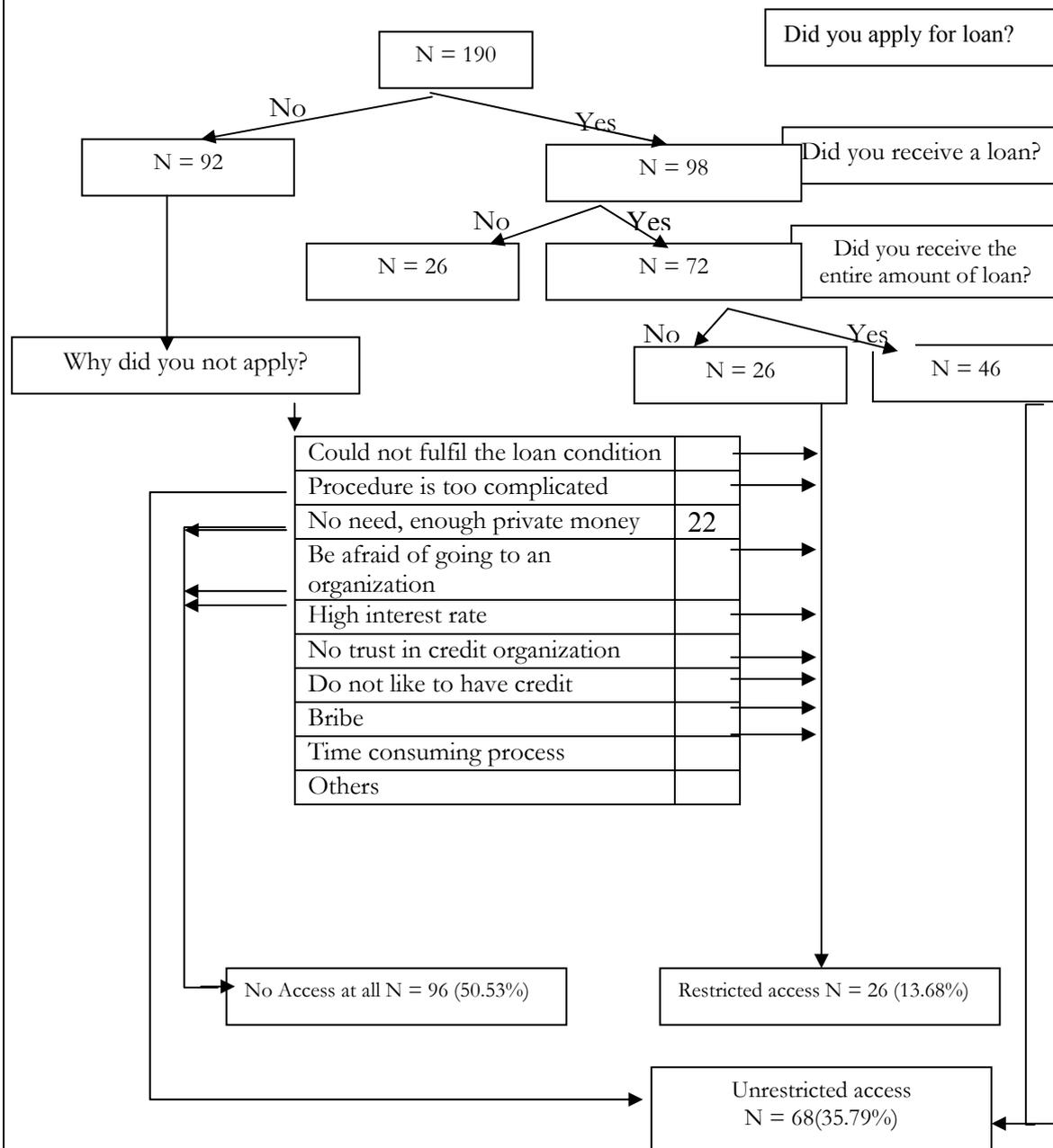
*Source:* Choudhury and Raihan (2000).

Most of the above-mentioned barriers are crystallized through the semantic model presented in Box 2.1, which shows that only 24.21 of SMEs have unrestricted access to finance in an under-developed financial market.

**Box 2.1: Barriers to Access to Credit by SMEs: A Semantic Model in Bangladesh**

For the perception of the stakeholders from the demand side regarding the access to formal credit a Semantic model has been used (see figure). For this model four questions have been developed. First, “Did you apply for formal loan ?” If the answer is “yes” to this question, the following question is “Did you receive a loan ?” Again, if the answer is “yes”, the next question is “Did you receive the entire amount of loan ?”

**Perception of the SME Stakeholders: Access to Formal Credit**



The number of respondents, who answer “yes” to this question, is the proportion of respondents to whom the access to credit is unrestricted. But, for rest of the respondents (who applied for a loan), the access to credit is restricted, the degree varies from hundred per cent (applied for loan, but not received) to less than 100% (applied for a loan but received less than the entire amount). Yet, there is another group of respondents, who answer “no” to the question “did you apply for loan?” For extracting the reasons for not

applying for loan in this model the question is set “Why did you not apply for loan?” Among the responses of the respondents, one is “no need, enough private money”. The number of respondents to this question should be added to the “unrestricted access” group. Some researchers argue against adding “all of those who do not need money” to the unrestricted access group. The argument for such proposition is: firstly, this is a common answer in developed countries as well; secondly, the problem here is the perception of new entrepreneurs, that they do not need external money (and some of them might have heard about difficulties with banks of other entrepreneurs, when talking to other entrepreneurs), or they don’t want to borrow. The problem is undercapitalisation of the business (liability of smallness) right from the beginning in many instances.

Without considering this argument, according to the model the access to formal credit is not available at all to 50.53% of the stakeholders. Only 35.79% of SME stakeholders enjoy unrestricted access to formal credit. The rest (13.68%) of them have restricted access to formal credit. While considering the argument of not including those who do not need money into the unrestricted group, 24.21% have unrestricted access to finance.

The SMEs respondents mentioned several reasons of failure to receive a loan from a formal source (See Table below).

**Reasons for failure to receive the Loan : Applicants’ Perception**

Reasons	Percentage of Respondents
Could not fulfil the loan covenants	58.3
Bribe	43.5
Left trying for a loan, procedure is too complicated	41.7
Banker’s disinterest	39.1
Left trying for a loan, time-consuming process	34.8
Lack of collateral security	30.4
Insufficient income	17.4
High interest rate	17.5
High sunk cost	4.3
Lack of information	4.3

*Source:* Choudhury and Raihan, 2000. Note: Multiple responses.

**2.4.2 Barriers: Demand Perspective**

One can classify the barriers to access to finance by WOE’s from a demand perspective in to three broad groups:

1. Society and Law;
2. Personal background of the entrepreneurs; and
3. Type of business.

**Society and Law**

**Nature of Role in Family and Society:** Generally, women start businesses using less capital than men due to limitations in income and lack of knowledge about the availability of institutional funding. They are less likely to use bank loans compared to men at start-up due to a problem in mobility as well. Women tend to borrow from family and friends and use non-traditional or non-institutional lenders both for lack of access to formal channel and for fear of uncertainty, which mean women incur higher search and transaction costs (Haynes and Haynes,

1993). They also face difficulties in obtaining such funding (measures in money, time and energy) due to family responsibilities.

**Informal Entity:** The majority of the SMEs, particularly WOE, operate informally in the market. Registration systems are limited to companies, excluding most SMEs, which are not in corporate form. Women prefer to operate informally due to the hassle of the registration procedure and also due to the nature of their venture. However, there is little scope for institutional financial support for informal entities. This situation prevails in developing and least developed countries, especially in the rural and suburban areas.

**Lack of Collateral:** The majority of SME-owners, who do not seek bank credit complains about “excessive collateral” requirement, which is a major barrier for them to access bank loans. The kind of collateral usually considered by banks as appropriate security is land or buildings, security papers, deposit, insurance certificate etc. These securities must be exclusively owned by the borrower, i.e., the title documents must be in the borrower’s name. This poses a particular problem for women, who rarely have property in their name, and for young entrepreneurs who may stand to inherit property but do not have a current title. It is also worth mentioning that bankers are generally not interested in taking farm land as collateral indicating that they would only consider land owned within the municipal area. Thus, rural SMEs are automatically left out of institutional credit. In some instances, women entrepreneurs are asked to submit their original school certificates as securities. Although at first sight it may look like a good idea, eventually it is also discriminating against women where they do not have opportunities to attend schools.<sup>10</sup> It is a general complaint by borrowers that bankers undervalue the collateral presented. A further problem is the insurance required for property put forward as collateral, as property owners seldom go for insurance premium payment, which they see as an additional financial burden.

**Women’s property ownership:** While collateral is the main criterion for mainstream commercial banking credit, the ownership of assets remains a specific problem for women in many economies of transition, developing and least-developed countries. Sometimes, the ownership pattern is in favour of a male counterpart due to tradition, in some cases due to religion. In many countries in the South, parallel succession laws have been enacted, however, these laws are not mandatory.

**High transaction cost:** The transaction cost is high for women-owned SMEs due to high searching and processing costs. A list of sunk costs is provided in Table 2.4, which are common in many least-developed and developing countries.

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<sup>10</sup> A programme set up by National Directorate of Employment in Nigeria requires a school certificate as collateral.

**Table 2.4:** Sunk of Cost of Loan

Expense Item	As % of Total Loan	As % of Total Expenses
Bribe to income tax officer	4.61	34.70
Bribe to Banker	2.97	22.33
Preparation of security documents	2.28	18.64
Commission of Banker	0.83	6.26
Tax Identification Number (TIN)	0.41	3.06
Commission of Broker	0.30	2.25
Transportation	0.23	1.71
Own "Away from home" feeding cost	0.22	1.64
Income statement from banks	0.21	1.56
Account opening	0.19	1.47
Trade license	0.17	1.27
Assistance in preparation of documents	0.12	.94
Stamp	0.06	0.46
Loan Application Form	0.02	0.17
Nationality Certificate	0.01	0.10
Others	0.46	3.44
Average sunk Cost per loan		5.89
Maximum sunk Cost per loan	21	

*Source:* Choudhury and Raihan, 2000.

### **Personal Background of Entrepreneurs**

**Small Personal Capital:** Women often have smaller amounts of personal capital available for start up because of disrupted working careers. The small personal savings does not allow women entrepreneurs to start business smoothly and with a size they could start having unrestricted access to institutional finance. As a result micro-entrepreneurship is prevalent among female entrepreneurs in Asia-Pacific and Africa and many countries of Europe as well. As a whole, 85 per cent of the SMEs across the globe fall into the category of micro enterprises. For WOE, the share is higher. Even in Australia the gendered distribution of wealth (e.g. access to finance and accumulation of assets) was a significant issue for women in small business (Still and Timms, 2000).

**Knowledge and Experience in Financial management:** Female entrepreneurs are more likely to have less experience with financial management (Verheul and Thurik, 2001; Orhan, 2001). The lack of financial management experiences is often caused by societal factors, where women have less access to training because of interrupted work careers (Jungbauer-Gans and Preisendörfer, 1992, in Welter, 2004). Women lack knowledge about available options of financing, advantages and disadvantages of those options, cost for options, risks of borrowing etc. In the USA, successful women business owners have some kind of formal educational training in business finance or have corporate experience in this area. However, the majority of the businesswomen even in the USA feel they do not understand the different types of equity financing (CWBR, 2005). This lack of knowledge generates reluctance in seeking formal financing. Women need to have a better understanding of what financial institutions are there to provide and the processes by which their needs can be assessed by the financial institutions.

**Lack of networking:** Networking as one form of social capital is scarce among female entrepreneurs in general. A number of studies (Aldrich, 1989; Döbler, 1998; Jungbauer-Gans,

2000; Meyer and Harabi, 2000; Renzulli *et al.*, 1999) draw attention to gender specific deficits in the networking contacts of female entrepreneurs, pointing to the limited outreach and diversity of women entrepreneurs' networks as well as to their tendency to concentrate on weak relationships (Welter, 2004). Female entrepreneurs spend less time in networking, again, mainly due to family responsibilities, which may deprive them of important information concerning the acquisition of finance.

### **Type of Business**

Business size and the type of entrepreneurship women pursue influence the general credit legitimacy of women entrepreneurs (Mirchandani, 1999). The type of business like part-time entrepreneurship, informal nature of business, home-based business – all are discouraged by the formal financial institutions.

## **2.5 Good Practices in WOE Financing**

Three specific areas of intervention can be identified which may address both the demand side and supply side bottlenecks identified in section four of the chapter. Based on multiple rationales and balancing needs of different groups of self-employed women the following criteria can be used both from the perspective of understanding good practices for WOE financing as well as defining strategies for further improvement. They are:

- a. **Improving access to existing sources of finance:** programmes that improve women's immediate access to resources (credit lines, micro finance, access to training and services);
- b. **Developing targeted financing tools for women entrepreneurs:** programmes designed to promote self-employment in the wider society and increase their visibility in business and policy communities;
- c. **Addressing structural and cultural barriers:** gender mainstreaming to address underlying structural barriers and their manifestation in the labour market, tax, family and social policies. These interventions should take care of mainstreaming a gender sensitive approach to SME policy through identifying gender specific barriers and broadening the scope of policies to reflect the characteristics, constraints and needs of women-owned enterprises.

### **Good Practices related to Improving Access to Existing Sources of Finance**

**Credit guarantee schemes:** In the UK, any viable new business or an existing business having an annual turnover of less than £1.5 million receives this guarantee from the Department of Trade and Industry under the Small Firms Loan Guarantee Scheme (SFLGS). This guarantee ensures repayment of any defaulted loan taken by an SME. A similar mechanism is also available in China and Sri Lanka. Under the Canada Small Business Financing Program the Government of Canada guarantees loans of up to \$250,000 to small businesses to purchase land, buildings or equipment, or to improve buildings or equipment. Loans are made through banks or other financial institutions.

### **Good Practices related to Developing Targeted Financing Tools for Women Entrepreneurship**

**Micro credit:** Micro credit is one of the most widespread and customised financial products for female entrepreneurs. In Bangladesh, women accounted for 94 per cent of Grameen Bank

members, 82 per cent of BRAC members, and 68 per cent of Bangladesh Rural Development Board (BRDB) members (Khandker and Khalily, 1995).

**Financing through Specialized Financial Institutions:** Canada and the USA offer some good practices with regard to financing WOE. Through the Small Business Administration, the office of Women's Business Ownership, and other federal-level institutions, the US government provides women entrepreneurs with information and assistance in accessing both public and private sources of finance. It also provides funding to Women's Business Centres around the country, many of which include micro-loans or seed money among their services. There are also good practices from Finland and Israel, as well as Poland and Slovenia, where government support is developed in partnership with women's business associations and other partners. Innovative ways to improve women's access to financing are also being developed by municipalities and local governments (UNECE, 2005).

Civil society organisations (CSOs) offer diversified schemes to improve women's access to financing. Some have established alternative sources of finance, cooperative banks, micro-finance schemes, and solidarity lending programmes. Others offer programmes designed to provide women with the tools and resources they need to gain access to the formal financial sector, such as training and counselling services, or partnership arrangements with banks. Some CSOs implement advocacy programmes to raise awareness about the structural factors that contribute to women's difficulties in accessing finance, such as gender inequality in property ownership, and in distribution of assets.

The Women's Cooperative Bank, a non-profit lending institution in Cyprus, prioritises women in its mission, but does not exhaustively target them in its services. The BRAC Bank in Bangladesh has undertaken a SME financing programme, which targeted 20'000 SMEs with USD 120 million, a large chunk of which is allocated for women SMEs.

Regional Development Banks like the ADB are latecomers to the field of financing small enterprises, having historically focused their lending programmes on large-scale infrastructure projects. Some regional banks have developed special programmes for women entrepreneurs. In Bangladesh, the ADB launched a programme titled "Small and Medium Enterprise Sector Development Program" in 2005, where, among other components, a small enterprise fund (SEF) has been developed with an amount of USD 56.7 million for addressing the "missing middle" (ADB, 2004).

In India the *Small Industries Development Bank of India (SIDBI)* is a specialized financial Institution for SMEs, which has special schemes for direct financing for bigger credit needs through its regional offices. This organisation promotes a graduation mechanism of SMEs by refinancing through state financial corporations and state industrial development corporation for long-term credit needs of SMEs. The most important amongst the sectoral initiatives taken by the government of India and SIDBI is the launching of an SME Fund of Rs.100 billion, with a view to giving impetus to the fund flow to the SME sector. Under the Fund, assistance is being provided to SMEs at an interest rate of 200 basis points below the Bank's PLR. Direct assistance is being extended to SMEs through SIDBI's own offices at 9.5 percent rate of interest as also by way of providing refinance to the primary lending institutions. Refinance to SFCs is available in the interest rate band of 7.5 per cent to 8 per cent. The SME Fund provides for routing of assistance, besides SFCs, through commercial banks as well. The Fund, besides upscaling the flow of assistance to SMEs, addresses the issue of cross sector parity in the cost of loans (Chopra, 2004).

There are examples from other parts of the world which include *Raciniemska*, a loan guarantee fund for SMEs in Poland, WWB (Women's World Banking), Spain's programmes for helping women who lack collateral access bank loans, ERBD's lending packages targeting SMEs ([www.european-microfinance.org](http://www.european-microfinance.org)) and the pilot project of the Nordic Investment Bank (NIB), the Council of Europe Bank (COB) for the Baltic States and the loan package provided by the Finnish government-funded lending agency *Finnvera* ([www.finnvera.fi](http://www.finnvera.fi)). Japan's Finance Corporation for Small Business provides interest-free or low-interest loans to SMEs without collateral or guarantors (UNECE, 2005).

**Venture Capital:** Although VC is one of the major sources of financing of promising but risky business, generally, there is no conscious attempt to provide financial support to the innovative business propositions offered by female entrepreneurs. In theory, it is indiscriminate to the sex of the entrepreneurs. In most of the cases, VC is not for SMEs, at least in its original terms. However, there are exceptions, one of them India's Aavishkaar India Micro Venture Capital Fund (see Box 2.2).

**Box 2.2:** Venture Capital for SMEs: Learning from Aavishkaar in India

The Aavishkaar India Micro Venture Capital Fund ("Aavishkaar") is a for profit venture fund founded to promote development in rural and semi-urban India. Aavishkaar believes entrepreneurs can be a powerful force for development. To this end, the firm provides micro-equity funding (Rs. 10 lacs to Rs. 50 lacs, approximately USD \$20 thousand to USD \$100 thousand) and operational and strategic support to commercially viable companies increasing income in or providing goods and services to rural or semi-urban India. Aavishkaar targets a 32% IRR per investment. Aavishkaar has raised USD \$1.2 million (Rs. 5 crore) and has made five investments to date.

Small to medium-sized private enterprises can drive development in these underserved regions. Historically, these enterprises have been thwarted by misguided economic policies, infrastructure challenges, and limited access to capital. Recently, improved economic policies and infrastructure investment have removed many obstacles. A lack of access to capital, however, still inhibits widespread growth. Micro-credit is too small and too restrictive to be used for true business creation. Conventional venture capital focuses on ventures requiring USD \$1 million+ that target urban regions or service export. Businesses smaller in scale addressing rural and semi-urban India cannot find the risk capital they need. Aavishkaar strives to fill this gap. The firm makes equity investments between Rs. 10 lacs to Rs. 50 lacs in companies focused explicitly on these underserved communities.

*Source:* Raihan A. 2005

**Public-Private Partnerships:** In Canada, over 10 federal government departments and some provincial governments have developed programmes and services specifically tailored to the needs of women entrepreneurs. This has been complemented by a number of private sector-driven initiatives, often created or sponsored by one of the major Canadian banks. For example, the Royal Bank of Canada is a major funder of Women Business Owners of Canada (WBOC). Western Diversification, one of the federal government's regional development agencies, has funded a Women's Enterprise Programme that provides counselling and lending services for women through a network of Women's Enterprise Centres. Scotia Bank and Bank of Montreal have partially funded centres for women in business at Simon Fraser University in Vancouver and Mount Saint Vincent University in Halifax. To illustrate the continuous importance of the issues in the Canadian context, the Prime Minister announced a Task Force on women entrepreneurs in 2002.

As a result of these supports from 1976 to 2001, the number of self-employed women in Canada grew by 300 per cent, increasing their share of total self-employment from 17 per cent to 35 per cent. For comparison, from 1991 to 1996, the number of self-employed women increased by 33 per cent, whereas the number of self-employed men grew by only 15 per cent.<sup>11</sup>

### **Good Practices related to Addressing Structural and Cultural Barriers**

**Property Rights:** In Kyrgyzstan there are efforts to raise awareness about women's property rights and land ownership rights, in order to change patterns of ownership. The *Pink Card* project of Milan, Italy, educates women about the importance of establishing a credit history and managing their personal finances (UNECE, 2004).

**Offering Less Complex Procedure:** Entrepreneurs in Canada face fewer hurdles and paperwork than in 74 other countries according to a survey conducted by the World Bank and Harvard University. Canada was ranked first for its generally low level of red tape, with nascent small businesses typically facing just two procedural steps. These involve filling out tax forms, as well as a licensing application or some other form of regulatory paperwork. The Internet has sped up this process greatly in Canada. (Dixon, 2000)

**Networking:** As networking was identified to be an important ingredient of success for accessing finance, in Germany, the Federal Ministry for Women, Senior people, Family and Youth (BMFSFJ) sees its role in fostering societal change, which also implies support for networking initiatives between gender-specific and mainstream support and business organizations (Welter, 2004).

**Finance Plus:** The barriers and needs of women-owned SMEs have shown that financial instruments alone cannot solve the problem of poor access to finance, as there are both supply side and demand side bottlenecks. Thus, "finance plus approaches" focuses on providing women entrepreneurs with information, counselling, and guidance to ensure that they are aware of existing resources and help them navigate through the loan application process. Some programmes also work directly with the staff of the financial institutions to educate them about women's financing needs and help them to tailor their services and financial tools to the needs of women entrepreneurs. In Bangladesh USAID funded the JOBS project that trained bank officials of private and public commercial banks and many of those banks are now providing tailor-made financing services to SMEs.<sup>12</sup>

**Technology financing:** The Malaysia Technology Development Corporation (MTDC) offers the Special Technology Acquisition Fund for Women (Thas, 2005). In India, the Technology Development and Modernization Fund and the Credit Linked Capital Subsidy Scheme for technology upgrading of SME units have been formulated. Under this scheme, 12 per cent back-ended capital subsidy is admissible on the loans advanced to SMEs by the scheduled commercial banks/designated financial corporations for technology upgrading in certain select sectors. The Technology Bureau for Small Enterprises of India provides information to SMEs on a wide range of technologies, facilitates contact between business partners from different countries of the ESCAP region for collaboration and arranges meetings of technology sellers from different parts of the world with prospective buyers of the technology in the country and assists in tying

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<sup>11</sup> <http://www.rbcroyalbank.com/sme/women/statistics.html>

<sup>12</sup> See: [http://www.jobsproject.org/programs/loan\\_fac\\_unit.htm](http://www.jobsproject.org/programs/loan_fac_unit.htm)

up financial and other requirements. Finance syndication, promotion of technologies, export and extension of other relevant support are part of the package available to SMEs from the Bureau.<sup>13</sup>

## 2.6 Improving Access to Finance for WOE: A General Policy Framework

The choices of policy designed for better access to finance by women entrepreneurs are linked to resources (human capital, physical, institutional, financial infrastructure). Many initiatives based in developed market economies have their own goal of improving women's integration into an already well-functioning financial system. However, in the other part of the world, where the financial institutional framework is still weak and underdeveloped, strategies that focus on developing alternative sources of financing might be more relevant with side-by-side improvement of existing mechanisms.

**One size does not fit all:** Approaches and the rationale for supporting women's self-employment and entrepreneurship differ in the developed and developing worlds. The *growth approach* emphasizes women as an untapped source of growth, as a solution to unemployment, and as a potential for innovation for the economy as a whole. On the other hand, *poverty reduction* rationale emphasizes self-employment as an economic survival tool for poor women and their families. Efforts to promote women's entrepreneurship stem also from a commitment to women's empowerment.

All these approaches and rationale require different strategies for improving access to finance. While stakeholders focus on only one approach, without coordination of one approach with another, gaps can emerge, resulting in ineffective policies. While developed countries' policies are largely based on "job creation" or "economic growth" rationale, developing and least developed countries should base their policies on "poverty alleviation" and the "empowerment" rationale.

Without strong linkages to the government decision-makers who set the economic policy agenda, such programmes risk further isolating poor and marginalised women, instead of helping them to integrate into a larger economic system.<sup>14</sup>

**Adopting a "bottom-up" approach:** A "bottom-up" approach may be more relevant than a "top-down" approach. The nation-wide push for legislation and research promoting women's entrepreneurship in the US in 1970s grew out of the momentum of the women's movement and the civil rights movement. Similarly, the Local Enterprise Agencies (LEAs) in the UK emerged "bottom up" as a grassroots phenomenon that started in the private sector as a response to locally defined needs and problems. In Bangladesh, large NGOs like the Grameen Bank and BRAC are now addressing the problem of access to finance for the "missing middle", filling the gap in the existing financing mechanism. It is very important to recognise at the very outset that reproducing what works successfully in one country, in another country via "top down" approaches, without acknowledging the key role of grassroots impetus, may not work.

**Leveraging from New Basel Accord:** The new Basel II accord among the central banks of member countries allows, on the one hand, lowering of the risk-weight curve for corporate credits; on the other hand, there will be a reduction directly related to the capital charges for

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<sup>13</sup> See: [http://www.unescap.org/tid/publication/indpub2323\\_part2ivB.pdf](http://www.unescap.org/tid/publication/indpub2323_part2ivB.pdf)

<sup>14</sup> Based on UNECE paper for UNECE/OSAGI Regional Symposium on mainstreaming gender into economic policies (2004); OECD Small and Medium enterprise outlook; Proceedings of Second OECD Conference on Women Entrepreneurs: Kantor, 2000.

loans to smaller businesses. For example, banks adopting the Internal Ratings-Based Approach will be allowed to adjust downwards the capital requirements to small businesses with up to Euro 50 million in annual sales. This adjustment will reduce the capital charge on a loan to an SME by as much as 10% compared to the new requirements for larger businesses. Under the New Basel II, retail lending to SMEs will enjoy a reduction of risk weights by 25 percentage points from 100% to 75 %. The New Accord will offer a far wider range of collateral and guarantees that the current Accord does. This change is especially pertinent to SME lending, since national supervisors will be able to recognise several of the types of collateral and guarantees that SMEs provide. The new rules will not increase the capital requirements for banks' credit exposures to SMEs. If the Internal Ratings-Based Approach is used, there will be a capital decline of between 3% and 11% for banks (Zahra, Joseph F.X. 2004). Governments should act upon the new opportunities and through their central banks pursue the commercial banks to offer low interest rate credit to women-SMEs.

**Benchmarking:** Benchmarking is very important to achieve progress. Developing a system of data collection on a regular basis, information gathering and research on women entrepreneurs, their access to finance situation by types of products and institutions, can serve as the basis for effective policy design and improving the system. For addressing the definition problem, it would be important to add additional data on size (in terms of capital and number of employees) and gender (of owner) of each kind of entrepreneurship. This benchmarking may lead towards adoption of policy measures and assessing progress by individual government, private sector, civil society and other stakeholders.

## 2.7 Policy Recommendations

A set of policy recommendations is proposed below based on the financing needs of WOE, understanding the barriers to access to credit, differentiating various roles of the stakeholders. These recommendations are made following the criteria mentioned in the Section 5. For better understanding one can also follow Table 2.5 and Table 2.6.

As market failure prevails in WOE financing, governments have to play a major role in addressing challenges of WOE in accessing finance. The policy measures required for easing access to finance start from simple introduction of simplified registration system for micro and small enterprise and legal reform for women's property ownership and end with arranging refinance to private financial institutions for women-SME lending. The private sector can also play an important role and share the experiences in other countries. Introduction of a credit+ approach including home-based mentoring and counselling can improve access to finance by the WOE significantly, whilst at the same reducing the risk of portfolio management. Training of staffs and management for designing specialised products for women borrowers, which is not so fundamental in terms of implementation, can also play an important role. CSOs can initiate institutional network through public-private partnership for sharing good practices among the SMEs and seeking financial opportunities. In case of developing and least developed countries, IGOs can assist in developing legal frameworks for issuance of securitised assets. In the medium term IGOs can introduce Special Small Enterprise Funds for providing equity financing of SMEs to private financial institutions (PFI) windows at discounted rates. Such programmes are giving dividend in many countries of Asia and Africa.

**Table 2.5:** Action Agenda for Improving Access to Finance by Women-SMEs based on Good Practices: Demand Perspective

		Improving access to existing sources of finance	Developing targeted financing tools for women entrepreneurs	Addressing structural and cultural barriers
Demand Side	Government	<ul style="list-style-type: none"> <li>• Introduction of simplified registration system for micro and small enterprise</li> <li>• Legal reform for women's property ownership</li> <li>• Introduce refinancing for FIs having specialised products for women-SMEs</li> <li>• Introduce e-financing for reduction of transaction costs (sunk costs)</li> <li>• Introduce credit guarantee schemes</li> <li>• Introduction of credit rating system for Women-SMEs and incorporation of women-SME category in credit bureau database</li> <li>• Introduce financial incentive schemes for SMEs through a ranking system for sound business record keeping</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce special Women SME Development fund</li> <li>• Introduce to specialised equity financing for women-SMEs (Venture Capital Funds: Women growth equity fund, USA, EEF, Bangladesh)</li> <li>• Promote private sector venture capital</li> <li>• Develop secured financing based on movable assets</li> <li>• Introduce specialised financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance coverage of collateral with inclusion of agricultural land</li> <li>• Introduce specialised training on financial management for women-owners</li> <li>• Support network of women-SMEs within country and across geographic boundaries</li> <li>• Develop exit mechanism for reducing non-performing assets (NPAs) and enhance resources to SMEs financing</li> </ul>
	Private Sector	<ul style="list-style-type: none"> <li>• Introduce credit+ approach including home-based mentoring and counselling</li> <li>• Reduce documentation and procedural complexities in SME-financing</li> </ul>	<ul style="list-style-type: none"> <li>• Develop secured financing based on movable assets</li> <li>• Introduce bank syndication system between MFIs and commercial banks. MFIs will provide credit history of micro borrowers to banks for graduation</li> </ul>	<ul style="list-style-type: none"> <li>• Improve access to information related to tailored financial products through various channels including home-based counselling</li> </ul>
	CSO	<ul style="list-style-type: none"> <li>• Initiate institutional network through public-private partnership for sharing good practices among the SMEs and seeking financial opportunities</li> </ul>		
	IGOs	<ul style="list-style-type: none"> <li>• Assist improving access to information related to access to financing through ICT channels</li> <li>• Assist in developing legal framework for issuance of securitised assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce Special Small Enterprise Fund for providing equity financing of SMEs to PFI window at discounted rate</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce sustained capacity building programme for breaking mind set barriers</li> </ul>

Source: ADB, 2004, Ionescu Dina, 2003, Choudhury and Raihan, 2000

**Table 2.6:** Action Agenda for Improving Access to Finance by Women-SMEs based on Good Practices: Supply Perspective

		Improving access to existing sources of finance	Developing targeted financing tools for women entrepreneurs	Addressing structural and cultural barriers
Supply Side	Government	<ul style="list-style-type: none"> <li>• Improve gender-sensitivity of the financial products offered by GFIs</li> <li>• Refinancing the PFIs for women-SME lending</li> <li>• Create public funds providing loans at preferential rates (Kera Ltd. Loans, Finland, EEF, Bangladesh)</li> <li>• Promote guidebook for financing Small Businesses in native language (A Guidebook for Small Business Financing, AOCA, Canada)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop capital market for alternative source of financing</li> <li>• Launch credit guarantee scheme for differentiated women-entrepreneurs by type and size of business</li> <li>• (<i>Fonds de Garantie pour la Creation, la reprise, ou le development d'entreprises a l'Initiative des Femmes, France</i>)</li> <li>• Special funding for Women-SMEs including for missing middles</li> <li>• Introduce micro credit</li> <li>• (<i>Network credit, Norway; Business loans for women, Sweden, BRAC, Grameen, Bangladesh</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Develop inter bank market for channelling excess liquidity</li> <li>• Reduce NPAs in mainstream financing</li> <li>• Develop legal framework for alternative long term financing mechanisms (secured financing)</li> <li>• Impose a ratio of female staffs in FIs</li> <li>• Development of exit mechanism after accomplishment of equity financing</li> </ul>
	Private Sector	<ul style="list-style-type: none"> <li>• Improve gender-sensitivity of the financial products offered by PFIs</li> <li>• Launch mentoring programme for the women entrepreneurs</li> <li>• Introduce flexible time schedule and home-based delivery of financial products</li> <li>• Introduce system of evaluation of loan applications based on business potential rather than past track record</li> </ul>	<ul style="list-style-type: none"> <li>• Launch collateral free credit programme under credit guarantee scheme</li> <li>• Train staffs and management for designing specialised products for women borrowers</li> <li>• Launch financing programmes for missing middles</li> <li>• (<i>West pack Bank, Australia; Bank of Ireland, BRAC Bank, Bangladesh, SME Bank, First Women Bank Limited, Pakistan</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• Train and mentor the staffs and management in PFIs for removing sex stereotype</li> </ul>
	CSO	<ul style="list-style-type: none"> <li>• Promote guidebook for financing Small Businesses in native language<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Introduce funding for missing middles</li> <li>• Promote Business Angels (WomenAngels.net, Seraph Capital Forum)</li> <li>• Promote Cooperatives (Cooperatives de credit de Saskatoon, Canada)</li> <li>• Introduce conditional seed grants (Tricke up, GKP, APC)</li> </ul>	<ul style="list-style-type: none"> <li>• Promote research and advocacy on wrong risk perception about women borrowers</li> <li>• Promote success stories of women-entrepreneurship</li> </ul>
	ADB ERBD IDB	<ul style="list-style-type: none"> <li>• Introduce TA for FIs in SME strategy formulation and credit scoring</li> <li>• Facilitate simplification of financial reporting standards for SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce Special Small Enterprise Fund for providing equity financing of SMEs to PFI window at discounted rate</li> </ul>	<ul style="list-style-type: none"> <li>• Support government in pro-poor financial sector reform programme</li> <li>• Promote research and advocacy on wrong risk perception about women borrowers</li> <li>• Support for development of capital market</li> <li>• Assist in developing registration system with Joint Stock registrar for informal SMEs</li> </ul>

Source: ADB, 2004, Ionescu Dina, 2003, Choudhury and Raihan, 2000

Note 1: A guide book "How to Access Credit: A Guide for SMEs" was prepared by author (co-author) for ITC. However, it did not work as it was in English language and there was no access to the report by the real users.

**Room for research:** There are lots of things which policy makers and researchers still have to understand for overcoming barriers to financing. It is to be clarified whether women lack negotiating skills, the expectation of women from banking relationships, level of understanding about the worth of own business by the women owners, understanding by women owners of the mechanisms of borrowing for purposes other than asset financing (working capital, receivables financing, export financing etc.) and the importance of injecting capital into their business, etc. It is also important to understand whether women consider alternate means of raising capital, like bringing in partners.

On the other hand, financial institutions also have their own problems, which need to be addressed, like whether financial institutions should promote the features of the their loan programmes (flexibility, interest rate options, etc.) specifically to women business owners; whether banks are willing to provide a higher level of communication to their female clients at the start-up and growth stages. It is also important to investigate the systemic perception about high risk in women-SMEs, it can be perceived if women enter banking relationships with a higher debt-equity ratio. If only sensitivity training for account managers can help reach new growth sectors associated with women's emerging entrepreneurial activities, why are banks not looking at this untapped source of extra revenue?

**Need for an integrated framework:** It should be understood very clearly that the problem of access to finance is not an isolated phenomenon and an isolated treatment will not produce any result. A strategic, integrated, targeted approach to developing women's entrepreneurship is one of the all-encompassing key success factors. Only a policy framework that addresses promotion, training and mentoring, financing, networking and institutional and structural support can work.

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## CHAPTER 3:

# ALLIANCE BUILDING AND ADVOCACY

*Nidhi Tandon*<sup>15</sup>

In many developing economies, small-scale women entrepreneurs are often *social entrepreneurs* first and foremost. Their business motives are driven less by profit earnings and more from a need or desire to earn essential income so as to carry the costs of providing for the health and welfare of their immediate communities. The majority of small-scale women entrepreneurs often bear several community responsibilities beyond the household, in for instance the local orphanage, the local faith institution, environmental awareness groups, information and advocacy groups. These women need to build on existing modes of informal community-based networks and extend their reach out to business intermediary agencies, to wider markets and engage their competitors, in order to secure their business livelihoods. This means that women need a range of support provision to connect the big picture with their business objectives; to draw on leadership resources for effective execution, and to connect strategic communications and networking<sup>16</sup> with implementation.

### 3.1 The Global Context

Networked Intelligence: a new medium of human communications is emerging - interactive media and the Internet, are enabling a new economy based on the networking of human intelligence. In this digital economy, individuals and enterprises create wealth by applying knowledge, networked human intelligence and effort to manufacturing, agriculture and services. In the digital frontier of this economy, the players, dynamics, rules and requirements for survival and success are all changing.<sup>17</sup>

Building strategic alliances for conducting business, or for influencing business policy, needs to be understood in the context of the national and international market economy and the negotiating position that women find themselves in.

While national contexts vary, global competition in production and trading has never been fiercer than it is today. The converging and ever-evolving information and communication technologies (ICTs)<sup>18</sup> have revolutionized the global system of trade and business transactions. It has, amongst other things, greatly facilitated the fragmenting of production processes once performed in a single country into multiple stages of production and distribution in several countries spread

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<sup>15</sup> Networked Intelligence for Development.

<sup>16</sup> In this context, networking is the building of strategic alliances and partnerships with a wide range of stakeholders – community interests; suppliers; customers; markets and policy makers - to pool together a shared asset base and to achieve mutual goals and objectives. Networks may be formal or informal, and range from a local community to a virtual international organization. The small business network forms the core of an ecosystem of networks upon which small businesses must depend for their sustainability.

<sup>17</sup> Tapscott (1997).

<sup>18</sup> While ICT has emerged as a common acronym for Information and Communication Technologies, in fact the range of technologies covered by the term is very much open to interpretation. Technologies are often defined in terms of their properties or in terms of their applicability to specific contexts. For the purposes of this chapter references to ICTs will focus primarily on the “new information and communication technologies” which include the developing technologies of telecommunications, computing and microelectronics. The two defining characteristics of these ICTs are their convergence and their speed which have created a radical range of possibilities for information collection, manipulation, transmission, storage and presentation and through these possibilities have created a whole new climate for conducting business.

across the globe. There is simultaneously growing recognition in this competitive climate that all parties are increasingly inter-dependent and can benefit from improved collaboration and partnership.

This may seem like a contradiction, how can collaboration and competition go hand in hand, surely the two are at odds with one another? In truth, today's partnerships and alliances are characteristically flexible, fast-changing and adaptable, open to all manner of negotiation, the political environment and the vagaries of the market. In the face of competition, business partnerships can be fragile, existing for only as long as they remain commercially profitable. At the same time, the range of partners that form a production or distribution cluster is broader, engages new actors, and by extension opens the door wider to small businesses.

Business networks and communications infrastructures are intensifying competition in an unpredictable manner through enabling the decentralization of many aspects of supply to manufacturing and service industries. The miniaturization and modularization of products, intermediation and disintermediation of processes,<sup>19</sup> combined with cheap mobile capital have an enormous impact on the value-added specialization in the supply chain. The presence of new supply alternatives with radically different economics now take the traditional "*supplier squeeze*" to a new level.<sup>20</sup> Where one is positioned in the supply chain is directly linked to one's skill set and ability to negotiate - that often leaves women at the lower end of the value-chain with a low chance of upward mobility.<sup>21</sup>

And yet, trade and development in the context of globalization is as much female-led as it is export-led. Increasingly, policymakers and business leaders alike are acknowledging the profit value of women's involvement in small business; they simply cannot afford to ignore the creativity of the private sector and this critical section of the productive labour force. Many large corporations are increasingly producing, sourcing or distributing from developing nations and this often involves working with local partners and SMEs as part of their value chain.<sup>22</sup> They do this not from any sense of philanthropy towards the small business owner, but from a clear understanding that engaging with small businesses usually means reduced costs, improved and competitive supply quality, increased market access, and minimal direct responsibility for employee relations or terms of employment. In other words, in today's competitive market, it is to the *distinct advantage of large corporations to outsource production to a range of entrepreneurs who can deliver quality at low cost.*

This *fragmentization* of production processes has enormous implications for women, as new possibilities of employment are opened and women overcome traditional barriers to enter the

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<sup>19</sup> Disintermediation is the process of one company being removed from an industry value chain by another company – reintermediation is the process of one company entering an industry value chain with a new way of providing value to the other participants in the value chain.

<sup>20</sup> Huyett and Viguerie (2005).

<sup>21</sup> For instance, in today's ICT sectors, brands like HP, IBM and Dell increasingly concentrate on their core competencies, such as R&D, sales marketing and branding. The actual product production is outsourced to a network of contract manufacturers, which supply flexible production operations, predominantly in low wage countries. Different levels of contract manufacturers are shaping a new global division of labour. Through research done by the Center for Research on Multinational Companies poor working conditions and environmental degradation have come to light in many of these production facilities. A picture emerges of predominantly women workers working up to 72 hours a week, with compulsory overtime, insecure working contracts, unsafe factory conditions and inadequate protection against hazardous materials, subsistence wages, suppression of workers' associations, and degrading treatments. Conditions that until a few years ago were mostly associated with the predominantly female garment industry.

<sup>22</sup> The World Business Council on Sustainable Development [www.wbcsd.org](http://www.wbcsd.org) offers several examples of large corporations partnering with small enterprises – including Pentland and Nike in Vietnam, SC Johnson and pyrethrum growing in Kenya, and Delta Corporation (food & leisure) outsourcing to SMEs in Zimbabwe.

market economy. Yet, despite the increased number of women in the paid workforce and the growing acknowledgement of women's needs and potentials in small businesses, the fact remains that gender disparities continue to work against women's remuneration levels, conditions of work, access to training and overall economic empowerment. This is where the importance of networking for advocacy becomes extremely important – women need to pro-actively engage with the decisions around policy to ensure that the business environment supports their activities – and they need to present this with a collective voice.

Over the next decades, the world will continue to shift its focus from connecting people to connecting nodes of information that people can universally access, share and build upon. Developing efficient and effective ways to value and sustain information networks goes hand in hand with social and economic development. In other words, working in isolation is no longer viable. ***Developing spheres of trust, influence, good will, buy in, collaboration, partnership, and above all, the sharing of knowledge,*** are the fundamental foundations for women's economic and social empowerment.

Optimistically speaking, in the long term the potential of this new form of global production is that research and development costs could become localized over time and the community of producers and consumers can become more involved in the actual design and development of the product or service. In other words, manual labour has more opportunity to upgrade skills to make way for more creative, higher value added work.

### 3.2 Women's Networks for Business, Advocacy and Social Change

*What you know, and how you use what you know is as important as whom you know and what they know of you.*

Should WOE's create their own networks or join existing networks? In many countries, cultural and social imperatives discourage women from participating in the public domain equally with men. Chambers of commerce, for instance, tend to retain much of their in-built biases towards providing services to a select tier of established and larger businesses, the majority of which are male owned. Likewise, while participating in trade missions is a very effective way to develop international contacts and business, women are often under-represented on trade mission teams. There are a host of trade missions planned every year - some very high-level (led by the Prime Minister), some sector specific, some specifically designed for women and some even "virtual" – but women entrepreneurs need to actively find the information in order to participate.

More often than not, the specific needs of WOE's are neither recognized nor supported – even in countries where such cultural biases are not so obvious. A recent study done by Catalyst, a research and advisory organization that advances women's business interests, gathered evidence in the USA that suggests that more than half of women business executives felt that they were excluded from informal networks of communication, and that gender based stereotypes and the lack of role models are constant barriers to their professional development.<sup>23</sup>

Increasingly then, women are turning away from mainstream networks and developing their own professional and business networks which play an important role both in the commercial and in

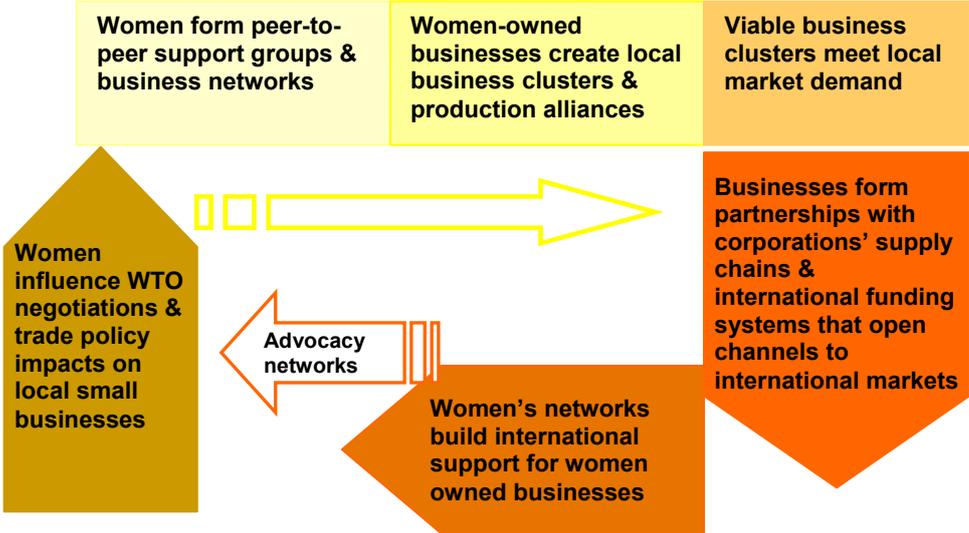
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<sup>23</sup> Women and Men in US Corporate Leadership: Same Workplace, Different Realities? Catalyst, New York 2004. [www.catalystwomen.org](http://www.catalystwomen.org) (Catalyst is a non-profit research and advisory organization working to advance women in business and the professions, with offices in New York and Toronto. A leading source of information on women in business for the past four decades, Catalyst has the knowledge and tools that help companies and women maximize their potential).

the policy arenas.<sup>24</sup> These networks range from marketing cooperatives and professional associations to international virtual networks of small businesses. As ICTs open up channels for communication and commerce, more of these networks take on a cross-border and international character, even if from initially humble beginnings.

Women-only networks are not enough on their own, however; these networks are just the beginning of *women organizing themselves into vocal and vested economic interests*. It is especially important that WOE's participate in these existing networks and combine their negotiation power to develop strategic alliances with intermediary agencies, mainstream institutions and trade bodies to ensure that their social, information and commercial interests are addressed. In pushing the frontiers of commercial partnerships and creating new alliances with national and international business entities, WOE's can strengthen their negotiation position firstly in the domestic market, and then in the international arena, including in the World Trade Organization negotiations.<sup>25</sup>

Figure 3.1: Business Networks Need to Graduate from Local to Global



<sup>24</sup> Examples include: Les Femmes Chefs d'Entreprises Mondiales (FCEM) (World Association of Women Entrepreneurs) which was established in 1945 and now hosts a website that links together members from 33 countries. This has permitted them to be interactive; they boast a marketing list of around 45,000 members. Other more recently established National Association of Women Entrepreneurs of Malaysia (NAWEM) was formed in 1993 and now has 170 members. Alliance of Micro-Enterprise Development Practitioners is a subsection of the Women and Enterprise section of WomensNet – a South African initiative. Organization of Women in International Trade (OWIT) is an example of a special interest group that brings together women exporters from both developing and industrialized countries.

<sup>25</sup> The World Trade Organization evolved from the 1947 General Agreement on Tariffs and Trade (GATT), an agreement between the World Bank and the International Monetary Fund (IMF). The WTO has the legislative power to compel member states to strike down national laws and programs it deems “barriers” to free trade. Under the WTO’s system of corporate-managed trade, economic efficiency, reflected in short-term corporate profits, dominates other values. Transnational corporations are able to benefit from these trade agreements at the expense of national and local economies, including workers, farmers, women, indigenous peoples, health, environmental and safety issues. Its rules and procedures are undemocratic, un-transparent and non-accountable and have operated to marginalize the majority of the world’s people. The Dispute Settlement Body of the WTO is, furthermore, dominated by men and the negative impacts of WRO trade policies on women and their families is systemic. Further information is available on websites such as [www.tradewatch.org](http://www.tradewatch.org), (Public Citizen’s Global Trade Watch); [http://www.somo.nl/index\\_eng.php](http://www.somo.nl/index_eng.php) (Center for Research on Multinational Corporations), [www.wedo.org](http://www.wedo.org) (Women’s Environment & Development Organization), [www.womensedge.com](http://www.womensedge.com) (Women’s Edge Coalition), [www.southcentre.org](http://www.southcentre.org) (The South Center) and [www.iatp.org](http://www.iatp.org) (Institute for Agriculture and Trade Policy) and [www.igtn.org](http://www.igtn.org) (International Gender and Trade Network).

In other words, women's business networks are an important first step to the strengthening of women's negotiating positions and advocacy for common interests and goals. At the same time, women need to make inroads and participate in other mainstream business networks locally and nationally, and to lobby for resources, media and other support mechanisms for women to be established.<sup>26</sup> As women become more successful in pooling resources and clustering their business interests, they are better able to position themselves as viable business partners in the global arena with bilateral trade interests and agencies.<sup>27</sup> With real trade experience, businesswomen become more aware of the implications of international trade agreements on their business activities, and can access national networks that negotiate on their behalves at the bilateral and WTO<sup>28</sup> levels of trade negotiations.

In Andhra Pradesh, **India**, small factories employ nearly a third of the people (22m) of that state. Over a million women ran their own factories throughout the city, and while each was doing fairly well, they felt that by banding together the daily challenges of business would be easier to manage. Many of them were in the same industry – food processing- including tomato, spices, fruits, wheat, and cocoa powder. In 1993, the women formed the **Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP)** to cater to the needs of women entrepreneurs in the SME sector; they pooled their resources and approached the state government for 30 acres of land. They were helped by the fact that the government supported a policy to develop small industries with women-owned enterprises singled out for special attention. ALEAP was able to obtain a government grant of US\$55'000 to build common infrastructure such as roads, water, drainage and a power substation and the group has been able to create an innovative business-operating environment for themselves. Now ALEAP is a one-stop centre for women's entrepreneurship - providing motivation, counselling, information on projects, statutory and regulatory requirements, training, arranging finance and market tie-ups, and providing infrastructure and project implementation.

On Feb 14th 2005: ALEAP announced the launch of its new initiative **EU-India Network of Women Entrepreneurs** – funded by the European Commission under the EU-India Small Projects Facility and the Federal Ministry for Economic Cooperation and Development and in partnership with InWEnt - Internationale Weiterbildung und Entwicklung GmbH, Capacity Building International, Cologne, Germany. The project will provide training to entrepreneurs in the food-processing and garments sectors to produce globally competitive products in an environmentally sustainable manner and facilitate their networking with organizations in the European Union to enable them to access global markets. The project deals with two important sectors - food processing and garments. With the abolition of quotas in the garments sector from 1st January 2005, additional effort is required to maintain existing markets and access newer ones. In the food-processing sector, increasing India's small share in the global market has the potential for increasing rural employment and providing a fillip to economic growth.

Women-owned enterprises can create strategic business alliances and support between micro-enterprises and medium or larger enterprises in the same sector. For example, the success of a micro-producer of handicrafts will be greater when a beneficial relationship is established with a larger buyer-exporter, and the larger buyer-exporter is also successful at establishing a presence in the international marketplace. Similarly, the success of small cooperatives and associations for women depends to some extent on how successful the larger, more powerful women's business associations have been in establishing their voice at the policy level. Exchanges between WOE's of various sizes, with diverse needs, can make them aware of each others' challenges, and ensure that it is not only the "elite" women entrepreneurs who influence policy.

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<sup>26</sup> See box on ALEAP.

<sup>27</sup> See box on ALEAP: EU-India Network of Women Entrepreneurs.

<sup>28</sup> also refer to footnote 10.

**Canadian Association of Women Executives and Entrepreneurs:** now in its 29<sup>th</sup> year, CAWEE is the longest running businesswomen’s association in the country. A not-for-profit organization based in Toronto, its purpose is to build networks by encouraging women from different professions and walks of life to connect and develop relationships from a business perspective. It incorporates a diverse cross-section of professional and entrepreneurial women with wide-ranging interests, experience and successes and is in the process of forging alliances with other organizations locally and nationally. CAWEE also presents an annual award to one woman in recognition of her dedication to herself and other women in their pursuit of personal, professional and financial achievement. The network hosts meetings, seminars, lunch-and-learn sessions and evening events and produces a quarterly newsletter. [www.cawee.net](http://www.cawee.net)

The **Canadian Association of Family Enterprise (CAFE)** is a not-for-profit national organization established in 1983, dedicated to promoting the well-being and understanding of families in business. CAFE offers an outsider’s perspective and an insider’s understanding of family business. CAFE’s objective is to educate, inform and encourage its members in areas of unique interest to family business – such as succession issues - through a stimulating program of activities that provide the best sources of information and professional advice available.  
<http://www.cafemembers.org/cafenational>

What are the potential impacts and results of networking?

- Contacts made with local businesses and local government can be extended for purposes beyond the initial contact, for example to advocate for common goals in trade and business policy changes (see box example on Pakistan Industrial Information Network);
- Exchanges of information or services among individuals, groups, or institutions creates a business “eco-system” of support for the small business (see box on Canadian examples of business networks: CAWEE and CAFE);
- Connecting with people of similar interests leads to the uncovering of other business opportunities, identifying problems and learning best practices;
- Membership of business associations opens the door to marketing, management and other training fora for women-owned businesses;
- At the global level, participating in international networks increases the negotiation power of women worldwide.<sup>29</sup>

**Pakistan’s Industrial Information Network (IIN)** is a joint venture of the Ministry of Information Technology & Telecom (**MoITT**) and the Ministry of Industries & Production (**MOIP**), with **SMEDA** [www.smeda.org.pk](http://www.smeda.org.pk) as the executing agency and **UNIDO** as the technical consultant. The goal of the IIN is to promote the use of business-to-business e-commerce in the country and utilize technology to link businesses with local and international buyers, suppliers, trade facilitation bodies and the Government.

Access to the other businesses will enable Pakistani businesses in finding and exploring international markets, new technologies and information for work flow enhancements. Connecting businesses with trade facilitation bodies and Government opens new doors to knowledge, resource- and information-sharing as well as better understanding of industrial needs and ultimately formulating effective policies. There appear to be no female-owned enterprises in this network. <http://www.iin.com.pk>

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<sup>29</sup> One international network that both advocates and supports credit programmes for women is Women’s World Banking (WWB). The International Gender and Trade Network (IGTN) is a southern-led political network that builds south-north cooperation to develop more just and democratic trade policies from a critical feminist perspective. (See boxes).

The implications for women in particular are critical – as the likelihood of capital and human resource investments being channelled to women is less than it is for men. It is a vicious cycle - *as long as women do not participate in the decision-making processes relating to their enterprise, employment and education, they will continue to be at the mercy of the markets*. As long as they are at the mercy of the markets – their gender disadvantages will continue to be exploited and entrenched. In other words, as in every other employment market, women need to be able to *negotiate favourable terms of employment and business* for the overall development impact to be a positive one for them. And in order to negotiate favourable terms, women need to build strategic alliances across the board, beyond their immediate business client networks.

### 3.3 Creating Value around Women’s Information, Experiences and Knowledge

*Receiving is just one part of the equation. The flip side of networking is giving, and in the process, establishing the reputation that helps you nurture your business.*

The **International Gender and Trade Network (IGTN)** is a southern-led network that provides technical information on gender and trade issues to women’s groups, NGOs, social movements, governments, and academic institutions. IGTN also acts as a political catalyst to enlarge the space for a critical feminist perspective and global action on gender, trade, and globalization issues. Its political agenda is four-fold:

- To support global and regional economic integration rules and processes that build sustainability of the productive (cash economy) and social reproductive (care economy) work of all people, particularly women; and to oppose all rules and processes that compromise that work.
- To monitor negotiations in order to expose and oppose undemocratic trade rules in the WTO and regional trade fora. IGTN’s goal is to reduce the scope of the WTO and all trade agreements to specific trade issues.
- To build alternatives from a feminist perspective.
- To work to achieve just and democratic economic policy domestically and globally. [www.igtan.org](http://www.igtan.org)

**Women’s World Banking (WWB)** is a global not-for-profit institution dedicated to securing poor women’s access to finance, information and markets. The network incorporates retail institutions that provide over US\$5 billion in financial services to more than 10 million low-income women entrepreneurs - in Africa, Asia, Latin America, Eastern and Western Europe and North America. Members of the network comprise of micro finance institutions, banks and associations that serve as models for others by: embodying shared principles; providing financial services that meet performance standards; sharing best practices and experiences; and using results on the ground to influence policy change in their countries and around the world. Women-led organizations and affiliates operate at the core of the networks. Members of the network push each other, using mutual accountability to achieve results. At the global level, WWB has become a leader in catalyzing purposeful networks of practitioners who have built profitable, sustainable financial services to millions of women. They have successfully built local and global processes and communities of common purpose. Policy makers, bankers and funders connect with poor women and the institutions that serve them, building new visions, policy frameworks, linkages between banks and grassroots organizations, and resource flows that result in major increases in poor women’s economic assets, participation and power. [www.swwb.org](http://www.swwb.org).

Women have a tendency to underestimate the value of their knowledge and information, or consider their experiences to be unworthy of sharing with others. This also means that often women do not take the time to share or learn from each other’s experiences, or do not mentor other businesswomen entering the business arena. In many countries, such as Bangladesh or

Pakistan, women's role in the public domain, outside of the domestic household, is influenced or limited in ways that constrain their access, their mobility and their control over a wide spectrum of resources. Issues of access and control are complex and inter-related and the solutions require a deliberate and holistic regard for women's status and mobility in their community and beyond. The status of women in society has a direct link to societal perceptions of the value of their knowledge and experiences.

In situations where resources (capital, land, collateral, information, labour) are scarce, women often guard their business information as their sole means for maintaining a competitive edge – at least that is how information is perceived. In fact, in a networked economy, where the value of knowledge is the sum of shared experiences and information, it is especially important for women to share and to value their information, and to consider if competitors might also be collaborators. Women need to recognize the value of making connections with other entrepreneurs at all economic levels, how to harness mutual win-win connections and how to take the lead in new ways, building new economic and financial connections with new players.

Women also tend to be more reticent to take the time to seek counselling and advice often because these services do not target women-owned enterprises, are provided in “male” oriented settings, and are not adapted to the specific constraints faced by women. ***Simply creating the space (physical and time) to foster dialogue between women entrepreneurs and representatives from financial intermediary services, Internet service providers, local government and IT policy makers is of critical and timely importance.***<sup>30</sup>

There are increasing numbers of initiatives that bring women entrepreneurs together – in 2005 the Middle East and North Africa Business Women's summit in Tunisia for instance, brought together over 200 Arab women entrepreneurs from 15 countries – who were able to validate their career choices and share practical advice and know-how on developing their businesses. Similarly the African Development Bank brought together about 750 participants from 20 countries for a conference on “supporting African women in business: for an economic and social leadership” which developed strategies and recommendations on how to effectively promote women's entrepreneurship and networking. The World Bank has also organized training programmes for women in Iraq – Capacity building training programme for Iraqi Women in Business - following a trade mission and forum in 2004.

As more WOE's are provided with this kind of opportunity to come together and exchange experiences and to learn from each other's successes and challenges, women will begin to value their experiences and be more effective at demanding support from different quarters, and providing support to each other. Through networks, women can build a system of shared mission and vision, principles and values, and performance standards that enable local organizations to respond to local clients and local needs, and to act as local change agents, while moving their organizations and our world in a common direction. This is an important aspect of creating value around women's information systems.

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<sup>30</sup> For example, an ICT training event in Tanzania in 2002 brought together 30 women entrepreneurs with senior staff of the National Micro-credit Bank (NMB) who recently launched a 2.5% micro-loan programme for micro and small enterprises of which participants were unaware (unpublished training workshop report: August 2002) [www.networkedintelligence.com](http://www.networkedintelligence.com)

### 3.4 Appropriating Information Technologies: a Means to an End

*It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change.*<sup>31</sup>

In an age where many WOE are interacting with ICTs for the first time, ICTs are very often perceived almost entirely as mechanisms for connectivity and communication. Its applications for computing, information systems management and commerce are disregarded altogether or given secondary importance. In fact, there are three dimensions of ICTs that have equally important implications for the networking and business activities of WOE.

The first dimension, *the connectivity factor* changes the mode and immediacy of communications, and in the process, creates different organizational relationships between different stakeholders. The continuing momentum in the development of mobile wireless connectivity<sup>32</sup> has important implications for women in terms of their own mobility, security, privacy and the time it takes to access information. ICTs offer today's enterprise a whole new dimension in reducing costs, marketing and promoting the business, and building and maintaining customer relationships. Their *image* rather than their *location* increasingly identify commercial organizations. A presence on the Web improves the visibility of the enterprise through the building of business-to-business alliances and web communities, which serve the interests of small enterprises.

*The computing, data and information management* aspects of ICTs comprise a second dimension where applications are designed, adapted and simplified for use in local contexts. The software required for cataloguing materials in a community library, or for retail point-of-sale records for instance, need not be an off-the-shelf mainstream software package, but can be user-specific software designed by a local company at half cost.

The third dimension of ICTs revolves around their potential to provide a platform for *commercial engagement and financial transactions*, with its related income implications. With the introduction of electronic commerce, the domestic and regional market becomes an international one. Consequently, employees and entrepreneurs alike will be called upon to train themselves in order to adapt to the changing environment. This suggests a need for the development of training materials and methodologies on new information technology that cater specifically to the needs of WOE. Electronic commerce will gradually complement traditional ways of doing commerce and providing services.

Knowledge and information are key drivers of growth and are increasingly important aspects of business development. Information about prices, markets, policies and regulations that may affect a business sector, as well as information on buyers and producers is important for all WOE. Similarly, knowledge - of how to use new tools and products for increasing productivity, how to modify and adapt technology and how to deploy technology effectively - is a vital aspect of dynamic economies. ICTs can be used to level the playing field by providing small entrepreneurs with access to new information and knowledge that otherwise may remain in the

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<sup>31</sup> Charles Darwin.

<sup>32</sup> At the time of writing, the technology of choice in terms of bridging the "digital divide" between rich and poor, is the cellular telephone, and not the personal computer - "*emerging markets will be wireless-centric, not PC-centric*". Mobile telephone subscriptions will continue to increase at a very dramatic pace, rising from an estimated 15 million in 2004 to 191.8 million by 2014 - raising the penetration level from 2.2% to 19.4% in all LDCs. Phones allow fisherman and farmers to check prices in different markets before selling their produce, make it easier for people to find work, can be shared by a village, pose no problems for the illiterate and the content is in local dialect and instantly shared. In anticipation of the potential growing markets in developing countries, cell phone manufacturers are designing cheaper, more durable handsets.

hands of elite individuals and institutions. Small niche businesses in particular, such as tailoring, travel services, hand-made crafts<sup>33</sup> are able to transcend the barriers of size, time and distance through the use of the Web. In addition, rightly applied, ICTs can be said to free the entrepreneur from the burden of traditionally impeding barriers associated with local customs and prejudiced views of how to conduct business and with whom. Altogether, ICTs present a timely opportunity for WOE's - which often are both the producer and retailer - to shift communication channels and modes of business to their favour, and to close business deals which hitherto have basically been unreachable for them.

ICTs have the potential for promoting equitable and sustainable growth and development; the tools, the content and how these are used can enable women to become equal stakeholders in the knowledge economy. Yet, without careful planning and the development of appropriate policy measures, ICTs may exacerbate differences between the rich and the poor, and men and women. ICTs programmes and policies may be oriented toward generating new employment opportunities for highly skilled professionals as well as augmenting existing production facilities (manufacturing, export-commodities) to increase productivity or sales. In order to contribute to pro-poor growth strategies, ICT programmes and policies should also be developed based on the need of users themselves. For this to be possible, business practices and operative modes for commercial exchange should be designed so as to empower actors on the demand side. It is also then that ICTs get the greatest potential to let free innovation and creative ways of diffusing new practices. This way, ICTs will be particularly useful in helping to increase poor people's access to information and in transmitting new technologies to resource-poor areas. As people learn how to use the tools on their own terms they will be harnessed to improve not only the provision of physical goods but, e.g., to raise the quality and delivery of education and health care in resource-poor areas.

In the absence of a deliberate policy, the diffusion and use of ICTs and their intended benefits risk following the existing contours of income and economic divides, with the poor being further marginalized or excluded. Due to socio-cultural norms, there are persistent gender inequalities in men and women's access to ICTs. For example, women's mobility may limit their access to Internet centres, or ICT training courses may not advertise in places that women frequent. However, there are many situations around the world that exemplify how, when given the tools and support to use ICTs, women have developed new domestic and export businesses, started new associations to represent their interests, and used e-governance to communicate more effectively and efficiently with their local government officials.

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<sup>33</sup> In Bangladesh, shoes produced find their way mainly to the local market; only a few firms produce shoes for export. The industry provides direct employment to about 25'000 people - women workers are the majority (55%-60%) in the mechanized sector. In 1998, the Jobs Opportunities and Business Support (JOBS) programme began a three-year plan to increase Bangladesh exports to Japan. Communications between suppliers and Japanese buyers was conducted via email with buyers sending pictures of the products they wanted. After the first year, shoe exports value increased to \$4.4million, up from \$2.6million. By 2001, exports were valued at \$20.5million and the initial three firms exporting shoes to Japan increased to ten. About 200 new jobs were created, many filled by very poor women from villages near the factories. Because many of the exported shoes require handiwork, village women are subcontracted to do delicate hand stitching in their homes. Although women are able to take advantage of the opportunity of working at home and micro enterprises in the shoe industry, they do not themselves have any direct participation with ICTs, but are the indirect beneficiaries of a business that uses ICTs to promote competitiveness and efficiency in the market. Women do not receive any training in the use of ICTs, they are merely supplying a labour-intensive product within the supply chain.

India's **Self-Employed Women's Association** (SEWA), has been organizing women in the informal sector since 1972, and has a membership of over 215'000. One of the first organizations in India to realize the potential of harnessing ICTs for the productive growth of the informal sector, it organized computer awareness programmes and offered basic computer skills to its team leaders and association members. SEWA is implementing a well-considered strategic plan for integrating ICTs in its main activities. The organization uses software applications developed for its embroidery, watershed development, salt production and savings and credit projects. The software can generate customized reports on artisan members; grade products, record market activities, and keep accurate up-to-date information for efficient production planning.

SEWA has also used video as a tool for women's empowerment - Video SEWA has produced video footage on many issues affecting the livelihoods of poor women, using the medium to share information with and raise awareness amongst their members as a tool for training and teaching new skills, as well as to reach policy makers; video is now an integral part of SEWA's activities. SEWA's satellite technology programme has enabled the organization to work in over 10 districts of Gujarat, to provide interactive training, linking women to experts and policy makers.

SEWA's Trade Facilitation Centre has had some success in its e-Commerce endeavors supported by its websites [www.banascraft.org](http://www.banascraft.org) and [www.kutchcraft.org](http://www.kutchcraft.org). An innovative approach to reach producers and artisans under-served by connectivity involves putting women producers in touch with a cadre of computer operators who perform a variety of supportive functions that enable on-line selling. ICTs can thus aid many organizational functions in a member-based organization like SEWA including, identity and solidarity building, linkages with and access to the offices of the government, internal governance and capacity building. [www.sewa.org](http://www.sewa.org).

The goal of enabling marginalized groups to appropriate ICTs is in fact as much about overcoming the "information divide" as it is about pushing forward the processes of social inclusion. In other words, *closing the information and communications divide could be seen as a means to closing the economic and social divide between men and women.*

The networking element of ICTs is invaluable and often understated. The growing numbers of women joining, forming and using virtual networks is almost a natural phenomenon of the Internet. Women organic farmers at an ICT training workshop<sup>34</sup> in 2004, for instance, found that they could not register themselves with an international Internet-based membership association of organic farmers because the website did not offer Caribbean countries in the drop-down menu for registration purposes. An email was sent to the website organizers, and the following day, Caribbean countries were added to the menu, which meant that the women were able to join the membership group. These are the subtle step-by-step changes that help support and promote women's presence on and influence over the Web.

Advocacy groups for political gains have successfully used ICTs for women that further their needs and rights as workers. The ability to build new social networks at a regional and national level can help to bring benefits to existing networks and institutions at a local level. In order to deliver information services to WOE's, information providers need to form strong partnerships with peer information providers, organizations that promote services and raise awareness, as well as organizations that offer the technological and financial infrastructure to keep the network viable.

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<sup>34</sup> Unpublished workshop report: Knowing and Growing: ICTs and organic farming regional workshop: [www.networkedintelligence.com](http://www.networkedintelligence.com)

Many of the successful examples of women appropriating and using ICTs for their own interests arise where women have “clustered” into formal or non-formal networks – whether through employment interest groups such as the Self-Employed Women’s Association (see box) in India, or business collectives such as the Tortas bakers in Peru (see box). Small enterprises are most effectively reached, not as individual entities, but as groups – and this requires both leadership and participation by WOE’s.

One of the most efficient ways to support women’s information networks is to enable women to use the emerging ICTs as their primary means for communication, promoting their business and for distributing information. As women begin to appropriate ICTs and other media, they are more able to challenge perceptions, misconceptions and systems of information. It is when ICTs are locally appropriated, with local content, that the political impact is most pronounced. With the increasingly rapid diffusion of cellular technology, as mobile telephones are becoming inexpensive and yet capable of offering high-quality services, these developments are accelerating. Mobile telephony brings new means of transcending traditional borders, including of language, limits to literacy, energy constraints, and cultural stigma.

Initiated in 1996, **Tortas Peru** is a woman-owned enterprise that uses ICT to reach and service a wider market selling homemade cakes and desserts. This network of housewives takes orders for their cakes over the Internet and uses the Net to provide baking tips, in Spanish and English. The company covers the major cities of Peru and guarantees delivery within 72 hours or a full refund. Tortas Peru also targets over 2 million Peruvians who live outside the country through their website, clients in San Francisco or New Zealand can send a home-made cake to friends or family in Cusco, Lima, Arequipa, Trujillo, Ica, Juliaca and Puno. Customers can order a cake from a catalogue and pay using credit cards, cheques, money orders or electronic payments to the bank. The order is sent by e-mail and depending on the destination they contact a housewife-member of the Network to bake and deliver the cake. The tortas are prepared and delivered by one of the housewives in the Tortas network. To maintain low prices the company is based mainly on the Internet, making it necessary for the housewife-members to be familiar with computers and the Internet. Peru has an innovative national network of public computer booths where Internet access is cheaper than phone calls. Prior to joining in the Tortas business the housewives have to participate in a basic course of marketing, baking, and using the Internet and E-commerce tools. With just three hours of instruction the women learn to use E-mail, find the website and interact with clients. Once women familiarize themselves with the tools, they use public computer booths to access the information they need.  
[www.tortasperu.com.pe](http://www.tortasperu.com.pe)

Several technologies contribute to making a difference, however. In Kenya for instance, women’s groups in Nairobi’s slum areas trained in the use of video, were able to compose audio-visual materials to communicate directly to policymakers about their situation and development priorities. The videos informed government ministers, housing directors, donors and NGOs (and later won the Betinho Award for Technology and Social Justice). The women gained self-confidence and the ability to express their strategic interests, made contacts regionally, and set up a local resource centre with information on health, training, and tenure and employment opportunities.

Building ICT training capacity into the range of support services offered by business development agencies is probably one of the most effective ways of ensuring that small enterprises appropriate ICTs for their business and networking activities. Chambers of commerce have the potential to play an important role in facilitating the growth of ICT-based services for local enterprises and for the markets they service. Small business owners need to be able to explore new alliances and networks in a secure environment – developing partnerships with business service providers, and influencing the decision-making and planning of business support

providers to promote their services to women-owned businesses. (See box on CEPI in Peru which illustrates the proactive direction that a business services centre took to address the needs of women-led businesses).

The immediate objectives behind ICT training for women will need to focus on breaking myths and pre-conceptions about the new technologies – this is an “outcome” objective as opposed to an “output” objective. The demystification of ICTs goes hand-in-hand with the promotion of local content in local languages – content that will engage the interests and meet the information needs of WOE. This is the groundwork for an organic dissemination and exchange of relevant information, knowledge and experiences amongst WOE, women-workers, women’s organizations and other representatives of women’s interests. While the outcomes may be gradual and long term, *women-run workshops for women and peer-group learning* with local content, determining what kinds of information gaps they have and how these gaps might be best addressed – are an effective means for promoting ICT use by WOE.

There will be a ready take-up of ICT use by women once the “information value” of ICTs takes root – and women adapt ICTs for their own interests. For this to happen, women need to both *value their own information*, as well as learn how to find appropriate information for their businesses. Their ability to contribute information and to communicate, first with each other, and then with the wider community, on issues of significance to their social and economic well-being will also help them to make informed decisions about the information that they access for business development. In other words, *involving women in the deliberation and composition of their own knowledge and information positions them as equal stakeholders* in the small enterprise sector.

This leads to the questions around language, where it is generally assumed that Internet users need to speak English in order gainfully use the Internet.<sup>35</sup> In fact, once women realize that not only is web-based information available in their national language (or local dialects), and that they can access Government data, news or business information in local languages, it takes only a further step to encourage women to contribute their own information in their own dialects to enrich the scope of information available on the Web.<sup>36</sup>

### 3.5 Supporting Women’s Networks and Networking: a Tiered Approach

*In a knowledge-based economy there are emergent powers that are based on influence and brainpower. This struggle for influence (or reputation) can only be a result of giving out information.*

In the micro and small business sector, enterprise support agencies, business intermediaries and the whole array of membership and non-membership agencies that are broadly referred to as business service providers (BSPs) have a critical role to play in supporting women

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<sup>35</sup> Nua Internet Survey May 24 2002: Non-English speakers outnumber native English speakers when it comes to using the Internet, according to new research from Global Reach. Around 59.8 per cent of the total world online population is from non-English speaking zones, compared to 40.2 per cent from English speaking zones. Spanish is the number one European language for non-English speaking Internet users. Internet users from Asian speaking zones account for 25.8 per cent of the total world online population. This is equivalent to 146.2 million Internet users. Chinese is the number one language in the Asian-speaking zone. Around 55.5 million Chinese speakers use the Internet, compared to 52.1 million Japanese speakers and 25.2 million Korean.

<sup>36</sup> In an ICT training programme with women in Lithuania, participants were astonished to find several information and e-commerce websites in Lithuanian (many of them Canadian) and were able to observe first hand how much certain traditional art pieces were being sold for in the West. This encouraged them to put up their own information and price their own art and crafts to meet the competition. Networked Intelligence for Development training programme 2000.

entrepreneurs.<sup>37</sup> In my experience working with women entrepreneurs, it is clear that this is an area that is lagging far behind in supporting an important sector of business development, and this is further confirmed, for instance, by the Donor Guidelines for Business Development Services points out that this is a field yet to be fully developed.<sup>38</sup>

Private sector representative organizations do exist in developing countries, in practically every developing country, Chambers of Commerce and Industry and small enterprise representative associations are active. In comparison to their counterparts in developed economies,<sup>39</sup> however, membership is not obligatory and these business representation organizations often lack the funding and the political clout required to service their membership. Low membership seems to be a general feature of these agencies. In most African and Asian countries, it is still the government agencies that, for the most part, dominate small enterprise support programmes.

Similarly Trade Related Capacity Building (TRCB)<sup>40</sup> initiatives should be inclusive of trade and service information networks between women entrepreneurs at the regional and national level. In some instances, partnerships can be developed with larger mainstream organizations. In the Philippines, under the National SME Agenda – also known as *Sulong Pinoy*, entrepreneurs undergo training on international marketing and entrepreneurship and are provided with opportunities to join international trade fairs and buying and selling missions. With this service, many innovative handicraft makers, woodcraft manufacturers and food producers have graduated to global business.<sup>41</sup>

An example in Vietnam<sup>42</sup> shows how synergies need to be created at micro, meso and macro levels of intervention to improve the effectiveness of initiatives to facilitate trade and mainstream women and gender in policies and programmes. In this example, women entrepreneurs who formed a women's tourism club provided an opportunity to boost the overall performance, diversity and image of tourism services in the resort area of Ha Long Bay. The capability of marginal producer groups and service providers for export markets was built through bringing together the skills, expertise and institutional capacities from a wide range of organizations and institutions.

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<sup>37</sup> The ILO's WEDGE findings also come to the conclusions that to develop and grow, women entrepreneurs require business support services, rather than support in the form of welfare or charity. In some countries, women experience barriers mainly at the stage of entering into business. Once established, they face many of the same problems common to all entrepreneurs. Women have difficulty accessing finance, and even when they do so they obtain smaller loans than men. Growth programmes for women entrepreneurs can only succeed when they address power relations, and improve access to and control over economic opportunities and resources.

<sup>38</sup> Hofstede (2002).

<sup>39</sup> Most support for MSEs by private sector NGOs in developed countries comes from associations, federations and Chambers of Commerce. In most European countries, in North America and in Japan, there is a strong movement to create small firm representative bodies that are distinct from the larger business associations. The main purpose of these bodies is to advocate and lobby government to respond to the interests of small-scale businesses in the formulation of national policies. In some of these countries, membership in the local Chamber of Commerce is obligatory.

<sup>40</sup> UNCTAD has been providing assistance to developing countries in the area of trade negotiations since the GATT Tokyo Round: its mandate on "trade and development" has always included support for the effective participation of the developing countries in multilateral trade negotiations. UNCTAD is currently implementing some 25 technical assistance projects covering different topics of the trade negotiations – at the regional/subregional or national level, depending on the scope of the corresponding extra budgetary resources technical assistance and capacity building plan based on specific requests made to the UNCTAD secretariat by the developing countries.

<sup>41</sup> Alonzo (2004).

<sup>42</sup> Gibb (2004).

In **Peru**, **Centro de Promoción Integral (CEPI)** is a private business services centre (externally funded) that enables SME access to large orders, by coordinating the work of small and medium-sized enterprises from the clothing industry. Family textile businesses are being sub-contracted to fulfil large orders with big national and international companies. The system makes it possible, on the one hand, for SMEs to gain new clients and, on the other hand, to transfer the production of larger orders to the smallest enterprises, so contributing to the striving for decentralization in the region. After eight years of operation, they undertook a participatory diagnostic to acquire a better understanding of their female clients, and to know more about their business potential, family situation, etc. The findings allowed CEPI to make important gender-oriented adjustments to their services. The main characteristics of women-led businesses in Latin America include: women are less educated, have less business exposure, are concentrated in the low-productive and low-valued activities, are concentrated primarily in service and trade sectors and less in production, show lower levels of accumulation and business growth, predominate in subsistence activities and are over-represented in the informal sector. CEPI seeks to improve the technical and production as well as managerial levels of women with a view to increasing their competitiveness in the market, thereby giving them access to more demanding markets with high quality standards. Many business-training programmes also fall into this category. The empowerment effects are apparent through their enhanced technical and managerial endowment, access to new markets or a strengthened positioning in existing markets, increased recognition of their entrepreneurial capacities, increased visibility of their entrepreneurial achievements at societal level, and a strengthened position and a more visible role of women in the case of family enterprises. Source: [http://www.intercambio.org.pe/archivos\\_publicaciones/seminario-sde-oit-seed.pdf](http://www.intercambio.org.pe/archivos_publicaciones/seminario-sde-oit-seed.pdf)

At the micro-level, the project aimed to deliver training and non-financial services to at least 700 marginalized women via the business support centres, broker their access to existing mainstream credit sources and to enable women entrepreneurs to build and participate in collective structures or business networks. Though it was not explicitly stated in the project document, it became quickly apparent that fostering women's capabilities in enterprise required also looking at gender relations within the household enterprise and encouraging other family members to be more supportive of the woman entrepreneur in her enterprise activities and in her family responsibilities.

At the meso level, the project focused on building the capacity of BDS providers, among the formal partners and various offices and institutes in the communities, to deliver services to small enterprises, especially women, taking gender into consideration. This included setting up business support centres in three provincial capitals. It evolved to include satellite "centres" and support teams in 9 districts and 18 towns and villages.

In 2003, the Asia Foundation partnered with USAID and Microsoft to establish a **Network of Community Information Centres** in 22 provinces and municipalities across Cambodia, reaching every major population centre in the country. The goal is to create a communication network that allows NGOs, political parties, government officials, and development organizations to increase information sharing, communication, and collaboration between provincial and headquarters offices, and between organizations. The project is also providing greater access to news and information for people and organizations in the provinces outside Phnom Penh on topics including women's rights, elections, economic development, small business development, education and health. Today the centres are regularly used by NGO workers, local government officials, political party members, teachers, small business owners, students, monks and election monitors. A key element was to develop a local-language web portal that provides user-friendly access to a variety of news and development-related information, such as Mekong River flood levels, human rights contacts, prices of goods and services, job listings and tourism figures. <http://www.cambodiaCIC.org>

At the macro level the project aimed to inform and mobilize mainstream government, business and academic institutions regarding the potential and success of women entrepreneurs in business at national, provincial and local levels, to encourage them to adopt women as

beneficiaries and contributors to economic development. National economies can support women entrepreneurs in export sectors to be more competitive by facilitating networking among women within specific sectors, promoting linkages between women and mainstream organizations, and encouraging business development service providers and trade promotion offices to target women and be more gender-responsive. Promoting dialogues with other national working groups, such as the Tourism Group, and Small and Medium Enterprise Working Group, to be inclusive of exporters in their activities and to give greater consideration to the gender-differentiated needs of women in business and trade is also key.

Many women starting up new businesses find themselves at the “lower” end of market chains, with low profit margins and fierce competition based largely on price. Their success in “moving up” depends to a large degree on their integration and bargaining power vis-à-vis others in their community and value chain in addition to building individual capabilities. It is important not only to look at the management capabilities of the woman entrepreneur and her enterprise, but to look at rules that apply along the value chain in which she is operating, at the different tasks done by men and women, at the resources women and men each put into and receive from their production (or service) processes, the institutional patterns at each stage of the value chain and how much power women and men have at various points in the value chain. It is also important to consider women entrepreneurs as actors in a family enterprise: her success as an entrepreneur is closely linked to the dynamic of her relationships with other family members.

*Taiwan Association for Educational Communications and Technology* (TAECT) brings IT skills to nine segments of women’s groups by working with key partners throughout Taiwan: National Union of Taiwan Women’s Associations, Frontier Foundation, PWR Foundation, National Association for the Promotion of Community University, Council of Agriculture, and 104 Job Bank. The largest segment (total 1.32 million) is women who want to re-enter the job market for financial reasons after many years of being a homemaker. Without basic IT skills, it is almost impossible for them to even get an interview opportunity. Another key segment is peer networking, which is limited for stay-at-home women but via information technology can be overcome by creating peer groups via the Internet. The project uses a model of volunteer “seed trainers”. These 1’000 volunteers must be influencers who can effectively attract 10 or more other women to participate in the e-learning programme, and potentially be a member of a specific interest community group. Job placements are also part of the programme and are one metric for measuring the programme’s success. This is a good example of both the importance associated with computer literacy and women’s job placements, and the peer networking between women who help each other to participate in training and in finding employment. It is also a good example of the kinds of linkages that can be nurtured amongst a range of institutions.

### 3.6 Conclusions and Recommendations: How Women Can Shift from Conforming to Informing

*Work with horizontal and vertical linkages – in a networked world, the value of the network is in the different interests, partners and stakeholders brought around the “hub”.*

The overarching conclusion of this chapter is that networking and the sharing of knowledge and resources amongst a wide range of partners is no longer a choice when it comes to business development; it is an absolute necessity – an essential component to the viability and sustainability of the business. The examples in the boxes on the Cambodian network of communication information centres and the Taiwan Association for Educational Communications and Technology serve to illustrate how women are already using community information and networks to access a wide range of strategic information. Globalization - and the technologies that come with it - present WOE’s with tremendous opportunities as well as

considerable challenges. Women entrepreneurs need to position themselves as an integral and core partner in the network eco-system of building collaborative relationships.

So much of today's business is linked to its reputation and, by extension, its spheres of influence. Women need to develop their own skills and values in networking, leveraging their networks and in negotiating for their interests. They need to develop lateral thinking and to see the potential connections between everyone in their network, particularly building upon their immediate local networks. For instance, rather than buying a software programme off the shelf, by approaching a local software company to adapt software for the business's purposes, a WOE can create a relationship with a local business, build their capacity, and create a long-term relationship for software maintenance and IT training for their staff. Similarly, when considering Internet connectivity options, seeking out an Internet Service Provider that is small, local and that would be interested to provide services to small businesses – creates a mutually beneficial relationship. Nurturing business deals between small businesses – such as a special referral fee for introducing the ISP to other small businesses, or special rates if the small business is able to pay for an entire year's services in one payment – are all routes to developing business-to-business support networks.

**Figure 3.2:** Network Eco-system: Building Collaborative Relationships



On the production side, developing partnerships or “clusters” with other businesses that complement an enterprise builds mutual capacity. A graphic designer for instance, may consider partnering with a web developer, a marketing consultant, a writer or a business-planning consultant. A producer of locally-grown nuts might partner with a basket maker, a producer of dehydrated fruit and a packaging consultant, and deliver local snacks to the local hotel or airline. Together the entire business offers a packaged array of services, and likely can compete with larger businesses on quality, price and personal service.

As more and more large corporations seek to partner with small enterprises and vice versa, ensuring the enterprise's visibility with a wide range of partners who will promote the business is important. This includes business agencies that act as intermediaries with large companies, development agencies that have industry knowledge and can act as a broker or convener, government departments that support regulatory issues, coordinate financial support and services to small enterprises, as well as private sector facilitators that may have expertise in linking large-small firm business and technical support.

The examples portrayed throughout this chapter have been picked to illustrate the wide range of partnerships that can be brought into simultaneous dialogue or activity with small businesses. Figure 3.2 captures the fundamental elements that make up a *network eco-system* of partnerships – which reflects an emerging way of looking at and managing a business organization. This is a model that regards companies as living entities as opposed to mechanistic or hierarchical processing machines.

Increasingly, organization leaders are deliberately stepping away from being entirely self-reliant and are instead creating environments in which competitive strategies and strategic alliances flourish and grow organically. As the international competitive environment continues to change rapidly, as customers become better informed, more discerning and more curious, and as businesses need to respond with flexibility, adaptability and inventiveness, the business organization today must needs be intelligent. To be intelligent it needs to be networked. And these networks often take on lives of their own, to become part of an eco-system of networks beyond their genesis.

Needless to say, the broader national environment in which WOE's conduct business is a critical factor in whether WOE's can build the alliances they need. The *political will* to endorse, promote and champion WOE development is key – most of the case examples testify to government support in one form or another. The *policy and business environment* needs to support an inclusive climate that fosters imagination and innovation, local investment, small enterprise development, and alternative sources of income and revenue. For this to happen, the promotion of information sharing, communications, inter-departmental collaboration at the government level, and support services for the micro business are all key elements of a foundation for promoting a quality workforce and a sophisticated knowledge intensive economy.

The future is here – we just have to make sure that WOE's, today's social entrepreneurs, are a key player in this eco-system and that they take ownership for mediating, communicating, collaborating and negotiating the terms of partnerships for their business and community sustainability.

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## Web resources:

- Les Femmes Chefs d'Entreprises Mondiales (FCEM) [www.fcem.org](http://www.fcem.org)
- Canadian Association of Women Entrepreneurs (CAWEE) Toronto [www.cawee.net](http://www.cawee.net)
- International Gender and Trade Network (IGTN) Geneva [www.igtn.org](http://www.igtn.org)
- Networked Intelligence for Development (NID) Toronto [www.networkedintelligence.com](http://www.networkedintelligence.com)
- Women's World Banking (WWB) New York [www.swwb.org](http://www.swwb.org)
- World Business Council on Sustainable Development (WBCSD) Geneva [www.wbcd.org](http://www.wbcd.org)

## CHAPTER 4:

# GOVERNMENT PROCUREMENT PRACTICES

*Milagros Rivera and Idris Sulaiman*<sup>43</sup>

### 4.1 General Introduction

The procurement practices of governments can be critical to the success and survival of small and medium enterprises (SMEs), including those owned by women. Often, there are barriers of entry that limit SMEs' ability to compete for government contracts. For instance, some governments may set up tender conditions that are too complex or onerous for SMEs. In other cases, government-owned companies may compete with SMEs for contracts.

Research studies consistently show that women entrepreneurs face barriers that limit their ability to expand their businesses and compete for government contracts. Among the most common barriers are access to information, technological competence, access to support networks and access to credit and financial capital. Some of the women also own companies in sectors that make it difficult to successfully compete for government contracts or their companies are too small. While some women entrepreneurs are more resilient than others, the fact is that they tend to face challenges that men often do not. For example, many entrepreneurs are mothers and have to take care of their families in addition to running a business. These challenges are exacerbated in developing countries, where there are a host of other economic, cultural and political factors.

Most governments are not keeping track of the number of women-owned enterprises (WOEs) that participate in public procurement, but interviews with government officials suggest that the numbers are not large. Therefore, it is important to identify the policies that tend to restrict WOEs' ability to compete for government contracts or to identify good practices that assist WOEs to more successfully participate in public procurement.

In the last few years many countries have begun to re-examine their approach toward public procurement. As part of this process some are trying to include SMEs in the procurement process without losing the economies of scale they can derive when large contracts are awarded to a large supplier or contractor. With the exception of the United States, however, the move toward including SMEs in the public procurement process did not yield many examples of countries that are creating programmes that specifically target WOEs. On the other hand, since the late 1990s some countries are recognizing the importance of developing resources for women entrepreneurs and are providing training, networking, mentorship and financing programmes to women who wish to start or expand businesses.<sup>44</sup>

This chapter sets to examine government procurement practices and their impact on WOEs. It will first discuss government procurement generally, and then will identify the countries that are trying to make public procurement accessible to SMEs. Next, the chapter will explore how

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<sup>43</sup> Our thanks go to Laina Greene, who helped with the interviews for this chapter.

<sup>44</sup> Good Practices in the Promotion of Female Entrepreneurship. 2002. Austrian Institute for Small Business Research. <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/documents/study-female-entrepreneurship-en.pdf>

countries are dealing with women-owned enterprises and public procurement. The chapter will also include a couple of case studies examining the impact of government policies on WOE. Specifically, the case studies will document how the US and Indonesia - through their policies and practices - have provided (or failed to provide) procurement opportunities for WOE. The final section will summarize the chapter's findings and provide recommendations on how governments can support WOE and make public procurement more accessible.

## 4.2 Procurement and the Move towards Reforms

A basic principle of government procurement is to provide ample and equal opportunities for participation to interested and qualified bidders for government work, thereby ensuring healthy and effective competition and better value for money. Some authors have remarked that public procurement has undergone a "global revolution".<sup>45</sup> In recent years many countries have undertaken procurement reform programmes as a result of globalization and the adoption of e-procurement. But reforms have also taken place at the local levels because some governments are realizing that their current procurement policies and practices tend to benefit large companies and disadvantage - and sometimes almost totally exclude - SMEs.

In the past public procurement was seen as a "back office" support function, but governments have now realized that an efficient procurement system can result in major savings and more accountability of public funds' spending.<sup>46</sup> Some countries have also realized that since SMEs comprise a majority of their economic base, it is important to reform the process so these smaller companies can bid for government contracts, fuelling economic development. Moreover, many governments have recognized that SMEs can be innovative, often providing better value for money than larger companies - especially when it comes to customer service and flexibility.

While most countries have some form of public procurement mechanism, the push for reform and modernization has been led by a citizenry that expects better value for money, a transparent system and more public accountability. An additional factor fuelling procurement reform, especially in developing countries, is the desire to stamp out corruption.<sup>47</sup>

But reforms in developing countries have been difficult to materialise because procurement procedures are vague and lacking in transparency and, therefore, those who benefit from this inefficient system have vested interests in not changing it.<sup>48</sup> Moreover, since government contracts in developing countries can be used to reward political friends, reforms are difficult to implement if there is a lack of political will at the highest levels of government.<sup>49</sup>

There is no one formula that can ensure the successful reform of corrupt or inefficient procurement systems, but some experts suggest that a centralized procurement office with the mandate to develop and enforce public procurement rules is an important aspect of an efficient and effective procurement system.<sup>50</sup> Other important elements of a reformed procurement system involve transparency, simplified rules and regulations, involvement of public and private stakeholders in oversight or advisory boards and giving flexibility to government procurement managers to make reviewable exceptions to the rules, so the bidding process can be efficient and

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<sup>45</sup> Arrowsmith and Trybus (2003) ix.

<sup>46</sup> Hunja (2003), 13-22.

<sup>47</sup> Ibid., 14.

<sup>48</sup> Ibid., 17.

<sup>49</sup> Ibid., 21.

<sup>50</sup> Lemke (2003), 103-134.

fair. Finally, there must be an auditing process that serves as a deterrent to corruption without causing undue burdens and delays in the operation of the agency in charge of procurement.<sup>51</sup>

The procurement process should also be governed by a legal framework that clearly establishes rules for transparency, efficiency and enforcement, as well as the mechanisms for the fair implementation of the overall process. The reality, however, is that many developing countries lack an adequate procurement law and that the procedures tend to be poorly defined and implemented in a non-transparent manner. Thus, procurement reforms should involve clarifying the legal framework and making sure that it includes, at a minimum, the following elements: (1) extensive advertising of upcoming procurement opportunities; (2) public opening of bids; (3) pre-disclosure of all relevant information, including transparent bid evaluation and contract award procedures; (4) accountability for all the decisions; and (5) enforceable right of review for bidders when the government appears to have breached the rules.

Most developed countries have embraced some form of e-procurement. For example, in Singapore the entire public procurement process takes place online. But given countries' varying levels of e-readiness - and with SMEs often lagging behind in technology adoption - in many countries the process still involves submitting bids to government agencies in paper form, even when some of the procurement information can be found online.

In theory, e-procurement has a great potential to disintermediate and automate the delivery of government services. By disintermediating, e-procurement could reduce gatekeepers' influence, cutting bribery out of the picture. For instance, SMEs able to read bid and tender details on the Internet would not have to bribe an intermediary to get that information. In reality, however, e-procurement cannot cure deeply ingrained governments' ineffective or illegal practices.<sup>52</sup> In Indonesia, for example, the implementation of partial e-procurement has not eliminated corruption. There are no laws recognising the legitimacy of electronic documents and electronic transactions, and some government officials in charge of procurement are using the data that is fed into the system to their own advantage.

There are also some issues specific to all SMEs in developing countries that must be taken into account in any discussions on e-procurement implementation. For example, SMEs may not have access to computers or the Internet. In addition, the cost of Internet access in some developing countries may be too high. Finally, as indicated above, there may be resistance to e-procurement since it is likely to cut a source of income for corrupt officials.

### 4.3 SMEs and Public Procurement

As mentioned earlier, there is a global recognition of the important role that SMEs play in the economic health of most countries. Paradoxically, governments acknowledge that their procurement policies and practices have consistently excluded or made difficult the participation of SMEs.

This section will briefly discuss the general procurement practices of several countries. It should be noted that the countries that will be discussed were not intended to be representative of all of those that are reforming their procurement systems. Rather, they were chosen because they seemed to be making an effort to include SMEs in their public procurement practices. In the case

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<sup>51</sup> Anechiarico (2003), 171-193.

<sup>52</sup> Heeks (2004) 2.

of developing countries, while the SME-friendly initiatives may be rather minimal, they are included for the purpose of providing a contrasting view.

## United States

The United States federal policy on public procurement is geared toward getting the best goods and services through a fair and transparent process of open competition. The Small Business Act requires SME participation when at least two of the companies bidding for a federal government contract are SMEs.

Based on the complexity of the procured goods or services, there are mainly two types of procurement procedures. Simplified acquisition procedures are used for contracts worth less than USD\$100'000. For contracts above USD\$100'000, a sealed bid or negotiation procedure is adopted. Technical specifications are made commercially neutral to allow for the participation of a variety of companies.

There are various methods for protesting or cancelling a solicitation or the award of a government contract. Protests can be filed with the General Accounting Office (GAO) or the General Services Board of Contract Appeals (GSBCA). Both GSBCA and GAO have the right to suspend a procurement process. Contractors can also file an appeal with the Agency Board of Contract Appeals or with the courts.<sup>53</sup>

There are over 23 million SMEs in the United States representing over 99% of all employers. The Small Business Administration coordinates training, financing, and other programmes to help small businesses get started and succeed. The US is the only country with a comprehensive system that assists WOE to get public procurement contracts with the federal government; its programmes will be discussed as a case study later in the chapter.

## Canada

The procurement policy of the federal government of Canada is managed by the Treasury Board Secretariat. Except for the goods procured by the Public Works and Government Services Canada (PWGSC), all other government procurements are decentralized to departments and agencies.

Procurement contracts are not awarded based on cost, but on the relevant cost over the lifetime of the product or services procured. Canada seeks to provide equal access to local suppliers and ensure better cost, competition, transparency and efficiency.

In order to offer effective and equal access to suppliers, the government has developed a 24-hour electronic tendering service for contracts worth C\$ 25'000 (roughly USD\$21'000) or above. Notices of Proposed Procurement, Advance Contract Award Notices and Contract Award Notices are published on this service.<sup>54</sup>

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<sup>53</sup> Asia Pacific Economic Cooperation, Government Procurement Experts' Group. United States.

[http://www.apec.org/apec/apec\\_groups/committees/committee\\_on\\_trade/government\\_procurement/resources/united\\_states.html](http://www.apec.org/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/united_states.html)

<sup>54</sup> Asia Pacific Economic Cooperation, Government Procurement Experts' Group. Canada.

[http://www.apec.org/apec/apec\\_groups/committees/committee\\_on\\_trade/government\\_procurement/resources/canada.html](http://www.apec.org/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/canada.html)

The Canadian International Trade Tribunal, with power equivalent to a superior court, acts as a bid dispute settlement authority. Generally, suppliers have 10 days to submit a complaint and the tribunal has a maximum of 135 days to settle a conflict.

Canada has over 2 million SMEs, comprising almost 98% of all businesses in the country. The government, however, does not provide any special treatment to local or minority-owned SMEs, except for certain Aboriginal businesses.

Despite Canada's efforts to cater to SMEs, a survey released in February 2005 showed that SMEs find public procurement with the federal government too complex and requiring too much paperwork. Moreover, the SMEs responding to the survey believed that the procurement process was not transparent and that tender offers were written with specific suppliers in mind. They also complained that the government's emphasis on price had an impact on innovation, something SMEs were capable of delivering. Finally, SMEs complained that the government's requirement that companies getting contracts with the federal government had to have a presence in the capital effectively kept many SMEs from competing for contracts. Other examples of "unreasonable" requirements included excessive insurance and bonding, bilingualism, and the requirements related to experience and revenue.<sup>55</sup>

## United Kingdom

In the United Kingdom, the Office of Government Commerce (OGC) works with public sector organisations to improve efficiency and gain better value for money from its public procurement practices.<sup>56</sup> The OGC believes that by better managing their procurement and commercial activities, public sector organisations can achieve significant savings. As a result, the OGC manages a number of initiatives to open up government markets to competition. Specifically, the OGC encourages SMEs to work more closely with the public sector and helps them build partnerships with major suppliers. As in many other countries, this is extremely important in the UK because there are around 3.75 million SMEs, which represent 99% of UK businesses.

Among the countries studied, the UK has undertaken one of the most significant reforms in public procurement with the intent to make the process more attractive to SMEs. In 2003, as a result of a Better Regulation Task Force (BRTK) report, the government found that SMEs were often overlooked by public sector procurement. The report also found that some procurement officials had the perception that engaging SMEs in public procurement was risky. The task force report recommended the lowering of the impediments faced by SMEs interested in bidding for government contracts.<sup>57</sup>

Upon the recommendation of the BRTK, the government conducted two pilot projects (in West Midlands and Haringey), setting up simple web portals that allowed local governments to advertise low-value contracts. During the pilots, SMEs received training on how to put together tenders and government procurement officials were trained on the benefits of using SMEs. In addition, tender documents were simplified during the pilot projects and the bureaucracy involved in the tender process was reduced. Finally, the pilot projects encouraged prime contractors to open up their supply chains to SMEs. Ten large suppliers responded to the call and created sub-contracting opportunities for SMEs.

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<sup>55</sup> CAT Alliance (2005)

<sup>56</sup> Office of Government Commerce. United Kingdom. <http://www.ogc.gov.uk/>

<sup>57</sup> Office of Government Commerce, Better Regulation Task Force/Small Business Council Report. United Kingdom. <http://www.ogc.gov.uk/index.asp?docid=1002166>.

In June 2005 the government began to extend the measures used in the pilot studies to its national procurement portal.<sup>58</sup> While it is too early to determine if the national portal will be as successful as the pilots, it appears that the overall strategy of the pilots was effective. For example, during the pilots, the government carried out training programmes to change government buyers' mindset, who in the past interpreted rules too narrowly, effectively limiting SMEs ability to participate in public procurement. For SMEs, the simplified tendering process developed during the pilots and extended into the new portal may reduce what many termed a "tortuous and expensive bidding process". Moreover, the national portal will provide common tender forms, which will reduce excessive paperwork and will save SMEs from having to meet different requirements for different agencies.

While it may take a while to change the mindset of central government procurement officers, in a 2005 study conducted by NERA Economic Consulting, SMEs obtaining local government contracts were found to offer more personalised and committed service and "exceptional flexibility" to meet their customers' needs. The SMEs also offered competitive pricing, innovative products and services, were extremely dedicated and responded quickly to service requests.<sup>59</sup>

The BRTK concentrated on increasing competition and improving long-term capacity planning by the government. As part of the process, the Ethnic Minority Business Forum brought to the BRTK's attention the challenges faced by ethnic minority-owned SMEs. However, there was no explicit discussion about the challenges faced by women-owned enterprises; therefore the reforms were not directed at assisting them specifically.

## Singapore

The bulk of public procurement in Singapore is done in a decentralized manner. Individual ministries, departments and statutory boards generally make their own tendering decisions. Nonetheless, all tendering decisions should adhere to central guidelines issued by the Ministry of Finance Expenditure & Procurement Policies Unit (EPPU). For common goods and services, which are consumed by all government entities, there is a centralized procurement system.

Government tenders in Singapore are generally guided by the principle of best value for money for the public sector. There are three types of procurement procedures. Small value purchases involve goods and services up to S\$2'000 (roughly USD\$1'180). These may be purchased by the agency directly from known sources. Quotations are required for goods or services valued between S\$2'000 and S\$50'000 (roughly from USD\$1'180 to USD\$29'400). Usually, one officer will have to invite or recommend suppliers and another will have to approve the final choice. All contracts above S\$50'000 adopt tendering procedures.

The tendering procedures are open, selective and limited. In open tenders any supplier may participate by responding to the tender notice. In selective tenders, a selection among interested suppliers is done based on their capabilities. Only the selected parties can then participate in the tenders. In limited tenders only pre-identified suppliers are invited to submit their tender offers.

In order to promote administrative efficiency, the track record and financial capability of suppliers are kept in a central database. All tender notices are posted on the Internet at the government e-business web site (GBIZ). The site also gives tender schedules of offers received

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<sup>58</sup> "UK: SMEs to get procurement portal to sell to Government." *Public Technology*, June 6 2005.

<http://www.publictechnology.net>.

<sup>59</sup> NERA Economic Consulting (2005).

and the tender awards. All bidding is done exclusively online and complaints for non-compliance with procurement guidelines are reviewed by a government procurement adjudication tribunal.

There are around 100'000 SMEs in Singapore, representing about 95% of all enterprises - a smaller percentage than in most other countries. While the government has placed emphasis on attracting large multinational corporations to Singapore, during the past few years there have been discussions on how to revise the public procurement system to make it less onerous for SMEs.

Like many countries, Singapore does not keep statistics on the number of WOE, but since the country is small, an official at the Standards, Productivity and Innovation Board (SPRING Singapore) said that most WOE were likely to be in the area of ICTs.<sup>60</sup>

One feature that makes Singapore a tough place for SMEs to effectively compete for public procurement contracts is its very successful government-linked companies (GLCs). These companies openly compete with privately-owned companies for government contracts. While GLCs do not receive any preference from the government, the fact that SMEs have to directly compete with the fairly large GLCs, as well as with other large private companies, means that SMEs tend to miss out.<sup>61</sup> On the other hand, according to a government official, large companies that obtain government contracts often subcontract work with SMEs.

But changes may be on the horizon. The government has recently published an information guide to assist SMEs more successfully compete for government contracts<sup>62</sup> as well as a guide with information about financing schemes for SMEs.<sup>63</sup> In addition, the government publishes a "pre-procurement plan," which allows companies to preview the upcoming needs of the public sector. The plan is posted online in April of every year (the beginning of the government's financial year) and gives SMEs some lead time to source supplies, seek partners and prepare proposals.

## Indonesia

The Indonesian Government is divided into three separate levels: the National (central) government, 30 provincial and special regional governments, and 483 district/county and town-municipal governments. The procurement system is highly decentralized with departments generally procuring needed goods and services in accordance with the state budget, which is coordinated by the Department of Finance and the National Development Planning Agency.

Indonesia uses four types of tendering. According to the current Presidential Decree (No. 80/2003) on government procurement procedures, public tenders require extensive advertising in the local media and official bulletin boards to promote the largest number of capable bidders. Bidders must be registered on the government's list of capable contractors or the tender committee can pre-qualify them. General and limited tenders can be disqualified by the Committee or the Tender Officer if there are less than a total of three goods/services providers bidding for the tender.

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<sup>60</sup> Telephone interview with a top official of the Standards, Productivity and Innovation Board. 5 October 2005.

<sup>61</sup> Ibid.

<sup>62</sup> SPRING Singapore. Singapore Government Procurement Guide for SMEs.

[http://www.spring.gov.sg/portal/attach/GP%20Guide%20for%20SMEs-%20March2005\\_2005\\_6\\_9\\_1027.pdf](http://www.spring.gov.sg/portal/attach/GP%20Guide%20for%20SMEs-%20March2005_2005_6_9_1027.pdf).

<sup>63</sup> SPRING Singapore. Government Financing Schemes for SMEs.

[http://www.spring.gov.sg/portal/attach/Government%20Financing%20Schemes%20for%20SMEs\\_2005\\_7\\_14\\_955.pdf](http://www.spring.gov.sg/portal/attach/Government%20Financing%20Schemes%20for%20SMEs_2005_7_14_955.pdf).

In general, the procurement of government goods and services must be made through a general tendering process. But complex projects or those likely to involve a small number of providers—and of a value of up to Rp. \$100 million (roughly USD\$10'000) - can use limited tender. Direct selection is used for contracts valued at under Rp. \$50 million (roughly USD\$5'000) and it involves comparing price and technical offers of three or more bidders from the list of capable contractors.

The Tender Committee or Official must disqualify any process if: (a) there are less than three bidders; (b) the price offered by bidders turned out to be higher than the official “owner estimate cost”; (c) objections from any bidders related to improper procedure turned out to be true; and (d) alleged corrupt practices turned out to be true.

Even after suppliers submit their bids, government officials can carry out negotiations in an effort to obtain a fair price prior to the final appointment of the project's winner. For procurements under Rp. \$50 million (roughly USD\$5'000), the procurement team may select a bidder from a small, economically weak group of contractors and cooperatives. After determining that the bid followed stipulated procedure - that is, it was fair and reasonable - the procurement team may then directly award the tender to that bidder.

Goods are generally procured on the basis of fair and reasonable cost. Since the government is concerned about utilizing and strengthening domestic products and services, large numbers of local contractors are encouraged to compete for government contracts.

When conflicts about tender awards arise, the government encourages the agency and contractors to first try resolve their differences through mediation. If this is not possible, parties are free to seek settlement through the Indonesian Association of Arbitrators or the courts.

The 2003 Indonesian Presidential Decree (No. 80/2003) on government and infrastructure procurement states that fair and non-discriminatory procedures toward SMEs are fundamental principles in the procurement of government goods and services. In other words, the government is interested in promoting equal opportunity in the existing procurement - as well as the relatively new e-procurement - system.

With over 42.3 million SMEs accounting for more than 99% of all registered companies and employing more than 80% of the workforce, Indonesian SMEs are a critical part of the economy. In 1993 the government created the Ministry of Cooperatives and Small Enterprises with the hope that it would enhance the development of SMEs, increase the participation of SMEs in the country's economy and enhance SMEs' competitiveness and productivity.<sup>64</sup> Overall, however, Indonesia's efforts to support SMEs have not been very effective.

While the government does not have any specific programme to assist WOE, anecdotal evidence suggests that there are numerous women who own companies and are fairly successful in their participation in government procurement. Therefore, the authors will examine the role of WOE in the Indonesian procurement process as one of the case studies in order to identify what factors seem to make public procurement accessible to women entrepreneurs.

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<sup>64</sup> Asia Pacific Economic Cooperation, Centre for Technology Exchange and Training for SMEs. Indonesia. <http://www.actetsme.org/indo/indopol.htm>.

## Taiwan

In 1999 the Taiwanese government implemented a government procurement law (GPL) in conformity with WTO requirements. The principles of transparency, non-discrimination, national treatment with efficiency and accountability are the highlights of the law.

The basic policies of government procurement are best price for the purchase, accountability of the procurement officer and the promotion of domestic industries. Lowest price tenders are generally awarded. If the lowest tender is more than the estimated price, the bidders are given the chance to reduce the price. Auditors are involved in tenders over NT\$50 million (roughly USD\$1.5 million).

Procurement is usually conducted by the government agency making the purchase. There are three types of tender. In open tenders, suppliers examine the offer and apply for the contract. In selective tenders, however, there is a pre-qualification process before the formal tendering is done. In limited tenders there are usually two or more suppliers, based on their qualifications, who are invited to bid. The Ministry of Audit has authority to inspect and audit the procurements conducted by any government agency at any time.

Over the past 50 years, SMEs have made an important contribution to Taiwan's rapid economic growth and fast industrialization process. According to the Ministry of Finance, in 2003 there were over 1.14 million SMEs accounting for 97.83% of all enterprises and 77.56% of all employed persons.<sup>65</sup> The government has developed several initiatives to help SMEs compete for procurement contracts. For example, the SME Administration has published information guides that assist SMEs to better understand the process of public procurement. The SME Administration has also begun to keep statistics on the number of public procurement contracts awarded to SMEs to better monitor their success rate.<sup>66</sup>

## Australia

There is no national regulation of government procurement in Australia. In the commonwealth (or national) government, the management of procurement is substantially decentralised with each agency being responsible for its own procurement within a framework set out in the Commonwealth Procurement Guidelines (CPGs).

The core principle of government procurement in Australia is value for money, which requires a comparative analysis of all relevant costs and benefits throughout the procurement cycle.<sup>67</sup> At the Commonwealth level, agencies have flexibility to tailor contract award criteria with the Department of Finance and Administration, which provides guidance for projects worth more than A\$5 million (roughly USD\$3.7 million). The general guidance provided to agencies enables them to choose open, limited or selective procurement procedures, depending on the buying agency's requirements and market conditions in each case. Agencies must publicly advertise procurement opportunities on the government website and in other media, such as trade magazines. Suppliers can bring complaints about the procurement process to the contract

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<sup>65</sup> Government of Taiwan, SME Administration. The Small and Medium Enterprises' Role in Taiwan. [http://www.moeasmea.gov.tw/Eng/about\\_smea/a03.asp](http://www.moeasmea.gov.tw/Eng/about_smea/a03.asp)

<sup>66</sup> Government of Taiwan, SME Administration. Creating a Healthy Environment for the Development of SMEs. <http://www.moeasmea.gov.tw/Eng/policy/b05.asp>.

<sup>67</sup> Asia Pacific Economic Cooperation, Government Procurement Experts' Group. Australia. [http://www.apec.org/apec/apec\\_groups/committees/committee\\_on\\_trade/government\\_procurement/resources/australia.html](http://www.apec.org/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/australia.html).

awarding agency. They can also file complaints with the Commonwealth Ombudsman or with the courts.

The government is the biggest single purchaser in Australia, where there are 1.1 million SMEs, employing 3.3 million people. Like the UK, Australia has embarked on a thorough examination of its procurement practices and their impact on SMEs, although in the case of Australia the emphasis has been on ICT SMEs.

The government has recognized that ICT SMEs are “a significant source of innovation, job and wealth creation as well as export revenue, and their development is a focus of Australian Government action”.<sup>68</sup> Thus, in June 2002 the Department of Communications, Information Technologies and the Arts (DCITA) established the ICT SME Joint Industry/Government Working Party to enhance SME participation in ICT government procurement. The WP was supposed to identify solutions and measures to address inhibitors to SME participation in government contracts. In April 2005 the WP issued its report. It found that many SMEs had limited knowledge about current government purchasing practices and limited expertise on how to sell ICT to government agencies. To address this problem, the WP prepared a guide for SMEs on how to sell ICT services to the government and recommended the establishment of an ICT SME information unit within the DCITA. The unit has produced information guides about support programmes the government provides for ICT SMEs.

The WP also recommended that ICT vendors be allowed to retain intellectual property rights over products developed as a result of procurement contracts, rather than vesting the IP rights on the government. Finally, the WP recommended capping liability to more appropriate levels and simplifying the procurement process to make it more accessible to SMEs.<sup>69</sup> It is not clear whether these recommendations have been fully implemented.

#### 4.4 Women-owned SMEs and Public Procurement

As the preceding discussion suggests, many countries around the world are actively examining their procurement practices and their impact on SMEs. That is very good news since SMEs are the pillars that support the economy in most countries. Since the focus of this handbook is on women-owned enterprises, we will now turn our attention to what countries are doing to assist female entrepreneurs.

Despite the efforts of various governments to reform their procurement policies to remove the barriers of entry for SMEs, these efforts have not included assisting WOE's overcome the challenges they face when seeking opportunities to bid for government contracts.<sup>70</sup> The lack of attention to the challenges faced by WOE's is surprising when one considers that women-owned enterprises are the most dynamic area of the SME sector in many countries.<sup>71</sup> For example, in Canada, 4 out of 5 businesses are started by women;<sup>72</sup> in Taiwan, one-third of all new SMEs

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<sup>68</sup> Australian Government, Department of Communications, Information Technology and the Arts, SME Development. [http://www.dcita.gov.au/ict/sme\\_development](http://www.dcita.gov.au/ict/sme_development).

<sup>69</sup> Final Report of the ICT SME Joint Industry/Government Working Party to Senator Helen Coonan, Minister for Communications, Information Technology and the Arts. 2005. [http://www.dcita.gov.au/\\_data/assets/pdf\\_file/25523/Joint\\_Working\\_Party\\_Final\\_Report.pdf](http://www.dcita.gov.au/_data/assets/pdf_file/25523/Joint_Working_Party_Final_Report.pdf).

<sup>70</sup> As mentioned earlier in this chapter, those challenges may include, among others, lack of access to information, lack of networking opportunities, lack of access to credit or capital, or lack of mentoring or training.

<sup>71</sup> United Nations Economic Commission for Europe (2004).

<sup>72</sup> Royal Bank. Women Entrepreneurs (General).

<http://www.rbcroyalbank.com/RBC:Q0UC4o71A8UAAWnaL-8/sme/women/statistics.html#statistics>.

between 2003 and 2004 were started by women<sup>73</sup> and in Australia, women comprise one-third of small business owners and operators.<sup>74</sup>

While most governments acknowledge the important contributions made by women-owned enterprises, there is only one country that has set up an extensive programme to facilitate the entry of WOE's into public procurement: the United States. True, many countries do have *some* programmes to promote female entrepreneurship, but we simply could not find evidence that countries are making concerted and systematic efforts to address the needs and challenges faced by WOE's in the reforms that seek to promote SMEs access to public procurement. While not perfect by any means, only the US has put together a comprehensive set of resources that range from helping women establish viable businesses to identifying government procurement opportunities, providing training to maximize WOE's chances of obtaining a government contract, networking, one-to-one mentoring, and financing.

In contrast, when countries like Australia and the UK reformed their public procurement policies to be more SME-friendly, neither considered WOE's in their discussions. In fact, when we tried to obtain statistics about the number of WOE's doing business in the countries discussed in this chapter, none of the countries were able to produce statistics about WOE's' participation in public procurement and some acknowledged that they have not even considered setting up programmes that will assist WOE's to engage in public procurement.

Given that the US has an extensive programme to assist WOE's successfully bid for federal procurement contracts, it is only natural that we use the US as a case study and examine what elements of its programmes are worth emulating. But we also recognized that developing countries may have difficulty adopting most of the policies and practices put in place by the US. Thus, we decided to examine a developing country's procurement practices in relation to SMEs in general and WOE's in particular. We chose Indonesia for three reasons: (a) there was anecdotal evidence that some WOE's had successfully secured government contracts; (b) the government was reforming the procurement process in an effort to reduce corruption, and (c) one of the authors spoke the language and had local contacts who could identify female entrepreneurs and government officials for the interviews that needed to be conducted.

## 4.5 Case Studies

This section examines the way two countries have dealt with women-owned enterprises in the area of public procurement. In the case of Indonesia, we had to rely more on personal interviews with entrepreneurs and government officials because otherwise there was little printed or electronic information about initiatives aimed at supporting SMEs and WOE's. In the United States, the authors requested information from the Small Business Administration and other organizations via electronic mail and phone interviews. In both case studies several women entrepreneurs were interviewed to ascertain their respective experiences with public procurement.

The first part of the case studies will provide an introduction to each country's procurement practices related to WOE's. The second part will discuss specific experiences of women business owner.

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<sup>73</sup> MasterCard MasterIndex and Insights Reports. Taiwan's Future Consumer Market – Achieving Maturity. <http://www.mastercard-masterindex.com/asiapac/insights/2Q2005/2Q2005Issue02.html>.

<sup>74</sup> Australian Bureau of Statistics.

<http://www.abs.gov.au/Ausstats/abs@.nsf/Lookup/6ED0D79C3DCA25ECCA2569DE00263EDD>. These statistics are from 1997, but the authors were unable to obtain more recent ones.

## a. United States

Researchers agree that female entrepreneurs are commonly recognized as a “driving force in the US economy whether measured by the number of businesses owned, the revenues generated or the number of people employed.”<sup>75</sup> According to the National Association for Women Business Owners (NAWBO), the US has 10.6 million small and medium size businesses that are at least 50% owned by women. These WOEes employ over 19.1 million people<sup>76</sup> and thereby have a tremendous impact in the health of the US economy. However, WOEes have not been very successful at obtaining contracts with the federal government.

One of the reasons why SMEs in general and WOEes in particular have a difficult time contracting with the federal government is the tendency of agencies to bundle large contracts. While the rationale for consolidating the purchase of goods and services into large contracts is to increase savings, the side effect of this practice is the elimination of SMEs - and WOEes - from the pool of companies that can effectively compete for federal contracts. Although the US Congress passed a law requiring federal agencies to avoid “unnecessary and unjustified” bundling of contracts, the reality is that small businesses still face major challenges.

According to the National Association of Women Business Owners, “the trend toward contract bundling has resulted in fewer smaller businesses receiving federal contracts; only 11’651 small firms received new contract awards in 2000 as compared to 26’506 in 1991.”<sup>77</sup> To address the problem, the government developed a directive to increase contracting opportunities for small businesses. Among the measures to be implemented is the opportunity for small businesses to form teams to compete for bundled contracts. In addition, federal agencies will be required to file quarterly reports showing their efforts to address the issue of contract bundling.

In recognition that WOEes were severely underrepresented in federal procurement, the US Congress passed a law to assist WOEes get a larger share of federal government contracts. In 1994, Congress passed the Federal Acquisitions and Streamlining Act, which, among other things, set the goal that 5% of federal procurement dollars were to be awarded to WOEes as prime contractors. But the National Association of Women Business Owners says that this goal has never been fully achieved. For example, in 2003 WOEes received USD\$8.3 billion in federal procurement dollars. While the figure may seem large, it represented only about 2.9% of the USD\$277.5 billion awarded in contracts by the federal government. This is the largest percentage of federal contracts awarded to WOEes to date.

To help achieve the 5% goal, Congress authorized a “set aside” programme aimed at WOEes. Although the set aside programme (known as “Equity in Women’s Contracting Act”) was authorized in 2000, it has never been implemented by the Small Business Administration. Part of the reason for the non-action regarding the Equity in Women’s Contracting Act may stem from the fact that there are mixed feelings about the need for a WOE set aside. While some government officials and even some women entrepreneurs (especially those who have secured government contracts) feel WOEes are making significant progress in government procurement, others feel that without a set-aside women will not be able to fully benefit from government procurement opportunities.

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<sup>75</sup> Hart et al. (2003).

<sup>76</sup> National Association of Women Business Owners (2005)

<sup>77</sup> Ibid.

### ***Policies and Practices regarding WOE***

Despite the lack of progress implementing the Equity in Women's Contracting Act and the problems with contract bundling, there has been some progress for WOE. In 2003, 11 of the major federal agencies met the 5% goal and in 2004 agencies such as the Department of Commerce and the Department of Education met or surpassed the 5% goal.<sup>78</sup> Moreover, since one of the major challenges WOE have is accessing information about potential contract opportunities, the Small Business Administration (SBA)—with the assistance of other organizations - has set up a one-stop web portal where WOE that wish to bid for federal government contracts have access to a large number of resources.<sup>79</sup>

As numerous studies have found, WOE main challenges involve lack of networking opportunities, lack of training, lack of access to information about potential contracts and lack of financing. In the “womenbiz” portal, the SBA provides links to programmes addressing all these needs.

#### ***1. Mentoring, Counselling and Networking***

The Department of Defence and other large agencies have mentoring programmes for small and disadvantaged businesses, including WOE. The main goal of these programmes is to increase the participation of small disadvantaged businesses (protégés) as subcontractors and suppliers for the Department of Defence or other federal agencies. The programme works by providing incentives to major Department of Defence prime contractors (mentors) to furnish technical and business assistance to small businesses. The goal is that the relationship will enhance the capabilities of small disadvantaged businesses, so they can eventually become prime contractors or subcontractors.

The US Office of Small and Disadvantaged Business Utilization (OSDBU) provide one-to-one counselling to WOE. Every major federal agency has an OSDBU office and most branches of the OSDBU have a WOE advocate, so they can become the first place of contact for WOE wishing to enter into government procurement.<sup>80</sup>

The womenbiz portal also lists conferences organized for WOE, where female entrepreneurs can network and interact with agency representatives and other larger contractors. In addition, the SBA and the US Chamber of Commerce co-sponsor matchmaking sessions around the country. At these events WOE can present their qualifications to procurement agents and prime contractors who do business with the government.

The Treasury OSDBU has created monthly Vendor Outreach Sessions (VOS) in which small businesses, including WOE, can meet with procurement officers and prime contractors for 15-minute sessions. The March VOS is reserved for WOE, but they can sign up for any of the other monthly sessions as well. Other agencies, such as NASA, the Department of Health and Human Services and the Department of Interior also organize events where WOE can meet with procurement officers and large prime contractors.

Finally, to make WOE more visible, SBA manages PRO-Net, an online database where small businesses can register. This database gives WOE exposure to federal agencies while

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<sup>78</sup> Repsher (2004).

<sup>79</sup> Small Business Administration's Gateway for Women-owned Businesses. <http://www.womenbiz.gov>.

<sup>80</sup> Office of Small and Disadvantaged Business Utilization Directory. <http://www.sba.gov/GC/osdbu.html>.

procurement officers have the opportunity to search for potential contractors by type of ownership (e.g. WOE).<sup>81</sup>

## **2. Training**

The Small Business Administration provides assistance to WOEs wishing to do business with the federal government through the SBA Procurement Centre Representatives (PCRs).<sup>82</sup> The PCRs' role is to increase the small business share of federal procurement awards by initiating small business set-asides, reserving procurements for competition among small business firms, informing federal agencies of potential small business suppliers, and counselling small firms.

The SBA also offers assistance to WOEs through the Small Business Development Centres (SBDCs).<sup>83</sup> The SBDCs are a cooperative effort of the private sector, the educational community and federal, state and local governments. Their role is to enhance economic development by providing small businesses with management and technical assistance. While the SBDCs help all small business owners, the women we interviewed indicated that they received a great deal of help from these Centres.

In addition many agencies provide their own training. For example, the Department of Defence has a Procurement Technical Assistance Centre that teaches small businesses and WOEs to apply for federal contracts.<sup>84</sup> In addition, the National Aeronautics and Space Administration (NASA) provides extensive training that assists small businesses with marketing, financing proposal preparation and other matters.<sup>85</sup> Other federal agencies - such as Health and Human Services, and the Departments of Interior, Transportation and Commerce - have programmes offering information on procurement opportunities, guidance on procurement procedures, and identification of both prime and subcontracting opportunities.<sup>86</sup> Since NASA and the Department of Defence encourage prime contractors to subcontract to WOEs, as well as minority and veteran-owned SMEs, large contractors are expected to have a "small business liaison officer" and WOEs are encouraged to contact these liaison officers to facilitate negotiations.

## **3. Financing**

The Small Business Administration can assist WOEs seek financing. The majority of the programmes listed in the womenbiz portal are through loan guarantees by the SBA. Other programmes involve low-documentation loans, and other types of short-term loans that can provide WOEs with financing for direct labour and material costs associated with performing assignable contracts.<sup>87</sup>

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<sup>81</sup> Central Contract Registration website. <http://www.ccr.gov/>.

<sup>82</sup> Procurement Centre Representative Directory. <http://www.sba.gov/GC/pcr.html>.

<sup>83</sup> Office of Small Business Development Centres. <http://www.sba.gov/sbdc/>.

<sup>84</sup> Department of Defence. Procurement Technical Assistance Centres. <http://www.dla.mil/db/procurem.htm>.

<sup>85</sup> National Aeronautics and Space Administration. <http://www.hq.nasa.gov/codek.htm>.

<sup>86</sup> Office of Small and Disadvantaged Business Utilization Directory. <http://www.sba.gov/GC/osdbu.html>.

<sup>87</sup> US Small Business Administration website for women owners of small businesses. <http://www.womenbiz.gov/infow-osb.html> (Click on "Best Practices for Women-owned Small Businesses.")

### *Interviews with Women Owners of Enterprises*

The US female entrepreneurs interviewed had some mixed stories about the effectiveness of the US government policies to help WOEes access public procurement.<sup>88</sup> Their businesses represented the IT sector (software development), public relations and two of them worked in the fabricated metal sector (e.g. steel, titanium and aluminium). They averaged about 8 years of experience as business owners and overall are quite successful.

The two women whose companies supply and manufacture metal products received help from the Small Business Administration's programmes to obtain their first federal government contracts. They indicated that the SBA helped them with technical support and training in many areas, from marketing to accounting and other business practices. They currently have contracts with NASA and the US Air Force. After several successful bids with the federal government, they moved on to work with state and local governments and large corporations, such as Lockheed Martin, Boeing, and others. They both have won multi-million contracts and while they found the process initially challenging, they feel they had enough support to break through the initial barriers, such as the complexity of the tendering process, identifying potential agencies with whom they could do business, establishing relationships with government officials and larger contractors, finding mentors, etc. However, their success may be more a function of the type of products/services they offer.

The other two women, whose businesses are in the IT sector and in the area of public relations, were not as successful. They both felt that their companies lacked the resources to bid for government contracts. One of them indicated that the process of preparing the tender documents until the contracts were awarded took too long. After failing to obtain the contract, she decided that she could not afford to devote so much staff time to bid for a contract that she might not get and indicated that she was not likely to bid for another government contract any time soon. The other one said that the process didn't feel straight forward and it was too complex. Moreover, she felt that the requirements for expertise were difficult to meet since she had been in business for less than ten years. However, she said that she found that the Small Business Administration Development Centre was very helpful in terms of training opportunities and helping her establish contacts with potential government clients. She felt that if she tried to do business with the government again, she would try subcontracting from a prime government contractor in order to avoid the cumbersome process of bidding.

Even when these women business owners failed to obtain a government contract, they felt that they had adequate access to information and training. In the area of financing, however, the picture was, once again, mixed. Those in the manufacturing sector had an easier time not only obtaining government contracts but also securing resources to grow their businesses. But that was not the case for the women in the service sectors. One of the entrepreneurs in the service sector financed her business by first working as a consultant and then investing her earnings into her business.

From the above examples it seems that it may be more difficult to successfully bid for services such as software development or public relations than for products in the manufacturing sector. While we only talked to four women, it is clear that even with all the help provided by the Small Business Administration, bidding for government contracts requires a significant commitment of human and financial resources that some WOEes simply cannot spare or afford. It also seems that

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<sup>88</sup> Telephone interviews with US women entrepreneurs. October 2005.

despite all the help available, WOE's have to be willing to fail a few times before they are able to break through and obtain their first contract. Once they develop the expertise of delivering on a contract, however, it appears that they are "in" and obtaining additional contracts becomes easier.

While none of the women interviewed felt that the procurement process was unfair against women *per se*, they agreed that it was quite complex and cumbersome and felt that if the government wanted to encourage more small businesses and WOE's to participate in public procurement, there was a need for the process to become less complex and cumbersome.

The women had mixed feelings about special set-aside programmes for SMEs. One felt that while in theory it sounded good that WOE's would receive special assistance, such programmes can have a detrimental impact in the way women business owners are perceived by male-owned businesses. On the other hand, one of the women said that without some assistance, everyone has a chance to compete for federal procurement dollars, except women business owners.

One interesting result of the WOE classification is that once women business owners are able to get a contract, their businesses can grow significantly and eventually they can openly compete with other businesses without the need of the special classification. Thus, it seems that the special assistance is needed as an entry aid into the federal procurement field. After the initial contracts are carried out, the WOE will be able to demonstrate its ability to deliver on the contract received, just like any other business.<sup>89</sup>

## **b. Indonesia**

The latest government statistics (December 2003) indicate that there are 42.39 million small and medium enterprises in Indonesia.<sup>90</sup> Despite this large number of SMEs there are institutional weaknesses that have kept Indonesia from developing SME-friendly procurement policies even though the Decree calls for greater participation of SMEs in government procurement.

For example, procurement for goods and services for up to Rp. \$1 billion (roughly USD\$100'000) is designated for SMEs and other small-scale businesses—including small cooperatives. The exception is work projects which demand technical competence that SMEs cannot fulfil. However, it is not clear how faithfully the procurement policies are implemented since there are no specific technical standards or benchmarks for the transparency of tendering in Indonesia and the procurement system is quite corrupt. Money begins to illegally exchange hands from the moment a project is slated for contracting and different parties in the process receive payment for their support and participation. In fact, as Heeks indicates in his case study of e-procurement in Indonesia, there are anecdotal reports that it was not unusual for contractors to pay 20-40% of the overall tender value to members of the tender committee and, in some cases, to higher-level officials who oversaw the committee's work. According to Heeks, "Breaking this cycle of need, and institutionalised process of corruption set in place during the Suharto era, is not going to be easy."<sup>91</sup>

### ***Policies and Practices regarding WOE's***

Currently no programmes in Indonesia provide training, mentoring or financing for WOE's. In fact, neither Presidential Decree No. 80/2003 nor other laws concerning Limited Companies

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<sup>89</sup> See discussion about this issue in Repsher (2004).

<sup>90</sup> State Ministry for Cooperatives and SMEs. Indonesia. <http://www.depkop.go.id/>

<sup>91</sup> Heeks (2003).

(UU PT No.1/1995) or their related Government Directives have any affirmative clauses promoting women-owned enterprises. Government officials indicated that there were no plans to introduce such provisions. Nonetheless, the State Ministry for Women's Empowerment is supposed to implement a greater awareness of the equal status of women and gender fairness. In addition, women-owned SMEs can lodge complaints to the relevant ministries about any abuses on the basis of gender.

### ***1. Government Plans to Assist SMEs in Securing Government Contracts***

While currently there are no specific programmes to assist SMEs, the chapter headings of the Strategic Plan of the State Ministry of Cooperatives and SMEs for 2005-2006 suggest that there are some planned programmes for SMEs and micro-enterprises. These programmes include credit guarantees, fund recycling and improving SMEs' access to credit from banks and other financial institutions. Other programmes include Entrepreneurship Development, Development Programme for Business Centres, and Marketing Facilitation and Development Programme for SMEs and micro-enterprises. However, these plans are yet to be realized.

### ***2. Introduction of Semi e-Procurement***

In 2001, the Department of Settlement and Regional Infrastructure (now called Department of Public Works) introduced an online information system to support the process of tendering. The introduction of semi e-procurement was envisioned to eliminate some of the corruption in the procurement process, reduce the costs of procuring goods and services for the government and dissolve the power of a small Jakarta-based clique, thereby making the process more accessible to SMEs at large.

Heeks, who studied the introduction of e-procurement in Indonesia and its impact on corruption, says that there is a perception that before the e-procurement system was introduced "most tender winners had a close relationship with government officials."<sup>92</sup> Several years later, there is no way to accurately determine if e-procurement has made any major dent on this serious problem. As our interviews with female entrepreneurs suggest, however, personal relationships seem to still be an important part of securing a procurement contract in Indonesia, regardless of the gender of the business owner.

### ***Interviews with Women Owners of Enterprises***

As is the case with most countries, Indonesia does not keep gender-related statistics for WOE, but anecdotal evidence suggests that many women-owned enterprises may be involved in government procurement. The female entrepreneurs interviewed were all involved in the procurement of various types of government goods and services with the Ministry of Public Works. The contracts they secured ranged from event-organizing to construction projects as well as supplying the ministry with electronic equipment, computers and other office equipment.

The four women entrepreneurs interviewed indicated that over the years they had successfully secured government contracts for goods and services and government officials often preferred to deal with them instead of their male counterparts. Since the women interviewed were "exceptionally well-connected," this suggests that personal relationships may play a part in their acceptance as business owners when it comes to bidding for government contracts.

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<sup>92</sup> Ibid.

One of the female entrepreneurs interviewed has been able to obtain government contracts for goods and services with the Department of Public Works for more than 13 years. She claimed to be a long-standing friend of the son of former President Suharto. In her own family, there are five high-ranking military officials and she admits that she built her business mainly on her networking capabilities with various high government officials in order to obtain “strategic and valuable information” about specific tenders and all associated processes.<sup>93</sup>

The other three businesswomen had similar elite profiles - with strong military/bureaucrat family connections - which appear to have helped them in establishing the initial contacts that enabled them to obtain access to the government officials in the Ministry of Public Works. Most of these women claim that they have some advantages over men with senior officials since they are perceived to be more “open” and “courteous” and the officials feel more “comfortable” with them. On average, the four businesswomen have been in business for more than ten years.

We make no moral judgment about the appropriateness of how these female entrepreneurs obtained their government contracts. However, Indonesia *does* have a problem with corruption. In fact, in 2005 Transparency International selected Indonesia as one of the six most corrupt countries in the world. Part of the problem in fighting corruption in the award of procurement contracts is that while procurement policies seek to promote fairness, the policies to achieve this outcome are not always implemented. There are two key reasons for this. First, the majority of government officials currently in power are the same officials who were in power during the corrupt Suharto regime, and while the current government is trying to eliminate corruption, many of the reforms have not yet been fully implemented. Second, there is weak law enforcement and a domestic and international perception that corruption is rampant. However, the current government has gone after high-profile figures, giving the impression that there is a concerted attempt to tackle corruption.

Turning to some firm-characteristics of the women entrepreneurs interviewed, they had a small number of full-time employees (about 20 people), but often employed more if needed. They also tended to outsource most of the work to their business partners, which means that they basically operated as intermediaries. Their bids averaged between Rp.\$100 to \$400 million (or between USD\$10’000 to \$40’000) and they bid about 3 to 5 times per year. We believe, however, that these figures were understated since some of the women interviewed talked about getting contracts involving large infrastructure projects such as building stadiums, bridges and hospitals. Finally, we note that while some of the women interviewed had personal computers, they were not intensive users of email and other ICT tools to improve the productivity of their businesses.

When WOE’s failed to secure a government contract, the interviewees suggested that their failure may not have been specifically related to the category of products or services they were offering or even the prices they bid. In their perception, the reason why their earlier bids failed was because of their own inexperience during their initial involvement with government procurement.

The women interviewed appeared eager to bid for another contract in the future, as long as they are profitable. Overall, they perceived their engagement in public procurement as a long-term proposition.

All interviewees stated that, in their view, there are no procurement policies or practices that work against them as female SME business owners. On the contrary, they felt that male senior government officials often prefer to do business with them as they are perceived to be “more

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<sup>93</sup> Personal interviews with female entrepreneurs. November 2005. Jakarta, Indonesia.

flexible.” The interviewees also perceived that the government’s procurement practices are generally already quite supportive of SMEs.

On the subject of whether the government should set up procurement policies that promote female entrepreneurship, the interviewees gave a mixed response. Some felt that such policies were needed, particularly relating to WOE in the provinces and districts and in terms of helping them gain greater access to credit from the banking sector. Others said that gender-based policies were not needed because existing conditions already allowed many women, such as themselves, to be successful in obtaining government contracts.

## 4.6 Summary and Recommendations

Governments around the world are re-examining their public procurement policies and practices. But we found that the governments that have decided to reform their procurement practices have chosen to focus on SMEs without giving any thought to the challenges that WOE face. Given that WOE are usually SMEs, we can extrapolate some findings and apply them to WOE.

First, governments have to evaluate their procurement practices and determine if they are restrictive or exclude SMEs and WOE from effectively competing for contracts. Governments should also be mindful of the financial burden that high guarantees will have on SMEs and WOE. Specifically, although several governments - e.g. Australia, UK and Canada - have sought to simplify procurement procedure and address the issue of insurance and other guarantees, their efforts appear to have had limited success since SMEs are still getting a small proportion of the contracts awarded by most governments.

Moreover, procurement officers may hold the biased view that engaging SMEs may be risky, so there has to be a commitment at high levels of government that involving SMEs and WOE is an important social and economic goal and that commitment has to trickle down to the staff awarding the contracts. To address this problem, governments should educate their procurement staff so they can understand the social and economic benefits of contracting with SMEs and WOE.

Governments must also make an effort to unbundle contracts so SMEs and WOE have a better chance to compete. If agencies wish to support small businesses, a way to initiate involvement of SMEs and WOE in government procurement could be to start with smaller contracts and over time build a core group of small businesses that has experience tendering for government contracts. Eventually, governments could encourage SMEs and WOE to group together and bid for larger contracts. These measures can be implemented as a multi-step process. What is important is that there is a plan of action and that as the plan is implemented there is enough flexibility so adjustments to the process can be made as problems or challenges emerge.

Another approach would be for governments to require large contractors to sub-contract a portion of their contracts to WOE. If the WOE performed well, that experience could then be counted as part of the expertise required when the WOE tried to bid for a government contract on its own.

Since public procurement can be complex and daunting to SMEs and WOE, government agencies should publish guides - both online and offline - listing bidding opportunities and providing names of procurement contacts, so companies wishing to enter into the public procurement game can become informed of upcoming opportunities. In addition, governments

could establish small business liaisons in major government agencies that could assist WOE and SMEs learn the intricacies of the public procurement process.

Governments can be creative in promoting women-owned enterprises to play a greater role in public procurement. For example, governments could create “set aside” programmes that encourage agencies to provide a certain percentage of procurement contracts to WOE. While this goal may take years to achieve - as it is happening in the US - at least it represents a starting point and creates an environment where agencies slowly work toward including WOE in the procurement process.

In terms of education and training, governments could provide advice to women entrepreneurs about the types of industries that are more likely to successfully bid for government contracts. For example, public relations may not be a service that may be easily sold to governments, but printing services might be a better choice. While not all women entrepreneurs may be willing to create businesses exclusively on the basis of this information, some may consider it helpful if they are at the planning stage of starting their own business.

Finally, governments who wish to encourage greater participation of WOE in public procurement should develop ways to help finance them. For example, one programme in the US provides short-term, low-interest loans to help small businesses with direct labour and material costs associated with performing assignable contracts. In most cases, WOE’s problems with financing have to do with the size of business, type of business and length of time the business has been operating. If governments set up loan guarantee programmes, they would provide an important avenue for expanding the contributions of WOE to the economy.

In the case of developing countries, the example of Indonesia implies that even the adoption of e-procurement provides no guaranteed reduction of corruption. As the interviews with the Indonesian women entrepreneurs suggest, personal relationships may be a critical factor in obtaining a government contract - with gender being relegated to a less important position. This means that women owners of enterprises who do not have high ranking military officials in their family or important connections with top government officials may be at a disadvantage. Therefore, female entrepreneurs wishing to do business with the government in Indonesia and similar developing countries must demand reforms of the procurement system. Only then can the inappropriate use of personal influence to obtain procurement contracts be reduced. Obviously, this is easier said than done as stamping out corruption is a long-term process.

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## CHAPTER 5

### INTERNATIONAL TRADE AS A DRIVING FORCE FOR GROWTH

*Ingrid Andersson*

#### 5.1 Introduction

Whereas small and medium-sized enterprises (SMEs) make up some 98% of all formally registered enterprises in the world, and contribute to some 60% of GDP, their role in international affairs, and international trade, is considerably less prominent. On average, about 35% of SMEs are headed by women, and observations from a number of countries demonstrate that women entrepreneurs are becoming increasingly significant engines of economic growth. Yet, according to recent studies, less than one tenth of these women have started to become involved in international trade. This suggests that women entrepreneurs are even less active in, and benefit to a disproportionately small extent, from business in foreign markets.

On the other hand, according to the World Bank, the three major forces behind the increasing importance of SMEs, including women SMEs, are access to finance, access to international markets, and access to networks. A number of country-studies likewise suggest that these factors are important drivers behind the increasing importance of women-owned SMEs. Success in international business may be decisive for further advance, since it is likely to greatly facilitate success in networking and finance.

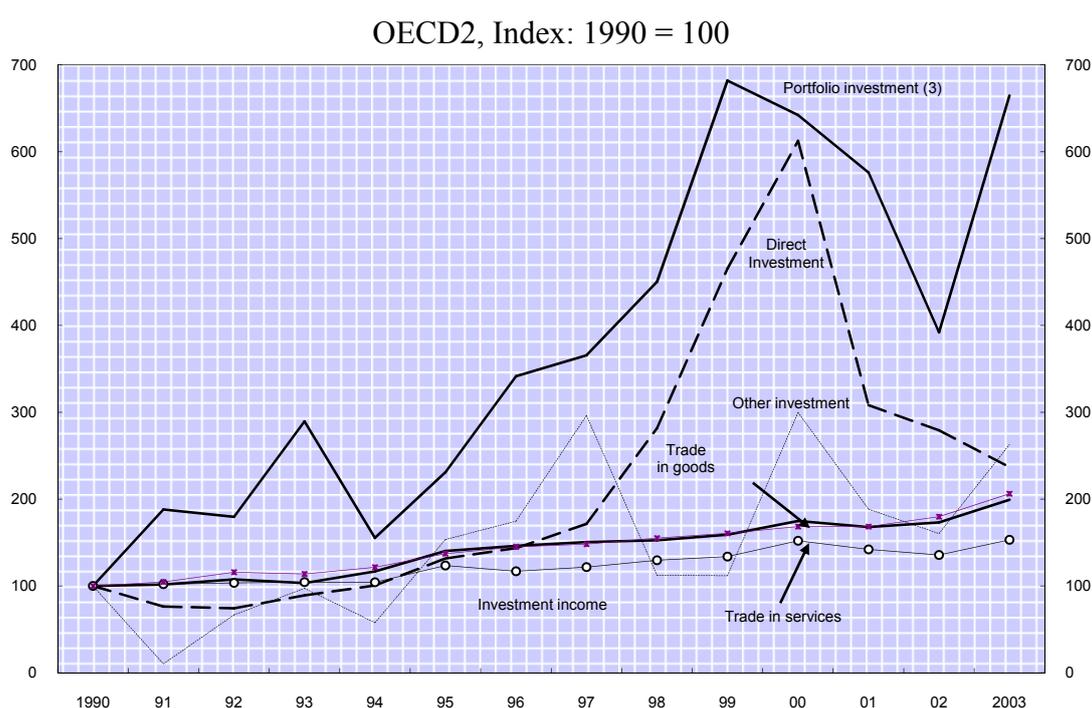
In this chapter, the focus will thus be on international business, and particularly access to international markets, for women entrepreneurs. The chapter will provide an overview of the growing importance of globalization and international trade, as well as explore aspects of its growing significance for economic performance. Further, the impact of new technologies on international trade, especially information and communications technology (ICT), and its relevance to women-owned SMEs, will be explored. These aspects are examined with a view to the special features and issues which greatly influence women entrepreneurs. For example, women-owned businesses grow at a lower pace than male-owned SMEs and, at the same time, enterprises started by women demonstrate a lower rate of bankruptcy. Women-owned SMEs are in many aspects lacking access to different types of business networks and, historically, this can be seen as one of the major factors behind their relatively weak engagement in international trade. It is specially noted that the new network-technologies have the potential to empower users and may greatly strengthen women entrepreneurs in international trade, although issues such as privacy and security need to be addressed. Also, potential benefits meet with competence requirements. Last will be a set of policy recommendations in order to settle what kind of competence programmes for women business owners may be vital in order to strengthen their ability to benefit from international trade.

## 5.2 International Trade and Women Owned SMEs – an Overview

The ongoing globalization process implies that reduced costs for transport as well as for diffusing and accessing information, ongoing liberalization and enhanced competition, make both product and factor markets more accessible, for most actors from within as well as outside individual countries.<sup>94</sup> Whereas international trade has grown considerably faster than the economy on average, foreign direct investment (FDI), i.e. long-term business investment involving control of a firm in a foreign market, has picked up pace and grown even faster. According to available estimates, there are now some 900'000 foreign-owned affiliates around the world, and as much as two-thirds of all international trade may today occur within the multinational enterprises (UNCTAD, 2004).

As can be seen from Figure 5.1, so-called portfolio investments, i.e. pure financial transactions, have grown faster than FDI. Through the responsiveness of these financial transactions, the impacts of new information may now transcend more or less the entire world economy in minutes, or even seconds. From the view-point of lasting structural impacts, including business performances and knowledge and information flows between countries, however, international trade along with FDI still remain the key aspects of globalization.

**Figure 5.1:** Trends in international trade and investment<sup>1</sup>, 1990-2001



1. Average imports + exports or average assets + liabilities.

2. OECD excludes the Czech Republic 1990-92, Greece 1998 and the Slovak Republic 1990-92 and 2001.

3. Excluding financial derivatives.

*Source:* OECD (2005)

<sup>94</sup> Globalization is, of course, not new. The main breakthrough for the acceleration of international merchandise has been dated back to the early 19th century. Since then, there has been a gradual elimination of costs and prices in different markets (O'Rourke and Williamson, 2000).

Both international trade and FDI have long been controversial - associated with foreign exploitation and uneven bargaining positions between countries. There has also been controversy on the relations between large and small firms and how these are affected by globalization. In recent years, however, countries around the world have shifted from a defensive stance and embraced a welcoming attitude to foreign trade and investment, at least at the level of rhetoric. Most have put in place agencies for attracting foreign investments, and they have sought to negotiate more open markets abroad for their exports, applying to goods as well as to services. On the other hand, countries have been reluctant to accept a multilateral agreement for international investment, and the multilateral trade system negotiated under the World Trade Organisation (WTO) has been seriously undermined by substantive differences among countries in their views how to make use of various escape clauses, what markets to liberalize first, and how to handle sensitive societal and cultural interests.

The term globalization sometimes signifies that the international division of labour is influenced by the production, investment and consumption decisions taken by internationally active players with a view to the entire global context of current and future market opportunities. Also, economic decisions are interwoven with the state of the global environment, and need to take into account cultural and societal processes. Some factors are of course more globalized than others and some countries more central or peripheral than others. North America, Western Europe and Japan/East Asia have become dominant in the overall resource flows.<sup>95</sup> Individuals as well as certain parts of the work force are less adaptable and mobile, and their options to benefit from globalization may be relatively small.

Notwithstanding the continued general trend, important markets remain far from open. Broadly speaking, trade in manufacturing products is the most liberalized, although there are exceptions and tariffs as well as non-tariff barriers remain in many areas. Agricultural products, on the other hand, are marked by a patch-work of more or less impeded and distorted trade relations. Textiles represent another type of products and markets which constitute a focal point for many women-owned SMEs; this is also an industry which continues to be subjected to a range of trade restrictions. Services are similarly liberalized in a half-baked sense, and conditions for foreign investors are now increasingly determined through bilateral investment treaties. Moreover, a number of important sectors, including health, education, construction and domestic transport, remain strongly influenced by public ownership and regulations, which in essence account for sheltered markets.

Apart from the barriers that appear at national border, and those that emanate from public ownership and meddling, barriers arise due to high transaction costs and business risks caused by lack of orderly legal frameworks. Intellectual property rights are, for instance, severely fragmented around the globe, which accounts for opaque conditions and great difficulties notably for individual innovators and small firms to plan and predict how to manage intangible assets. Beyond this, there is a serious lack of generally reliable rules for payment, which makes late (or no) payment a very serious, real threat for firms in foreign markets where they have limited bargaining power, and difficulty to prepare for taking legal action.

Despite the importance of big business, current trends point towards an enhanced role of SMEs in national economies as well as in international trade. First of all, the average size of firms has been on the decline in recent decades. Although big firms have become more active in merging

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<sup>95</sup> In practice, globalization is sometimes used to indicate that firms need to be active in these three regions, rather than in just two or one of them.

or acquiring other firms, big and small, there is now a heavy emphasis on streamlining, and focusing each enterprise on its core business. Within international business groups, there are indications of a trend towards increased independence for different units, including greater capacity to adapt to local conditions and specific partnerships. In this sense, we speak of “glocalization”, markets are becoming integrated, but economic actors need to adjust more effectively to local conditions in order to be successful. Moreover, there is a greater churning in the population of firms, many more new ones are created, and networks of small businesses are able to combine flexibility and sharp niche-strategies at firm level with economies of scale and scope at network level.

It is interesting to reflect on the timing of internationalization for SMEs. Traditional perspectives hold that SMEs tend to start local, and national, and that they internationalize gradually. This development reflects the graveness of the information problems that firms encounter in foreign markets, and the fact that young and small enterprises have less ability to cope with fixed costs and only gradually become capable of managing the demanding requirements of an alien environment. The issue goes beyond mere problems of knowing what information to seek or how to use it. Due to the weakness of international regulatory frameworks, applying to a range of markets from industrial goods to services and intellectual property rights, it is generally costly for firms to defend their commercial interests once a conflict arises.

Smaller firms are less able to prepare themselves and then to absorb the hardships that follow with such conflict, resulting in lower bargaining power and greater vulnerability as well as a high propensity to be confronted with breaches in contract. The more “alien” a specific cultural or institutional environment is, the greater the handicap suffered by the small firm. SMEs are thus subjected to worse treatment than larger firms when it comes to the honouring of full payment in time, respect for quality of products, etc., and even more so as they approach foreign markets. The true cost of this situation is “invisible”, in the sense that it emanates from the discouraging effect on the internationalization of SMEs in the first place. This holds even truer for women-owned SMEs, which may be due to a combination of limited financial resources, risk-averse behaviour, a tendency to shun conflict, and the lack of appropriate networks that could serve to demonstrate influence on the global arena.

These kinds of issues are not unrelated to cultural factors. Problems with late payment, like those of corruption and general transaction costs in business deals, vary systematically between countries. They are higher outside the OECD than in the OECD area, higher in southern Europe than in northern Europe, and so on. Women, like ethnical minorities, are also particularly badly hit, and more so in those countries where the protective frameworks are especially weak. This is likely to contribute to the relatively slow internationalization of women-owned enterprises. It may be perfectly rational for many women entrepreneurs not to enter distant countries where information costs are high and regulatory conditions less protective. With the development of the new technologies there has been some progress in this field; however, most of this has taken place on a national level. For example it is now in many countries possible to, via the Internet, get access to credit and bankruptcy levels for all registered enterprises on a national level. Standards vary though, and there is limited harmonization or transparency between countries. This often makes international trade a highly risky venture, including for women entrepreneurs.

In order to manage risk, trust needs to be put in place and it has been argued that women entrepreneurs have a strong role to play in creating trust (Andersson, 1998). This holds in particular in the service industry, all services involving care belong to the kinds where women owned enterprises enjoy a higher degree of trust. The service industry has rather low content of

international trade, but change is on its way. As demography and family patterns are changing the need for more entrepreneurs in care for elderly and children is increasing. At the same time, these care-providing companies display features that tend to make them highly susceptible to international trade, but this capacity remains underexploited. In order to fulfil the potential, new standards, role models and strategies must be developed. Nevertheless, the sector clearly has great potential, and women entrepreneurs have proven to be highly innovative in this field. Another area of services in which women entrepreneurs demonstrate a strong performance, in part due to capacity to instil trust, is education. This sector is also undergoing much growth and development in particular since the demand for learning and training is growing rapidly, not least due to the advances in ICT. Among other industries that could be mentioned where women-owned enterprises display a special level of trust are design, fashion, food and tourism.

The state of infrastructure, tax regimes and regulatory frameworks in essence means that many small firms shy from establishing formal businesses in the first place. When businesses thus remain “informal” they receive little attention and may be basically “invisible” in the economy. This does not mean that they are unimportant and do not contribute to economic development. While the boundary line between formal and informal businesses is not always a sharp one, it needs to be underlined that the owners of the latter tend to be utterly insecure and vulnerable. They often find themselves mixing entrepreneurship and private life to an intolerable degree, their business risks boil down to a matter of life or death for their families, they are shut out from any official protective social networks, and they run the risk of being hunted down by creditors or government officials. From society’s perspective, as is often stressed, there is also a loss of tax revenue, undercutting of regulatory frameworks, and so on. Unfortunately, in many countries, and especially developing countries, many women entrepreneurs continue to operate under, at least in part, informal conditions. This also makes them unable to serve as orderly access points for information and networking related to opportunities for international trade. Their foreign trade activities will remain weak, hidden and possibly dependent on murky contacts.

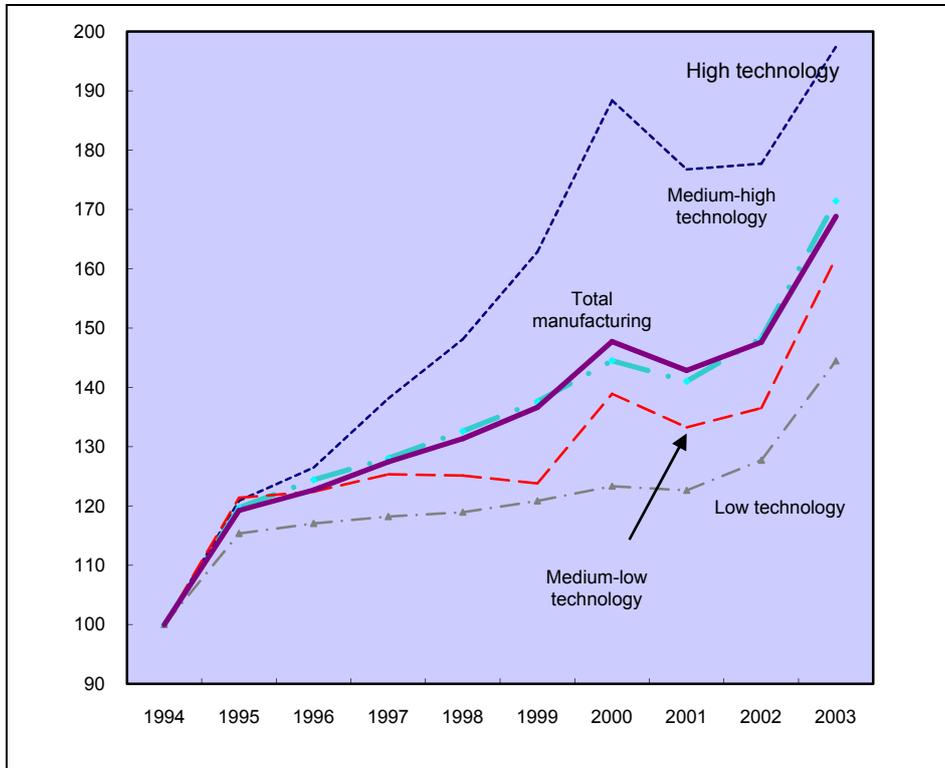
Again, many of these issues pertain to SMEs in general, but tend to apply to women entrepreneurs to a particularly great extent. This may be due to special features of women entrepreneurs, their lack of collateral, their consciousness for the future and role in family life, the sectors they are in, the way they approach networks, or how they are perceived by male counterparts. Lack of appropriate networks may result in less information, fewer entry points, less protection when a problem arises, etc. Such considerations are likely to play a major role in the ability of women-owned SMEs to engage in international trade, but changes are under way.

### 5.3 Access to New Technologies

As both goods and production factors are increasingly mobile, one of the most striking consequences of globalization is that information, and also knowledge itself, is diffused internationally on a scale never seen before. Meanwhile, on the global level, the knowledge-stock is growing rapidly as it is fed by intensifying and mutually strengthening connections between processes of knowledge-creation that are under way all over the world. Any individual country or organisation has small resources in comparison with the global community of scientists and research facilities. Research results are not made readily available, however. Some is available as a public good, and diffused in the science community. For other kinds, conscientious efforts are needed, and called for since opportunities are there. Knowledge needs to be sought everywhere where it is relevant and where it can be done without causing excessive costs.

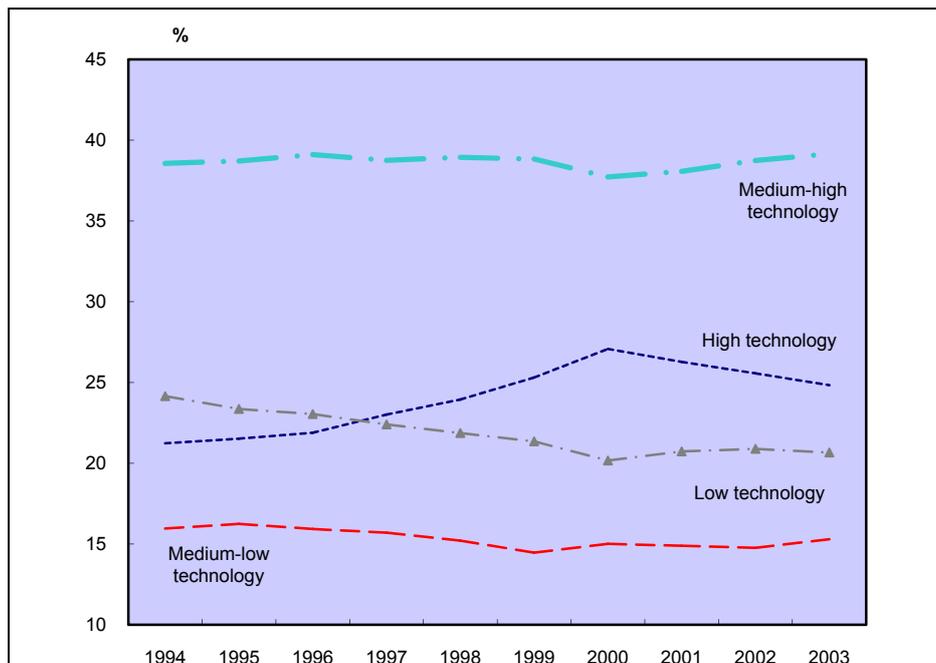
Figure 5.2: Total FDI, OECD across Sectors

Manufacturing trends<sup>1</sup> in the OECD<sup>2</sup>, according to technology intensity, 1994 = 100



Average value of total OECD exports and imports of goods

Manufacturing trends<sup>1</sup> in the OECD<sup>2</sup>, according to technology intensity share



Excluding Luxembourg and Slovak Republic.

Source: OECD (2005)

As seen from Figure 5.2, the increased share of knowledge-based products in international trade is most evident in East Asia, including both for advanced countries such as Japan and Singapore, and emerging economies such as China and India. The onset of high-tech manufacturing goods is particularly striking in China, whereas the same applies to services in the case of India. Yet, the most important aspect of the growing importance of knowledge and technology does not have to do with the expansion of certain sectors, but that the importance of innovation and use of new technologies is on the rise in more or less all industries, and for all kinds of products. Because of the information revolution, which depresses the costs of accessing and using information, even individuals with very little education and living in very distant regions are becoming able to upgrade their efficiency and productivity through the use of technology. Most important in this respect is cellular technology.

### 5.3.1 Mechanisms for International Knowledge Exchange

A number of different mechanisms exist for international exchange. These include broadly speaking:

- i. Trade-related means for transfer of technology, such as licensing or technology appropriation through other market transactions, including technology embedded in trade of goods and services;
- ii. Private capital flows in the form of bank lending, portfolio investment, or firm activities such as FDI-flows, joint ventures, strategic alliances, etc.;
- iii. Transfers injected through foreign development assistance, including technical support and various development programmes, training programmes, and also in connection with pressures for policy changes;
- iv. Human capital flows, education abroad, migration flows, tourism activities, etc.;
- v. New communication tools, through the advance of ICT.

All these merit attention. The two prime kinds of capital flows - private and public – relevant to development may be seen as FDI in the former category, and development assistance in the latter. The latter kind has declined as measured in the scope of capital involved, the former keeps increasing. At the same time, FDI in developing countries is heavily concentrated to a few sectors and regions. Technology and skills embedded in traditional trade flows remain an essential element of the globalization process more broadly. The same applies to migration of workers, and their remittances back home are an increasingly significant source of both capital and knowledge in many societies. Relatively speaking, it tends to be more important in the less developed ones. An industry such as tourism, no doubt one of the major industries in the world, brings enormous opportunity for enhanced knowledge and capital flows to local regions and disadvantaged groups. With the advance of ICT, the tourism industry is now rapidly becoming more transparent, competitive and accessible for everyone.

Countries display different strengths and weaknesses, virtuous and vicious factors, with regard to trade and knowledge transfers. The United States is generally viewed as displaying greater room for renewal than most European countries, and women entrepreneurs have gained a larger role in international trade in the US context. European countries are, at the same time, much ahead of Asian ones in this respect. On the other hand, women entrepreneurs are now rapidly becoming much more active in rising Asian trade countries such as Chinese Taipei, Thailand or India.

As for knowledge transfers to advanced developing countries, such as Malaysia, Thailand and Brazil, gains from FDI and foreign R&D have been seen to depend on skills upgrading in the local work force (Best, 2001; van Assouw et al., 1999). TNC investment in skills is unlikely to suffice, however, unless synergies can be put in place with local training policies and complementary services. On the one hand, inward FDI may account for the decisive impetus for setting off broad-based innovation processes. On the other hand, TNCs cannot be anticipated to induce what is required in a developing country. Whether foreign R&D will be established based on a long term strategy for knowledge-generation, will much depend on the local outlook. Domestic firms, universities and public authorities all count, including in their capacity as prospective partners of relevance to R&D. Their attitude to women entrepreneurs, and preparedness to engage them in various activities, will matter to what role they will play in the international exchanges.

In LDCs, innovation is likely to be closely associated with incremental improvement rather than science-based discovery. Here, public support of orderly transactions and the provision of basic education, micro-credit, and also the endorsement of entrepreneurship irrespective of gender and ethnic belonging, are more important for spurring innovation than academic credentials or the protection of intellectual property rights. While managing assets related to the environment and cultural heritage may hold the key to societal gains in local communities (Finger and Schuler, 2002), overcoming barriers to learning and new initiatives emanating from traditional perceptions and attitudes may be a prerequisite for adjustment and innovation (Hamel, 2004). The room for women, who commonly take the prime responsibility for cultivating assets for the long term, to upgrade their skills, organize themselves for raising capital, and engage in entrepreneurial activity, matter greatly. Often, the extent to which they can look beyond national borders, and come to grips with both competitive pressure and knowledge flows transcending national borders, is often key for their abilities in these respects.

Today, any activity whose efficiency, qualities or applications can be upgraded by knowledge-use, is now both enticed and under pressure to establish linkages with, and plug into, the international processes and flows in knowledge generation and use. So-called Transnational Corporations (TNCs) and other internationally active agents, such as venture capitalists or international entrepreneurs, work constantly from their end to improve such connections and thereby impact, consciously or unconsciously, on the opportunities and potentially viable strategies to be pursued by individual countries and communities.

It is commonly argued that SMEs have gained in importance as sources of innovation and also vehicles for knowledge spillovers. As TNCs outsource non-core business, new channels for knowledge exchange emerge, but the issue cuts deeper than that. Risk taking and genuine experimentation may require that organisations are small. Individuals, who are restrained in their actions and creativity within big firms, can get leeway in smaller ones. As for transfers, SMEs are often critical for diffusing technologies to local communities. The nature of knowledge transfers will vary though, and depend on factors such as product market competition, research capability, skill level of the work force, labour mobility, network effects, etc. SMEs further serve to sharpen competition in the input market, including openness for new ideas. And SMEs increase diversity in the market, which can spill over to generate productivity raises in larger enterprises. Naturally, the contribution of SMEs is not restricted to the SME sector, but generates economy-wide benefits.

Although the empirical evidence underlines the growing importance of SMEs in the economy, the measurable impact of SMEs on innovation and competitiveness is less impressive. SMEs

contribute less to national turnover, value-added and exports, and do not conduct innovative activities to the same extent as larger companies. This is due, in part, to higher constraints and barriers facing SMEs. In comparison with larger companies, SMEs meet some difficulties in coping with globalization, new technologies and regulatory requirements. Again, SMEs have a harder time to secure financing (especially in seed and start-up phases), greater difficulties in accessing new markets, meet with less support in establishing links internationally, and have fewer opportunities to confront failing partners with legal action, especially in foreign markets.

### 5.3.2 The Promise of ICT

Each new technological solution that becomes available gives rise to questions. At the present time, the rapid development and roll-out of new communication tools exert a major impact on the conditions for international trade. One key question is whether or not this ongoing technological revolution will form a broader and more level playing field, long needed by women business owners, or raise a new barrier that must be overcome. Some important questions concern the cost and financing of new technology. The Internet has changed the way business is being performed, especially across national borders. New opportunities are opening up for companies, including those owned and run by women.

There is now a rapidly growing realisation that mobile technology brings an enormous opportunity for higher economic efficiency and sustainable development. Real leapfrogging is under way. Among the 49 countries officially classified as Least Developed Countries (LDCs), already a few years ago, the number of mobile subscribers exceeded the fixed ones in more than half. Beneficial impacts stem from the capacity of cellular technology to reach beyond other communication tools because it is more accessible to the illiterate and those without keyboard skills, inherently multi-lingual, and can cross cultural and educational barriers more easily than other means for communication. It is relatively easy to use, relatively cheap, light, and can be personalised. Following recent technological advances, it will soon be marked by low energy use. Battery recharging can be managed from local, renewable sources. With technical compatibility on the advance, it is becoming a gateway for many poor people to accessing the Internet.

An important feature of the digital world has to do with its impact on mechanisms for “trust”. As is commonly noted, threats and hurdles emanate from the increasing misuse of ICT, ranging from spam to fraud, extremism, child pornography, terrorism and other forms of cyber crime. Serious consequences may result, not only in the digital world itself, but also in the international economy more broadly. The implications for trust are complex, however. Establishing trust between parties that enter a continuous relationship, whether backed by formal or informal contractual conditions, represents one of the oldest prerequisites for successful human exchange. Over time, a fabric of social norms, business practices and legal frameworks has evolved to help support the establishment of trust. The formal and informal fundament of this framework has generally worked differently for different people, with significant variation in mechanisms reflecting cultural perceptions of the role of gender, in addition to seniority, age, and other more or less personal traits. In the digital world, however, the playing field takes on partly different features. Parties “meet” and experience vast opportunities for mutual exchange and benefit while, possibly, having less clear-cut means of establishing each others’ features.

The digital world in fact brings opportunities to overcome traditional trust-related constraints, to increase transparency in markets, to make professionalism and the quality of goods more evident, to arrange with transactions in an orderly and reliable fashion, to strengthen competition, to allow for more effective entry by newcomers, and so on. Companies around the world are preparing

for these changes. Many are currently reformatting their supply chain management to electronic formats and requiring their suppliers to follow accordingly. The changes in business processes – from the way products and services are being marketed to the manner in which requests for quotes are made, order delivery traced and invoices sent – present firms with a range of opportunities.

The new channels associated with the Internet have allowed the delivery of many more services via the web. New consumption patterns have arisen in this context. Some publications have moved from paper-based to online medium. Broadly speaking, there is a tendency for service providers to “bundle” services together to add value (travel with travel insurance) which appear to be part of a wider “encapsulation process”.

As a consequence, service products are becoming more specialised, are made available more rapidly (Kenney and Curry, 1999) and over longer periods of time (such as the rise of 24-hour banking), and can be updated more regularly (for example, anti-virus software). Consumers gain access to much more information about products they buy online. Services are also increasingly provided through new mechanisms such as cyber markets or online auctions. Naturally, many questions still remain. How far do changes in the way a service is delivered actually change the nature of the product being offered? Does offering products in different form (for example, in electronic rather than paper-based form) change the intrinsic nature or novelty of the product? How are the challenges of privacy, trust and security transformed, so that women can overcome their traditional barriers and cope with the new challenges in these areas?

The E-commerce may apply to both the business-to-consumer (B2C) business model and to business-to-business (B2B). So far, B2C generally meant selling products on-line. The first businesses to go on-line sold books, CDs and travel reservations and provided small businesses across the globe an opportunity to offer products to an international clientele. While the B2C market has received the most publicity, the B2B market is significantly larger, in terms of volume, and it is growing faster. Still, once the digital world takes hold, B2C will rise as well, it will influence B2B, and it may well be less dominated by old boys’ networks. While greater opportunities have been found in the B2B arena to this point, women-owned companies should ultimately stand to benefit the most from breakthroughs in the B2C model. Again, that breakthrough may be approaching fast, mainly due to the diffusion of mobile telephony and the integration with the Internet. Part of the new opportunity emanates from the enhanced ability to do business across borders. Transaction costs are not just lowered for the large corporations; they are reduced for everyone. Increased collaboration between relevant parties on a global level is needed to mitigate security problems though and enable trust in digital transactions.

## **5.4 The Role of Governments in Enhancing the Possibilities for Women-Owned Businesses Wishing to Go Global**

There are ample examples today how women are able to find ways of using ICT to inject widespread changes, and thus break vicious circles of backwardness. Country examples include LDCs, such as Bangladesh, Botswana, Mozambique, or Vietnam, as well as peripheral regions in countries such as India, Brazil, and Bolivia, to mention a few:

- Women in villages in Lethem, Guyana, are reported to have learned how to use the Internet for gaining access to advanced markets, jump intermediaries and sell handcrafted hammocks for much increased prices, up to USD 1’000 apiece (Clarke, 2002);

- AOL has employed 600 college-educated customer services representatives in the Philippines that answer e-mails concerning technical and billing questions from customers mainly located in the US (Friedman, 1999);
- A village in Peru gained a partnership with a company in New York through the Internet. It reportedly resulted in a five-fold increase in income, from USD 300 to 1'500 a month (Schmitz et al., 2001);
- Examples from the software industry in India, centred in Bangalore, were estimated to export US\$ 6.2 billion in 2000/01, mainly through the Internet (Clarke 2002).

As for Africa, even though there is still a generally low degree of ICT-diffusion, plenty of reports are available on how it is applied in ways that are improving life:

*“It is no surprise to discover hard evidence of the information revolution in African national capitals and urban centres. Billboards and signs promoting computer training, storefront advertising for an array of cyber cafes, and roadside, private, for-profit telephone booths are today almost ubiquitous. But well beyond the bright lights and big cities of the African continent, information technologies are spreading downward and even backward to the grass roots, inspiring whole villages and tribes”.*  
(Snow, 2002)

Following Snow further, reportedly there are the likes of Catherine Tezskyabbiri, an unmarried woman in her early twenties from the Ugandan village of Nakaseke, north of Kampala, who runs a modest telecentre in her hitherto quite isolated community.

On the other hand, there are also many examples of efforts and investments which did not lead to positive results, perhaps because of bureaucratic hurdles or lacking competencies (Wide, 2002). The extent to which effects materialise is not a given. There is considerable fear in many parts of the world of widening “*digital divide*”, reflecting a perception that ICT keeps widening the gaps, in this case between those that do and those that do not have access to knowledge and information. There is indeed a trend towards increasing concentration of capital and economic activities in many countries. Until recently the developed countries also had a greater edge compared to developing ones when it comes to computers, Internet access, etc, than is the case in traditional communication tools (UNCTAD, 2003; ITU, 2003). Today, as noted, the situation is changing. ICT creates real opportunities for “catch-up”, notably as previous generations of communications infrastructure can be by-passed by cellular technology. Mobile telephones are spreading fast in the poorest of regions, to individuals with little income, and to those with hardly any literacy skills. Studies show that initial income levels represent only one factor in explaining the advance of the information society. Learning capabilities, the adaptability of institutions and the quality of regulatory frameworks<sup>96</sup> are greatly important (Pohjola, 2003; Chinn and Fairlie, 2004).

There can be little doubt that the ability of women entrepreneurs to capture the potential of ICT will be highly decisive for whether its overall potential can be fulfilled. Some of the measures that are most important for strengthening the role of women in international trade are of a general kind. These include supporting legal structures, especially orderly conditions for day-to-day transactions and a basis for planning long-term investment decisions. There is little evidence that the implementation of more stringent intellectual property rights would be a major factor in

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<sup>96</sup> The direction and magnitude of the effects are strongly influenced by whether state monopolies in telephony have been abandoned and competition been allowed, notably in LDCs (ITU, 2002).

supporting SMEs in a general sense, although that is clearly important for the development of high-growth SMEs in some specific industries such as biotechnology and ICT, and that is likewise certain to apply to women entrepreneurs in those cases.

At early stages of development, ICT has proven able to help speed a much needed development of administrative capabilities. Experience also shows that the application needs to be sequenced in a way that can allow for manageable upgrade of skills and the gradual installation of complementary services needed for various functions. Progress should be measured differently than in developed countries (Diyamett and Wangse, 2001). ICT should be applied to improve transparency, however, counteract corruption and arbitrary legislative frameworks. That progress is made in such fundamental respects are of critical importance to women entrepreneurs, which often are particularly vulnerable to malfunctioning administration and legal procedure.

In a broad sense, developing countries meet with stern challenges how to raise the capability of private firms to absorb and use the technologies that can be accessed through international trade.<sup>97</sup> Countries such as India and South Africa have developed public policies to help develop industrial clusters. In the former, Bangalore and Hyderabad can only be viewed as cases of staggering success, where special legal frameworks promoting scientific effort and business operations made a major difference in developing the backbone of India's software industry.<sup>98</sup> The development of a segment of highly skilled IT professionals has further been highly beneficial to India, which also applies to Costa Rica. Uganda, Mozambique and Rwanda provide other examples of countries investing in ICT, pursuing appropriate regulatory reforms as well as other complementary policy measures, and experiencing speedy diffusion and tangible benefits (UNCTAD, 2002*a*).

Many reforms do not concern ICT in a narrow sense, but occur in the other relevant areas discussed above, such as funding, entrepreneurship education, or social policies, pursued at least in part with a view to facilitating widespread use of ICT. To provide a few examples, during the last decade, many of the Latin American countries embarked on ambitious schemes combining fundamental social and educational objectives. A line of such programmes provide incentives for mothers to ensure that their children attend school regularly, by conditioning family support on such behaviour. Also, by linking the responsibility and the remuneration to the behaviour of the mother, the schemes are successful in strengthening her position and traditional responsibilities, further backing long-term investment and planning at family level.

Women-owned SMEs are particularly present in service industries and the textile industry. These branches are usually not prioritized by government departments, e.g. when promoting international trade fairs. Therefore, governments could play an important role by recognizing these sectors, for instance when setting up fora for trade exhibitions. The same holds for making export credits available and easy accessible. Women suffer particularly from weak legal support, when payments are late or the clients are insolvent. Again the importance of access to capital is put in focus – without the proper set-up for financing there are no possibilities either to engage in international trade or to take the step from micro/small to larger size of operation.

Eventually, however, the extent to which women are in the position to acquire and develop the necessary skills will be critically important. Some of the skills needed clearly have to do with ICT itself. E-commerce requires not only comprehensive e-training, however, but fulfilling the

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<sup>97</sup> Contributing to this state of affairs is poor collaboration between academic research and industry, hampering skills generation, incubator and science park programmes, the provision of seed funding, etc.

<sup>98</sup> As of 2000-2001, India's software industry accounted for 14 per cent of the country's exports and grew at 55 per cent annually.

potential will hinge on the development to combine a range of skills in new ways. The following represents examples of skills that may be essential for the effective use of ICT in the context of international trade:

- How to localize, access, use and integrate new technologies into existing businesses;
- How to identify skills and resources within industries or domains of specific activities;
- How to develop, organize and cope with shared formal or informal standards across firms or industries;
- How to network, identify and team up with new groups of partners or customers irrespective of geographical distance;
- How to carve out organizational niches, communicate them and develop new forms of branding that do not know traditional national and geographical borders;
- How to respond to previously unfulfilled needs, i.e. so as to exploit opportunities for increased “empowerment” by users anywhere in the world.

Special issues arise with respect to financing, which are related to the competencies of making use of ICT for international trade. Access to capital and credit may thus be interrelated with:

- International business expansion and expanded business opportunities,
- Portal operations,
- Conduction of on-line transactions,
- Currency conversion services for international transactions,
- Purchasing of soft-ware solutions.

Training programmes and opportunities naturally matter greatly to women SMEs. Many suffer from inadequate experience and an insufficient knowledge base in order to grasp the full opportunities of the new technologies. Unfortunately, many of the training programmes available in many countries are of limited relevance. To some extent this may be seen as a matter of poor match of language - academics are famous for their inaptness to communicate on terms that make sense to entrepreneurs, not to speak of women entrepreneurs. The issue goes beyond that, however. Increased skills are needed in several respects. On the one hand, it is important for women to have access to, and capitalize on, training that helps increase general-purpose skills, notably with respect to finance, business plan development, management of relations, and international requirements. On the other hand, as women entrepreneurs get established they critically need not the general stuff, but to have the opportunity to acquire specific professional skills. This is a need they share with small business owners in general, but because women business owners tend to meet with specific challenges that are poorly understood by traditional training institutions, they are likely to be particularly badly serviced by the prevailing institutions. Part of the problem has to do with the dominance of public sector perspectives – and supply-side interests – on most training schemes. This is particularly serious in the case of international trade, where the prerequisites for success are particularly closely associated with private market conditions.

For skills of real relevance to the success of firms in international trade to be developed and packaged properly, there must be a way of summoning together a sufficient number of clients.

Regions with a sufficient number of workers or managers requiring similar skills could be helped by a cluster approach taking advantage of economies of scale and scope. Cluster approaches could also offer opportunities to draw attention to “marginalized groups”, which often include women and youth. Such approaches may also help engineer linkages between likeminded entrepreneurs, and could thus help women-owned SMEs identify and cooperate with appropriate partner firms in international trade. Tailor-made government programmes may also be needed to enable firms to work out relations that allow for flexible partnerships across categories of firms that vary in terms of size, order numbers and series, that face different constraints in delivery times and qualities, etc., but which at the same time may prove critically complementary.

At the same time, governments also need to limit their influence. Firms can often only on their own work out schemes that succeed. Public services may kill the development of private professional service providers, and if women-owned SMEs are to succeed in foreign markets they must sooner rather than later learn how to interact with - and benefit from - private business services. There are approaches available for governments to help engineer a playing field which is conducive to the strengthening of private services, e.g., combining training programmes and cluster policies (Andersson et al., 2007). Part of the picture is the need of a clear-cut consideration to the rationale of public agencies to support public good in information exchange, not to engage in trading of selected information for the sake of earning a profit. Public policies should help generate a professional service industry that can support and benefit from the rise of women SMEs, not substitute for it.

In order to fully understand the essence of women-owned SMEs, in order to put proper conditions in place for growth and to promote increased international transactions, governments need to see that more research is being conducted in the field. Reliable statistics are an important ingredient here, still very little data is available on women-owned enterprises.

## 5.5 The Role of Women’s Business Organizations in Promoting International Trade

One of the most difficult obstacles for women business owners to deal with, because of its nature of being linked to culture and tradition and also because it represents a biological reality, is how to combine family life and business leadership. This inherent conflict of interest is often growing with involvement in international trade which requires longer and more frequent business trips. It makes little sense to ask the business community to call for a larger degree of flexibility; commercial realities are not to be moved by themselves. However, ways exist to create a more favourable framework without losing efficiency. Some of this has to do with the role of the government, as commented on above, other have to do with more organized exchanges that involve women business owners, as through women business organizations in a broad sense.

### New needs and roles

Wives and mothers have always taken huge responsibility for family and for children. This valuable contribution to society and our future is now in many parts of the world associated with a considerable toll on the individual. As a result many require of women that they sacrifice, or denounce, the traditional virtues. But there are ways of enabling mothers, and – for that matter - fathers as well, to have a sensible possibility of bringing young children to the workplace. Societies around the globe are currently faced with issues connected to the partaking of both men

and women in the work force.<sup>99</sup> The policies then come to deal a lot with birth-rates and childcare. Children should take part of in our daily lives – be involved, inspired, and form a part of a natural learning process avoiding too much of institutional care. State-supported child-care is necessary but should not be dominant. The incentive should instead be to have cross-disciplinary and cross-generational angles. This in turn could inspire more entrepreneurial activities, and creativity. The new technologies and a modern life-style suggest that there is no clear-cut dividing line between work and leisure time. Specialization helps provide continuous competence development, not just limited to occur from nine to five but rather as an interactive process.

In today's and the future society, the self-identification of each human being will play a most important role. Some 100 years ago the identification for many was the employer; 50 years ago the profession was the most important label maker and today these have been replaced by what people actually do. Societies of today have entered into the entrepreneurial era where individuals self esteem originates much more from what he or she are achieving than some predestined symbolic thinking.

### ***Advocacy and Alliance Building***

The associations and networks of women business owners could take the lead in processes by formulating the needs of its members in more precise ways in particular towards stakeholders such as governments and international organisations. The networks play an important role in arguing for more research and statistics in the field. When it comes to competence development the associations could point to the areas where women business owners are in particular need of upgrading of skills. This may, in turn, serve as a guideline for local and regional governments as they are setting up various training programmes.

### ***Match-making***

Concerning involvement in international trade women's networks can assist their members on a more basic level by establishment of contacts with similar associations in foreign countries in order to make pure business matches. This activity can be very powerful and effective between, for example, diaspora entrepreneurs where a sort of home versus host contact can be established. Other examples of successful matchmaking through women business associations are visible at the sectoral level. Tunisia has strong traditions in making jewellery, in particular gold jewellery. Many of the goldsmiths are SMEs. However, the business had difficulties in being prosperous in foreign markets and was doing poorly until a Tunisian women's business network came in contact with another women's business network in Europe. The manufacturers then received input about the final customers' needs and taste and could produce accordingly. The business link was established and sales flourished. The most uplifting is that nowadays these meetings and matches can take place virtually, with the help of the new technologies. Naturally this can happen without the involvement of business networks, but as the individual user needs to assert his or her standing in the digital world, "trust" takes on new connotations while continuing to play a central role. This is not only from the individuals' perspective, but managing orderly, demand-led transactions in cyber-space, just as in the real world, becomes even more challenging in particular as the speed and volume of global and highly dispersed business interactions are on a constant increase (GTC, 2006).

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<sup>99</sup> The Financial Times argued that, over the past decade, or so increased female participation in the paid labor force has contributed more to the growth of the world economy than either booming China or new technology.

### ***Mentorship and training***

In order to learn effectively in adult life, individuals need examples and role models. For many, it is “seeing is believing”. Consequently it is most useful to engage success stories in mentorship programmes such as “train the trainers”. These programmes are especially effective in developing countries where information often is scarce. In south Asia and in Africa women’s networks are doing an immense job in spreading information about opportunities for women entrepreneurs by using already-established businesswomen. Moreover the associations themselves should also engage in skills upgrading of their members and promote exchange of information and competencies. The associations are close to their members and therefore they have the advantage of knowing what kind of training courses would have the greatest impact on growth and job creation.

As regards training for the use of ICT, women business owners need to develop an e-business strategy, evaluate the projected return on investments of the software and the hardware systems that facilitate e-business, understand their internal and external human resource needs and evaluate internal flows across the supply chain, business processes and integration. The enterprise’s senior management and its mentors are crucial in this process - a new business strategy must be backed and supported in a consistent fashion. Again, here is an important role for an advisor or mentor or a board to be played - this role is in particular highly essential for small enterprises. Women business owners intending to engage in international trade need to translate their traditional, old-economy skills to fully capitalize on the new technologies.

## **5.6 The Role of International Organizations**

The combination of widespread opportunities for many players, on the one hand, and barriers, fragmentation and resistance on the other hand, opens up new opportunities for networking to link the ability of local communities to entry points of foreign or global markets. In order to capture the opportunity, the demand side must be in a position to “pull” the roll-out of new ICT products and services in response to real needs. At the same time, the empowering of local communities in part comes as a natural consequence of their enhanced communication capabilities. As new previously marginalized and disadvantaged groups become able to articulate their needs, there will also be new impulses for international trade and also other international resource flows.

One important area currently subject to change is that of international remittances, from diasporas of immigrants overseas, to their home communities. These flows already today constitute a major source of development finance, able to reach further than other kinds of development assistance when it comes to targeting the poor. Informal transfers and credit has been found to be particularly important for the households that are worst off, and they generally flow to women to a relatively high degree (Schoeni, 1997; Cox et al., 1998). Especially women-owned businesses, notably in LDCs, formal as well as informal ones, are dependent on local money provided through traditional linkages of family, friends or the local tradesman. Currently, however, such transfers are deeply affected by lack of transparency and competition in international banking and financial transfers. Given that key stakeholders, including diaspora, international banks, local banks and rural communities, can be linked and collaborate in forming

orderly channels, resource flows will magnify and be destined to allocation with higher returns (Andersson and Henoch).<sup>100</sup>

The extent to which progress can be made in such respects will be greatly influenced by international organizations. This is in part because national governments and institutions have problems reaching out across national borders. In the context of international trade, conditions for operating in other countries, such as changing attitudes and increasing openness at “the other end of the value chain”, can only be partially addressed by nationals in isolation. Naturally, a trade council or network of chambers of commerce, will engage with partners abroad, organize trade fairs etc, and can thus make a difference. International organizations, by paying attention to the excessive costs and risks confronting women entrepreneurs, can, however, help by focusing attention on these factors, and working together with different countries in addressing them.

International organizations can also play a productive role by bringing locals into contact with other frames of mind, and exposing them to successful policy practice in other countries. Sound reforms are seldom merely legislated from above. They hinge on the engagement of multiple stakeholders, what concerns they voice, what adjustments they are prepared to accept, and to what extent they are prepared to think along new lines and to work with others to develop constructive solutions to joint problems. Also, exploiting and upgrading domestic knowledge and assets will often crucially hinge on the ability to connect to international markets.

In this context, the prime role for donors may be to help build competencies and help policy learning processes, instead of building technological capability. Donors can help stimulate processes that broaden the mindset of domestic stakeholders and raise their capacity to learn. In order to be effective in this regard, donor agencies should not dictate requirements from home, and especially not if they originate in politically and commercially powerful countries. Their way should rather be that of a servant acting to make available valuable knowledge through networks for broad-based north-south and south-south dialogue. Donors can help by stimulating processes of foresight and strategizing activities to support the development of local centres of excellence (Mytelka and Oyeyinka, 2003).

External actors, in order to exert an impact, should be committed to long-term learning processes, but they should also be able to make demands so as not to support inhumane, non-transparent and ineffective practices. They should act on the understanding that external incentives are capable of inducing desirable changes in short-term behaviour (e.g., infrastructure investment or loan conditions requiring changes in the way that business circles are formed, meet and network, or that laws and regulations operate). They should, however, consistently work through efforts to enhance the capacity of recipient institutions to undertake own upgrading of functions and competences. There should be a shift from transferring codified towards raising tacit knowledge, including in regard to acceptance and involvement of women entrepreneurs. In a codified description of a “best practice” case study, the uncodified tacit knowledge is often “the rest of the iceberg.” Some tacit knowledge might be transformed into codified knowledge, which can be transferred by conventional methods, but far from all (Ceglie and Dini, 1999). Transmitting remaining kinds of tacit knowledge will require special methods, such as apprenticeship, secondments, imitation, twinning relations, and guided learning-by-doing. Cluster initiatives that are organised appropriately can serve as an appropriate tool for transfers of attitudes that are conducive to transparency and to the development of networks that embrace women entrepreneurs.

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<sup>100</sup> The conference “Diaspora as Wealth Creators” in Jönköping, March 2006, represented a rare summoning of these actors and pointed to ways forward, see [www.diwec.se](http://www.diwec.se)

Participation by foreign providers of leading-edge technology, as well as their entry points in various human cross-border (and cross-sectoral) networks, is often a prerequisite for leapfrogging in developing countries. Inward FDI may contribute much needed technologies, impetus for organisational changes, capabilities in market access, and so forth, applying to developed and developing countries alike. Their engagement in local business networks generally goes together with a deepened commitment to purchasing locally, learning in the local market, and the generation of knowledge that allows for enhanced efficiency as well as the diffusion of benefits to the host country (Bernstein, 1989; Correa, 1999).

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