

# Access to finance for female entrepreneurs in Pakistan



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An Exploratory Report by *ACCA Pakistan*

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# Access to finance for female entrepreneurs in Pakistan

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The information presented in this report was obtained as a result of literature review and interviews conducted with different stakeholders between October 2006 and April 2007. Any subsequent developments were not taken into consideration in the finalisation of the report.

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We sincerely hope that the conclusions and the recommendations of the report will be useful in formulating a strategy for improved access to finance for female entrepreneurs in Pakistan.

This report is available on the website of *ACCA Pakistan* <[www.accaglobal.com/pakistan/publicinterest](http://www.accaglobal.com/pakistan/publicinterest)>

## FOREWORD

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In 2005, *ACCA Pakistan* through its Policy Development team decided to dedicate some of its time and resources to the SME sector in Pakistan, with particular emphasis on their accounting systems and practices, tax knowledge, access to finance and reporting methods. During the course of our work, we discovered that even though there are several challenges to growth and survival of SMEs including access to finance, lack of knowledge of the providers of finance, accounting services, linkages with professionals and lack of documentation, there are many male and female entrepreneurs who have successfully overcome these challenges to establish successful sustainable enterprises.



In the context of female entrepreneurs, even though breaking the glass ceiling is one of the principal challenges faced by female entrepreneurs, however there are many examples of female entrepreneurs in Pakistan who have successfully broken the glass ceiling.

ACCA globally has almost equal number of male and female members and students, and we fervently believe in equal opportunities for both men and women to create and sustain equitable societies. Research proves that encouraging female entrepreneurs results in a number of benefits including poverty reduction, creating

A handwritten signature in black ink, appearing to read 'Arif Masud Mirza'.

**Arif Masud Mirza**  
Head of *ACCA Pakistan*

equitable sustainable economic growth and increasing competitiveness.

One of the major challenges faced by female entrepreneurs is access to finance. In view of the importance of this challenge, *ACCA Pakistan* in the public interest has carried out this qualitative research study to provide a snapshot of the perspectives of the female entrepreneurs and finance providers on issues, challenges and opportunities relating to access to finance for female entrepreneurs in Pakistan.

In order to convert the challenge of access to finance for female entrepreneurs into an opportunity, the report outlines some important practical recommendations for all the key stakeholders. In this context, we will have to build and strengthen public-private partnership with the State Bank of Pakistan, Ministry of Women Affairs, Associations of Female Entrepreneurs, SMEDA and professional bodies like ACCA playing proactive role in ameliorating access to finance for female entrepreneurs in Pakistan by either developing policies facilitating access to finance for female entrepreneurs, enhancing the accounting and finance skills of female entrepreneurs and developing linkages between female entrepreneurs and finance providers.

We hope that the policy makers and other stakeholders will find this research report useful and relevant.

## LIST OF ACRONYMS

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|        |   |
|--------|---|
| ACCA   | Association of Chartered Certified Accountants    |
| DFIs   | Development Finance Institutions                  |
| FWBL   | First Women Bank Limited                          |
| ILO    | International Labour Organisation                 |
| NIC    | National Identity Card                            |
| NTN    | National Tax Number                               |
| OPP    | Orangi Pilot Project                              |
| PKR    | Pakistan Rupees                                   |
| PRs    | Prudential Regulations                            |
| SBP    | State Bank of Pakistan                            |
| SME(s) | Small and Medium-sized Enterprise(s)              |
| SMEDA  | Small and Medium Enterprise Development Authority |

# Table of Contents

|   |           |
|---|-----------|
| <b>Executive Summary</b>  | <b>1</b>  |
| <b>Background</b>   | <b>3</b>  |
| 1. Introduction, aims and objectives  | 3         |
| 2. Need to promote female entrepreneurs   | 4         |
| <b>Female Entrepreneurs – Research Findings and Recommendations</b>                                 | <b>5</b>  |
| 1. Findings   | 5         |
| 1.1 Starting a business   | 5         |
| 1.2 Seed capital and scale of business  | 6         |
| 1.3 Reluctance to approach banks  | 7         |
| 1.4 Experience with the banks   | 8         |
| 1.5 Documentation and legal procedures  | 10        |
| 1.6 Lack of awareness of financing schemes available to SMEs  | 10        |
| 1.7 Finding a guarantor   | 11        |
| 1.8 Arranging collateral  | 12        |
| 1.9 Risk-averse nature of female entrepreneurs  | 13        |
| 1.10 Absence of an effective lobby  | 14        |
| 2. Conclusion   | 14        |
| 3. Recommendations  | 15        |
| 3.1 Encouraging a more proactive attitude towards learning about SME financing schemes and products | 15        |
| 3.2 Reporting of negative bank experiences  | 15        |
| 3.3 Risk management seminars  | 15        |
| 3.4 Maintaining proper books of accounts  | 15        |
| 3.5 Effective lobbying and establishment of women's forums  | 15        |
| <b>Finance Providers – Research Findings and Recommendations</b>                                    | <b>16</b> |
| 1. Findings   | 16        |
| 1.1 Discrimination in lending   | 16        |
| 1.2 Collateral requirements   | 17        |
| 1.3 Prudential Regulations for SMEs   | 17        |
| 1.4 Lack of accounting and finance skills   | 18        |
| 1.5 Social and cultural barriers  | 18        |
| 1.6 Developmental versus commercial objectives  | 19        |
| 2. Conclusion   | 20        |
| 3. Recommendations  | 21        |
| 3.1 The active role of the State Bank of Pakistan   | 21        |
| 3.2 Business desks for female entrepreneurs   | 21        |
| 3.3 Development objectives and focus on outreach  | 21        |
| 3.4 Encourage collateral-free lending   | 21        |
| 3.5 Encourage cash-flow-based lending   | 21        |
| 3.6 The role of First Women Bank Ltd.   | 21        |
| <b>General Recommendations</b>  | <b>22</b> |
| 1.1 Public-Private Partnership  | 22        |
| 1.2 Media Campaign  | 22        |
| 1.3 Accounting and finance workshops for female entrepreneurs                                       | 22        |
| <b>Conclusions</b>  | <b>23</b> |
| <b>Annexes</b>  | <b>24</b> |
| Annexe 1: The SME sector in Pakistan and Financing  | 24        |
| Annexe 2: Global status of women entrepreneurs and access to finance                                | 25        |
| Annexe 3: Women entrepreneurs in Pakistan and access to finance                                     | 27        |

***“One characteristic that clearly distinguishes most working women from their male counterparts is the added responsibility society often puts upon them in their roles as mothers and wives. The time taken up and the emotional burden created by these dual role responsibilities often interfere directly with the conduct of work for women in ways that do not apply to the majority of men in Pakistan. The often-prevailing attitude that the woman's place is at home and that her first priority is to look after the home and family constrains many women from launching any entrepreneurial ventures.”<sup>1</sup>***

## OVERVIEW

The role of women in economy is undergoing a major transformation. With the era of globalisation and ever-increasing competition among economies, the notion of gender discrimination seems to be gradually fading away. Statistics show that the status of females in formal employment has improved over the past decade, but there is still a long way to go. Earlier research has shown that the rate of entrepreneurial activity is significantly lower among women than among men, owing to discrimination at various levels. Access to finance facilitates the growth of female entrepreneurship, because finance is the lifeline of any business. Undercapitalisation at any stage in the life of a business is dreaded, as it severely affects the performance of the business. Global experiences have shown that supplying banking services to women can be a profitable venture.

The main aim of this research project is to examine the access to finance for female entrepreneurs in Pakistan. Female entrepreneurs were interviewed to obtain an overview of problems they face while accessing finance. Finance providers were also interviewed, to comprehend the parameters considered while lending to female entrepreneurs and the problems women face in this regard.

## KEY FINDINGS

1. Access to finance is one of the main obstacles faced by female entrepreneurs as they try to establish business in the face of overwhelming social and domestic constraints.
2. For female entrepreneurs, starting their own business was generally the first step towards financial independence in which at times they were not supported by their families.
3. Female entrepreneurs generally started at a micro level with their own money and most were not willing to expand, despite having products that can be classified as cash cows. This is mainly because of their reluctance to approach banks, or domestic pressure, or social constraints.
4. Female entrepreneurs are reluctant to access bank finance owing to fear of default, high interest rates, unpleasant experiences with the banks, lack of family support, lack of collateral, difficulties in finding guarantors, lack of awareness of financing schemes, high risk-averseness compared with men, social barriers and lack of an effective lobby. The reluctance to approach banks was hindering business growth and expansion.
5. Finance providers, on the other hand, were of the opinion that even though access to finance for female entrepreneurs has improved over the period of time, female entrepreneurs themselves are reluctant to come to banks owing to social pressures.
6. Specific characteristics of female-owned enterprises, for example lack of accounting and finance expertise, inability to arrange a guarantor or collateral, make financing these enterprises almost impossible for finance providers.
7. The social and cultural problems as well as the taboos of society are also deterrents in providing finance to female entrepreneurs.

<sup>1</sup>Sinha, Shalini (2006). *Developing Women Entrepreneurs in South Asia: Issues, Initiatives and Experiences*. United Nations Economic and Social Commission for Asia and the Pacific. p. 20.

## RECOMMENDATIONS

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Female entrepreneurs need support of the government, the private sector and most importantly finance providers, as they strive to satisfy their entrepreneurial instincts, and establish sustainable enterprises necessary for ensuring an equitable and economically successful Pakistan.

This report, based on interviews with female entrepreneurs and with finance providers recommends the facilitation of access to finance for female entrepreneurs in Pakistan. The following key recommendations emerge from this study.

### FOR FEMALE ENTREPRENEURS

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Female entrepreneurs:

1. should adopt a proactive approach to learning about financing.
2. need to overcome social pressures and access bank finance, so as to ensure the survival and growth of their enterprises.
3. should maintain accounting records and use professional services if required.
4. should also consider, as a high priority, improving their accounting and finance skills by attending professional development courses in accounting, finance and taxation.
5. should use Women's Chambers of Commerce and other such forums to build awareness of available financing schemes, to develop accounting and finance skills and to build a lobby for ensuring better access to finance.

### FOR THE STATE BANK OF PAKISTAN

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The State Bank of Pakistan:

1. will have to play a pivotal role in enabling access to finance for female entrepreneurs, by encouraging

banks to design and advertise products customised to their needs and constraints.

2. should conduct a quantitative research study to assess the current state of lending to female entrepreneurs.
3. should encourage banks to allocate amounts in the total lending portfolio that must be lent to female entrepreneurs.

### FOR FINANCE PROVIDERS

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Finance Providers:

1. should design and encourage collateral-free lending products.
2. should establish separate business desks for women to advise on finance and other support services.
3. should incorporate development objectives and focus on outreach in their vision, strategy and actions. If female entrepreneurs are reluctant to come to the banks, the finance providers may consider accessing female entrepreneurs.

### FOR POLICY MAKERS

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1. Policy makers should form positive-discrimination policies to put female entrepreneurs on a level playing field with male entrepreneurs.
2. Finance can also be provided in the form of subsidies and discounts.
3. Credit guarantee schemes should be established.
4. Accounting bodies such as ACCA, in collaboration with banks and SMEDA, should conduct accounting and finance workshops for female entrepreneurs, and build awareness of business development services among them.

## 1. INTRODUCTION, AIMS AND OBJECTIVES

***“Although women have entered the paid workforce in increasing numbers, they confront many forms of discrimination, including restricted choice of occupations and lower wages. Entrepreneurial efforts may be frustrated by laws and customs that combine to prevent women from owning property, acquiring credit or controlling income. In some regions, women cannot inherit, even from deceased husbands. Many end up working in the informal sector, where work is unregulated, poorly paid, insecure and often unsafe.”<sup>2</sup>***

Women in our society are considered home creators rather than business creators. Our social and cultural set-up and self-proclaimed rules do not encourage women to seek opportunities beyond the four walls of their houses. Even though in the last decade or so the number of women joining the workforce and the business world has been increasing, equality in workplace still remains a nirvana. This research aims to explore whether female entrepreneurs have equality in relation to accessing finance.

Encouragement of female entrepreneurship is essential to stimulate rapid emergence of enterprise, and is extremely desirable for sustained and equitable economic growth. One of the prerequisites of long-term economic prosperity in developing countries like Pakistan is providing women with similar opportunities and resources as men including access to finance. Access to finance has been identified as a major impediment to the growth in numbers of female entrepreneurs globally - this research aims to outline the current state of access to finance for female entrepreneurs in Pakistan.

The specific research objectives were to:

- obtain the opinions of female entrepreneurs on any problems / issues that female entrepreneurs face while accessing finance
- obtain the opinions of the finance providers on any problems / issues that finance providers face while providing finance to female entrepreneurs
- explore the possibility of making any changes in the financing schemes / lending parameters of finance providers to facilitate access to finance for female entrepreneurs
- recommend possible policy changes to encourage greater access to finance for female entrepreneurs.

It is our hope that the findings and recommendations of this report will assist policy makers in creating a greater enabling environment for female entrepreneurs in terms of access to finance. We also hope that this report will be useful in making finance providers and female entrepreneurs understand each other's characteristics, problems and needs better, hence facilitating access to finance for women. We expect this report to be of assistance to future research on access to finance for female entrepreneurs in Pakistan.

In order to achieve the research objectives, interviews were conducted with female entrepreneurs in Lahore, Karachi and Islamabad. The sectors in which they operated were jewellery, handicrafts, education, linen, cosmetics and garments. Interviews were also conducted with finance providers, including banks, specialised financial institutions and donor agencies in Lahore, Islamabad and Karachi.

<sup>2</sup> United Nations Population Fund (2005), *State of World Population 2005: The Promise of Equality*.

## 2 NEED TO PROMOTE FEMALE ENTREPRENEURS

***“It is believed that earning an income can enhance a woman's bargaining power within her family, enabling her to participate in decision-making. The ability to contribute to the household's earned income also can give a woman an increased sense of her own individuality and well-being, the chance to form and benefit from peer relationships, and a “widening of horizons”. International evidence lends credence to such effects: a woman's own income, be it her own earnings or non-wage income, often is found to be associated with her sense of autonomy and involvement in decision-making.”<sup>3</sup>***

The notion of a modern global economy might be incomplete without the proposition of gender equality. Gender inequality has been fated for extinction since the emergence of the modern economic and political organisation, which ‘had no inherent interest in gender inequality.’<sup>4</sup> Such modern organisations valued profit, efficiency, political legitimacy, organisational stability, competitiveness, and similar considerations more than male privileges vis-à-vis females. This has resulted in significant gains in women's legal, political, and economic status.<sup>5</sup> A larger number of women now aspire to become entrepreneurs because of higher levels of awareness and education compared with the past. As women increase their education and employment, they narrow the gap between themselves and

their male peers.<sup>6</sup> In such circumstances, any barriers female entrepreneurs may have in accessing finance need to be seriously examined and removed.

Women represent more than half the world's population and a very large amount of human capital with huge potential. A strong correlation exists between the emancipation and the working conditions of women and the well-being of a country.<sup>7</sup> Empirical evidence shows that when women control resources, they tend to spend more on family, health and education compared with men.<sup>8</sup>

Women form 70% of world's poor population, hence providing them with better earning opportunities increases their economic security, thus defeating poverty and fostering sustainable development and growth.<sup>9</sup>

According to the latest statistics,<sup>10</sup> Pakistan ranks ninety-first among 125 countries on labour productivity. Therefore, there is a greater need to enhance the competitiveness of female labour, to ensure long-term sustainable growth. Pakistan is a signatory of Millennium Development Goals, whose goal number three is to empower women and eliminate gender inequality by 2015.<sup>11</sup> The SME Policy<sup>12</sup> also mentions that special attention should be given to female entrepreneurs and other marginalised groups.

<sup>3</sup>World Bank (2005), *Pakistan Country Gender Assessment*, p. 98

<sup>4</sup>Jackson, R. M. (1998) *Destined for Equality: The Inevitable Rise of Women's Status*, p22. (Harvard University Press).

<sup>5</sup>Jackson, R. M. (1998) *Destined for Equality: The Inevitable Rise of Women's Status*, p3. (Harvard University Press).

<sup>6</sup>Walby, S. (2000), Analyzing Social Inequality in the Twenty-First Century: Globalization and Modernity Restructure Inequality' *Contemporary Sociology*, Vol. 29, No. 6 (Nov.), pp. 813-818.

<sup>7</sup>2006 Report on Women and Entrepreneurship. *Global Entrepreneurship Monitor*, 2006.

<sup>8</sup>[www.worldandi.net/spring07/peace.html](http://www.worldandi.net/spring07/peace.html)

<sup>9</sup>United Nations Population Fund (2005), *Gender Equality Fact Sheet*. [www.unfpa.org/swp/2005/presskit/factsheets/facts\\_gender.htm](http://www.unfpa.org/swp/2005/presskit/factsheets/facts_gender.htm).

<sup>10</sup>Unattributed (2006), 'Competition Driven Sustained Growth', *The Dawn*, 16 Oct., [www.competitiveness.org.pk/16-October-2006-thedawn.php](http://www.competitiveness.org.pk/16-October-2006-thedawn.php)

<sup>11</sup>[www.ddp-ext.worldbank.org/ext/GMIS/gdmis.do?siteId=2&goalId=7&menuId=LNAV01GOAL3](http://www.ddp-ext.worldbank.org/ext/GMIS/gdmis.do?siteId=2&goalId=7&menuId=LNAV01GOAL3)

<sup>12</sup>[www.smepolicy.net.pk](http://www.smepolicy.net.pk)

*“As a result of the inferior status of women in society, their underestimation as economic agents as well as the gender bias embedded in the development policies pursued so far, most women in Pakistan have carried a double burden, that of being poor and of being women.”<sup>13</sup>*

The main aim of this section is to discuss the main findings from interviews with female entrepreneurs, so as to obtain a clear understanding of the current state of access to finance for female entrepreneurs and the problems and the challenges they face while accessing finance.

## 1 FINDINGS

### 1.1 STARTING A BUSINESS

Being frustrated with an aimless life revolving around gossip and family politics, wanting to stand on their own feet, and attaining financial independence were the main reasons for starting a business for the majority of the female entrepreneurs interviewed.

*“I had reached a stage where I was getting frustrated and suffocated. I had young children and could not go out and work, nor could I afford house help. I was also getting fed up with the family politics of my in-laws. I did not have much money for my own needs, so one day I decided that whatever money I have, I need to do something for myself and for my children and if I cannot go out, then I must start my own business.”*

The tone of the above quotation is of resolution and intent. It is this resolution and intent that made most of the women interviewed for the purpose of the research project decide to start a business despite all odds.

*“My husband left me. I had an infant son to look after. I got some money as a result of my divorce settlement. I had to do something for myself and my son. I did not have much education but my son had to have a decent life, so I just invested my divorce money and set up this boutique.”*

The maternal instinct, the desire to do something for their children in spite of all difficulties, is also a driving force in compelling some women to start a business.

*“My business is my hobby. My family and especially my husband are not very supportive of my business, as they think that since my husband is able to support all my needs, I need not do anything. But I am a talented person and letting my talent go waste would make me a very unhappy person. My husband did not give me money to start a business, so I sold all the jewellery my mother had given me.”*

Starting a business for a woman is not an easy decision. It may involve overcoming a number of social and cultural barriers and at the same time balancing the role of a home-maker and a business-maker. Even though some of the female entrepreneurs interviewed did state that their business was a hobby for them because their children had grown up, generally however female entrepreneurs took the decision to start a business to support the increasing financial needs of the family or to satisfy their entrepreneurial instincts.

<sup>13</sup>Dr. Akmal Hussain (1994) *Poverty Alleviation in Pakistan*, Vanguard Books

## 1.2 SEED CAPITAL AND SCALE OF BUSINESS

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The female entrepreneurs interviewed generally started at the micro level, owing to lack of funds and their reluctance to access bank finance. Thus they used informal sources such as personal finance or loans from family and friends as start-up capital for the business. They reinvested their profits to expand the business, instead of seeking external finance.

*“I did not want to go to a bank for a loan for my business; I had some personal savings. For my first commercial sale, I bought used bottles of Tibet Snow from the scrap/waste paper collector, got them sterilised, filled them with my handmade cream, and used sterilised Coke bottles for the handmade oil. I made Rs.1,000 from five bottles of oil and five bottles of cream. I reinvested this Rs.1,000 in the business and kept on doing this. At times it was difficult, but I knew I would succeed and today by the Grace of Allah, I have succeeded.”*

Another female entrepreneur recalled:

*“I did not have much money but I wanted to do something to prove to myself and my family that I was a talented human being. I started at a very small scale with money borrowed from my mother and the sale of my wedding jewels that my mother had given me. I liked designing clothes, so I made 35 stylish shalwar suits and organised an exhibition. Within four hours all these suits were sold at a profit. So I re-invested my money and my business grew. I wanted to learn and so I went for courses abroad and observed the opportunities and market trends. I diversified my products and started to export. Right now, I have fabric and garment exports to major countries.”*

It was observed that most female entrepreneurs were not willing to expand their businesses even though their products were innovative and potential cash cows.

*“Yes, I make a product that is innovative, but how should I grow big? People tell me that I should expand but I do not have that much money. I have sold all my jewels, that my mother gave me to start my business... I do not want to go to a bank. I need the money to make ends meet and I do not want to ask my relatives or family for a loan and at the same time, I want to be self-sufficient.”*

As female entrepreneurs face the dilemma of being a home-maker or a business-maker, their maternal instincts usually triumph over their entrepreneurial instincts. They thus, decide not to expand as they find it difficult to operate from outside the house, mainly because of a young family, pressure from in-laws, social taboos and the demands of the household.

*“I have borrowed money from my husband to start this business. My husband does not want me to operate from outside the house as my children are young. I have to help my mother-in-law with the household jobs. I do want to expand, but for that I need money and I need a bigger premises, but my husband thinks it will not be in the best interest of our family and thus I cannot move premises. Furthermore, my family thinks that it is not safe for a woman to operate from outside the house. I need to market my product more aggressively but I can only go out if accompanied by my husband who has his own business to look after too. I want to go abroad and explore the market, but for that I need money and more family support.”*

It can be concluded from this section that it is not easy for a woman to expand a business. Financial, social and cultural problems become obstacles in her attempts to develop the business.

### 1.3 RELUCTANCE TO APPROACH BANKS

Most of the female entrepreneurs interviewed were reluctant to approach banks for various reasons, one of the most important being fear of default.

*“If, God forbid, I cannot return the money, then what will happen to the reputation of my in-laws? I will be declared a defaulter. My husband and my in-laws are already not supportive of my business. My husband thinks that it will not be a good idea to take money from the banks, because if I could not pay, then there would be legal implications. I do not want to go to court as then I might end up behind bars. All this will have an impact on the reputation of my children, my husband and my in-laws. So I will never ever go to a bank.”*

It was observed that the high interest rate was another reason for female entrepreneurs' unwillingness to approach banks.

*“I know banks are bureaucratic and there are numerous forms to be filled, but what I do not understand is that on one hand female entrepreneurship is being encouraged and on the other hand the interest rates are the same for females and males. If females are to be encouraged, may be lower interest rates need to be charged from female entrepreneurs. Perhaps at the start of the business, female entrepreneurs should be given an interest-free loan or a loan at a minimum interest rate, for example 5%. Interest rates are very high and the policy makers need to consider this issue for even though I do need money to expand my business I do not want to pay high interest rates.”*

#### POINT TO PONDER

According to a survey of women entrepreneurs conducted by the International Labour Organisation (ILO) 2003, 31% considered lack of finance to be a barrier to growth, and 46% said that concessionary finance is one of the most important factors that could help their businesses grow. The implication is that with lack of finance, female-owned enterprises remain at the same level throughout the life of the enterprise and might diminish owing to low competitiveness.

Another female entrepreneur explained:

*“I never went to a bank. I have never believed in loans. I always thought that the payback would be a burden. The interest keeps on accumulating. Interest is a major issue. Bank interest is really high and it's really difficult to pay back these loans with such high interest rates. I do not earn so much that I can pay money to the banks in the form of interest and charges. I have always thought it was best to earn, reinvest it, earn, and reinvest.”*

It was also observed that in many cases lack of finance was hindering expansion efforts, but still women did not want to approach any financial institution for formal financing.

*“Of course there is a lot I want to do but I need funds for that, but going to the bank and going through numerous procedures is impossible for me, and of course I would like to go ahead but if I get a loan from the bank I don't get that much of a return that I can pay it back. I have a lot of things that I want to do. I want to have the latest machinery, more space, more staff, a separate consulting room, but for all that I need money. I had applied once for bank loan but got rejected and do not have the courage to apply again.”*

Female entrepreneurs generally are hesitant to approach the banks despite the fact that lack of finance is hindering growth and expansion efforts. The main reasons for reluctance to approach banks are the fear of default and the high interest rates. Female entrepreneurs are generally under the impression that, if they obtain financing from bank, they will enter into a never-ending vicious cycle of interest payments. Such perceptions and fears are one of the main hurdles in female entrepreneurs' access to formal finance.

#### 1.4 EXPERIENCE WITH THE BANKS

The interviews with female entrepreneurs revealed that the majority of the female entrepreneurs interviewed had approached banks, but their experience had not been very good, resulting in their being apprehensive of approaching banks.

*“Educated urban women like me are scared of going to the banks. I wonder whether an uneducated rural woman can even think of approaching the bank. What bank officers need to realise is that when a woman starts her business she faces a number of social and cultural problems. If she also has to face problems because of the non-cooperative attitude of the bankers, then it adds to her plight, resulting in enormous mental stress. I am a very determined person, but even then when I went to the bank, the non-cooperative attitude of the bankers had a negative impact on me.”*

Generally the experience of dealing with the banks in the words of female entrepreneurs had been ‘traumatising’ and ‘nerve-shattering.’

*“God forbid! I will never go to a bank. The last time I went to a bank to get a loan the bank officers were so non-cooperative and unfriendly that the whole experience was a nightmare. All the forms that I had to fill, no help from the bank officers and then waiting for the outcome of the loan application made me a depressed person. Every time I would go to the bank to inquire about the status of my loan application, the answer would be that, ‘your application lacks one document or the other’. This was a never-ending*

*process but in the hope of obtaining a loan I kept on providing all the documents till I was informed that the loan application was complete and forwarded to the relevant department. I waited for two months but did not get a reply. I finally lost patience and went to see the senior officers. I was informed that my application was never forwarded to the relevant department, as it was incomplete. On inquiring as to what was lacking in the documents I was informed that I had not attached a photograph of myself which I did provide in a day but all this took a long time and I lost patience and borrowed money from a relative. The attitude of bank officers was one of mistrust and suspicion, as if by being a woman I did not have the right to borrow money from the bank. The bank eventually did reply after a further six months informing me that, after having made inquiries they had concluded that my product, being very innovative (handmade cosmetics), will not be profitable and cash generating, thus they would not be providing me with a loan. Today by the Grace of Allah, I have a very profitable business.”*

Another female entrepreneur recalled:

*“I still remember the time when I walked into the bank, my hands were shaking, I was sweating and I felt that every one of them was staring at me. I remember writing in my diary afterwards and saying that I felt like an alien from outer space where people hadn't seen a woman walk into a bank. I got the loan as at that time fortunately I had collateral and guarantors. Unfortunately I defaulted and my business was taken over by the bank. I started a new business from some money I had. I set up a small antique shop...I once urgently needed PKR 300,000 but I did not have any collateral or any guarantor, and finally the bank decided to do a hypothecation of stock but it was such a long process that it took me three months to get the money. Then of course, I had to pay high interest...Now I do not take bank loans but am using credit card debt at a much higher interest rate, but it's fast and instant and I'm not sitting there waiting and begging and pleading and being humiliated and everything else - you do not feel good about borrowing money.”*

Another female entrepreneur stated:

*“People say banks help the clients - yes, they help the depositors but not the borrowers. Banks do not like to finance female entrepreneurs but take pride in showing them as their depositors. These days, increasingly, banks do not provide money on the pretext that there are restrictions from the State Bank of Pakistan. They want to have reliable accounts and reliable loans. I only have one question - if my deposit is reliable, then how is my loan application not reliable? You can have my deposit but not give me a loan. I also wonder about how much the State Bank of Pakistan restrictions are a reality and how much just an excuse, not to give loans to us. How will this economy grow if loans are not given to female entrepreneurs especially, as the female population is growing faster than that of males?”*

A handful of entrepreneurs had, however, had good experience with banks.

*“Banks, I think, do help women. My application was rejected by a bank but I did not lose hope and went to another bank and presented my case. I had a few contacts over there. They accepted my case with a very smiling face and I was the first woman who got a loan without collateral but based on a sound business plan and cash flow projection ... When I was having problems in repaying the loan, I discussed them with my bank. They extended the payback time and I successfully repaid the loan. I think the difference between the two banks was the approach of the bankers who were dealing with me.”*

Another female entrepreneur recalled:

*“I had to take a risk and had to take a loan to expand my school. When I started the school there was only one floor. The number of students grew and the school started becoming popular. Demand for admissions increased and I had to construct another floor, so I took a loan. You need to take risks or you can't do anything but I had guarantors and could arrange collateral. One has to work hard to pay back the loans... Last year I bought air-conditioners for the*

*school and air-conditioned the whole building with a bank loan. I have had a good relationship with the bank for so many years. If one has a successfully planned business, cash projections and a sound business plan, one does not hesitate to take a loan. I was, however, lucky with the bank and the bankers, in particular, with whom I dealt.”*

It can thus be concluded that generally the female entrepreneurs were not inclined to approach banks for finance, mainly because of their initial negative experiences. An analysis of the comments made by female entrepreneurs reveals some very interesting characteristics of their banking experiences. The negative experiences are characterised by their own lack of self-confidence, the hostile attitude of bankers, entrepreneurs' lack of trust in bankers, lengthy application processing time, limited social networks among women and dependence on male members of the family.

In sharp contrast to the experiences of the majority stand the features of the successful banking experiences of some female entrepreneurs. The women in such cases were willing to take risks and initiative in accessing finance from banks. They were fortunate in coming across bankers with a positive approach. They were either running a successful business or had a very strong business plan, or cash flow projection on the basis of which they were able to secure a loan. Most of them had husband or family support at each and every stage of the loan application. Nonetheless, good banking experiences are exceptions for female entrepreneurs, with the majority of experiences being negative. Hence, the challenge remains to convert the negative experiences into positive ones by encouraging the finance providers to understand the problems of female entrepreneurs.

### 1.5 DOCUMENTATION AND LEGAL PROCEDURES

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Female entrepreneurs were also generally apprehensive of going to banks because of the extensive documentation and legal procedures.

*“First, the bank told me that I needed to get two guarantors, and then I was told that I needed to bring NIC, NTN and many other documents from the guarantors. Once I had done all that and got the guarantors to sign different documents and got all their documents, I was told that the NIC’s must be certified by a bank. Then when that was done I was told that I needed to get details of the property of the guarantors. Why can’t there be a ‘one-stop shop’, where you are told about all the documents required? Then with all the documents provided you still have to wait for months to know the verdict, and the verdict usually is unfavourable mainly because you are a woman and you cannot be trusted with money. What is the reason for all this? There is no explanation, there is just delay.”*

Another female entrepreneur complained:

*“I once went to a bank to inquire about getting money for expanding my business. I was told that I would have to bring different documents and then arrange for their attestations, and even then there was no guarantee that I would get a loan. The documentation and legal procedures thus were so complicated that I preferred to take loan from friends, family and relatives. I do not like going to banks because of their complex processes. I sometimes think the processes and paperwork have purposely been made to discourage women from obtaining loans from the banks. Women in our society are not very much involved in paperwork and documentation, even for a household. It is because men are thought to be experts at paperwork and women are considered to be experts at household affairs. Men, as they have always been involved in paperwork, may not find the paperwork at banks cumbersome but women do. Women, however, are willing to overcome these inhibitions about completing paper work and want to become familiar with the processes but in all this they*

*will need assistance from the banks so as to explain the paperwork. Some of the papers that banks ask for are completely unreasonable.”*

Another female entrepreneur stated her experience of dealing with a bank for females:

*“There is a special bank. I have had my personal experience with them, so I can relate to that. According to them they are willing to give you small loans easily but if they give you half a million rupees, they tell you to get pledges from two people who are government employees and those two people pledge their salaries in case you fail to pay back the loan. I didn’t want to get into it. On one hand, these banks tell everybody that the loans are available and anybody can just get up and get the loans without even guarantees. On the other hand, they create obstacles and red tape procedures. Then there is the mark-up. I think the special bank has a higher mark-up than other banks. Why do they not follow the model of Grameen Bank?”*

It can be concluded from the discussion that the lengthy and in some cases unnecessary documentation discourages female entrepreneurs from approaching banks. They perceive that they are not guided by bankers in fulfilling the loan requirements and have to make unnecessary visits to the banks. Even after supplying complete documentation, the decision does not come quickly and might be unfavourable.

### 1.6 LACK OF AWARENESS OF FINANCING SCHEMES AVAILABLE TO SMEs

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It was observed that the majority of the female entrepreneurs interviewed were unaware of financing schemes or products available to entrepreneurs in general and female entrepreneurs in particular.

*“I have heard that some banks have some special SME products or schemes but I am not aware of the exact nature of the products or schemes. I have also heard that there are some schemes for female entrepreneurs, but again I am not aware of such schemes. If banks have SME schemes or products maybe they*

*should have an outreach programme or advertising campaign to market their products or schemes more aggressively. Women need to know more about the availability of SME products and schemes as well as their characteristics.”*

A number of female entrepreneurs opined that banks and the government should make a concerted effort to address the concerns of female entrepreneurs with regard to obtaining finance from banks.

*“The general perception of our community is that a bank loan is not an appropriate option as the non-payment of the loan results in default and in one's reputation being damaged. Then again, a certain section of our society thinks of loans as un-Islamic. There is also a perception that banks are unfriendly and bureaucratic. We need public awareness in this regard. Proper training and seminars should be conducted to make women entrepreneurs aware of their financial options and how they can utilise the bank loans for their business interests, as well as to create awareness of the advantages of obtaining finance from banks and outlining the banks' documentation requirements. This subject is very important, in the sense that it needs a little bit of attention and I think the main issue is that the awareness of SME financing products and schemes is not there, and the best way to create awareness is for finance providers to advertise their products and schemes.”*

It can be concluded that a major problem in female entrepreneurs' access to finance is lack of awareness of SME financing schemes. Part of this can be attributed to the female entrepreneurs themselves, as they do not adopt a proactive approach in learning about financing. It can also be attributed to the bankers, because they do not advertise their SME financing products as aggressively as they advertise their consumer financing products. This shows the lack of outreach initiative in banks' strategy regarding SME financing. Organisations such as ACCA and SMEDA can provide platforms where bankers and borrowers meet and discuss their issues.

## 1.7 FINDING A GUARANTOR

One of the prerequisites for obtaining a loan from a bank, in the majority of cases, is that the loan applicant has to arrange for two guarantors.

According to the SBP's Prudential Regulations for SMEs,<sup>14</sup> 'All facilities, except those secured against liquid assets, extended to SMEs shall be backed by the personal guarantees of the owners of the SMEs'.

Female entrepreneurs explained that one of the main reasons for their reluctance to obtain finance from the banks was their inability to find guarantors for their loan application.

*“When I started my business, I was apprehensive and scared. I was investing all my savings into a business that was innovative- I make handmade jewellery. Somebody advised me to get a loan from the bank as it was not prudent to invest all my savings into the business. I went to a bank and was told that I need to arrange two guarantors. I started looking for two guarantors. Nobody was willing to be my guarantor. Why should they be a guarantor of a loan application for a business that was innovative and may not succeed? Even my best friend and my own sister refused to be my guarantor. I had my savings so I invested them, but think of all those lower-middle-class or even middle-class females who want to do something innovative, something productive but cannot take the risk of investing their savings or may not have the savings to invest. If they go to the bank, they will be asked to arrange guarantors and they most certainly will not be able to arrange guarantors then. So that will be the end of an entrepreneur, the end of her hope of doing something productive and most importantly the end to what might have been an enterprise generating employment, productivity and economic growth. There has to be a system for women where they're able to get a loan easily.*

<sup>14</sup>State Bank of Pakistan (2005). *Prudential Regulations for SME Financing*

*I know that every bank wants the money back but somehow I think women will pay back the money. I do not have evidence but I know that in countries like Bangladesh, women are better than men at paying back money. Banks need to have trust. The SBP needs to come up with some scheme for women who do have the enterprise skills but not the guarantors.”*

Women thus in general find it hard to find guarantors.

#### **POINT TO PONDER**

First Women Bank Ltd requires two personal guarantors with a net worth of at least Rs. 2 million for obtaining a business loan between Rs. 0.1 to 0.5 million. The credentials of the guarantors should also be acceptable to the bank along with the documentary evidence of assets. Micro-finance has been very successful in Bangladesh, with almost 100% recovery rates. The system is based on group guarantees, the base of which is mutual trust and need. The female entrepreneurs interviewed were of the opinion that to encourage female entrepreneurship in Pakistan, a group guarantee system should also be introduced for SME financing.

### **1.8 ARRANGING COLLATERAL**

Collateral in the name of the applicant is a prerequisite for a loan application. Different banks have different collateral requirements.

*“I went to the bank to obtain a loan. I was asked to arrange collateral. The house that I live in is in my husband's name, so it cannot be collateral. How many women have got collateral? Not many. The houses are always in their father's name or husband's name or son's name. So women like me cannot offer any*

*collateral. Women in general only have jewellery and that is not accepted as collateral. I know that in some countries you can walk into the bank and give them details of your project and on the basis of that, they will give you the loan but it is not like this in Pakistan. There are very few who would trust a woman and even if they will trust a woman, the problem might be that they might think of her as incompetent in running a business. My husband, despite being a very liberal person, thinks that I should not waste my time in running a business, as he does satisfy my financial needs but what he does not realise is that I am a human being. I need to do something to prove to myself that I am a competent person. My children are grown up and I have no liability. My husband refused to act as my guarantor or help me in arranging collateral. In the end I just sold some of my family jewels to raise money.”*

Another female entrepreneur explained:

*“I do not come from a rich family. All that I have is education. My father was not a businessman but a college professor. My husband too is a school teacher. We do not have any property, but I do have ambition and I do want to do something for my children but when I tried to do something for my children and myself and started a bangles business, I had no money and the bank would not give me the money as I had no collateral. I was upset about it but did not let it become an obstacle so I contributed to a “committee”<sup>15</sup> formed by my friends and when the committee money came I started my business, but many women I know gave up. Collateral, guarantees, social pressure, housework how many pressures can a woman face and still live life on her own terms and be a successful entrepreneur?”*

Women usually do not have assets acceptable as collaterals in their name and thus face varying degrees of difficulty in obtaining collateral for setting up businesses.<sup>16</sup>

<sup>15</sup>A group of friends/acquaintances/ relatives pooling money together on a monthly basis. The accumulated amount is given to one person, again on a monthly basis.

<sup>16</sup>Jalbert, S.E. (2000), *Women Entrepreneurs in the Global Economy*.

**ALTERNATIVES TO COLLATERAL-BASED LENDING**

Cash-flow-based lending is based on the projected cash-flows to be generated by the business. The method is encouraged by the State Bank of Pakistan's Prudential Regulations for SMEs,<sup>17</sup> but it has not been very popular, mainly owing to SME's lack of both documentation and awareness, and a lack of willingness among the bankers.

Group guarantees have been popular mainly in rural areas and the micro-finance sector.

Loans can also be secured against borrowers' receivables, or given in the form of credit to buy raw materials. The product can also be held as collateral in case the borrower is unable to pay back the money. The bank can then sell the product to recover its money.

**1.9 RISK-AVERSE NATURE OF FEMALE ENTREPRENEURS**

There is some evidence supporting the view that women are more risk-averse than men in financial decision-making.<sup>18</sup> This higher degree of risk-averseness might be another reason for the reluctance of female entrepreneurs to access external finance.

*“Call me risk-averse but I will not go to the bank. I have heard some very strange stories about the treatment of defaulters. Banks usually come after ordinary people like me if we default. A person like me will not like to default, but one may default owing to factors completely out of one's control. I know business is about risk but can a mother, a daughter or a wife take the same kind of risk that a husband,*

*father or brother can? No, even when it comes to expanding a business, a woman is content not because she does not want to expand but because she does not want to take a risk. It is frustrating at times. You want to grow, want to take a chance but possibly you cannot because you are afraid of going to the bank and getting money and defaulting.”*

Another female entrepreneur recalled:

*“One of my friends took a loan to expand her business and returned the loan by selling her land as her business was not profitable in the beginning but she had to pay the loan with the interest by some date. After that I decided that I will never go to a bank. I can close my business but not go to the bank.”*

The higher degree of risk-averseness of female entrepreneurs compounds the problem of access to finance in the presence of other barriers. It also hampers initiative and growth efforts. It is important to understand the reasons for risk-averseness. A woman in our society takes a huge step when she starts her own businesses, usually in the face of social and domestic pressure. She is scared that if she defaults on a bank loan, her reputation but most importantly that of her family, her husband and her in-laws may be damaged. Thus she is risk-averse and if she has to be changed from a risk avoider to a risk taker, it has to be the collective responsibility of society and the finance providers.

<sup>17</sup>State Bank of Pakistan (2005). *Prudential Regulation for SME Financing*

<sup>18</sup>Marlow, S. and Carter, S. (2005), *Access to Finance: Women's Enterprise and the Role of the Accountant*, ACCA UK.

See also Schubert, R. Brown, M., Gysler, M. and Brachinger, H.W. (1999) 'Financial Decision-Making: Are Women Really More Risk-Averse?' *The American Economic Review*, Vol. 89, No. 2, May, pp. 381-5

### 1.10 ABSENCE OF AN EFFECTIVE LOBBY

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Unlike men in business, female entrepreneurs in Pakistan do not have a very strong lobby. Their efforts are not coordinated and they lack unity.

*“In India women are united on a common platform to achieve their demands and rights. Female entrepreneurs in Pakistan have to be held partly responsible for the situation with regard to access to finance. Our lobby is not effective. We all have different agendas and interests. So our voice is not one and when you are not united, you fall. No one takes you seriously. If we had a strong lobby, we could have lobbied with the State Bank of Pakistan or with the policymakers to have special access to finance schemes for female entrepreneurs, but this has not happened, mainly because we do not want to talk to one another. Men are united. They have their golf parties, cricket talk and common jokes, but successful females cannot see eye to eye with one another. This is not to say that females are not professional; they are much more than men but they cannot be united and that may be harming females more than the inequality in the society due to our conservative thinking.”*

United women entrepreneurs at a single platform can raise their voice in an effective manner. In this context the Women Chamber of Commerce and Industry will have to play a pivotal role.

### 2 CONCLUSION

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It can be concluded from this Section that female entrepreneurs in Pakistan face gigantic challenges as they struggle to find a niche for themselves in a male-dominated conformist society. Access to finance is one of the greatest challenges faced by them. They usually start their business on only a small scale because although the majority of them are proficient, qualified and capable, they do not have the required seed capital. Money is raised either by selling maternal family jewels or from personal savings. They generally start at a small scale but, however successful the product becomes, they generally do not expand because of the financing constraints.

They are reluctant to approach financial institutions for a number of reasons. These include the non-cooperative and at times perceived discriminatory attitude of the bank staff, the cumbersome paperwork, the problems of arranging collateral and guarantors, high interest rates and, most importantly, the adverse impact of default on the reputation of the family. Social and domestic pressures, the risk-averseness of female entrepreneurs, lack of family support and narrow-mindedness of the society also restrain female entrepreneurs from accessing financial institutions. It was, however, observed that female entrepreneurs are resolute in their desire for achieving independence, mostly motivated by the maternal instinct to do something for the family.

Despite negative experiences with the banks, female entrepreneurs have continued the struggle. Notwithstanding this, female entrepreneurs generally observed that an effective lobby of female entrepreneurs, a cooperative attitude of the financial institutions and social acceptability would help them in their endeavours to establish successful enterprises that would ensure equitable and sustainable economic growth of Pakistan.

### **3 RECOMMENDATIONS**

#### **3.1 ENCOURAGING A MORE PROACTIVE ATTITUDE TOWARDS LEARNING ABOUT SME FINANCING SCHEMES AND PRODUCTS**

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It was observed that generally female entrepreneurs were not aware of the financing schemes and products for SMEs offered by the financial institutions. Female entrepreneurs thus need to adopt a more proactive approach to learning about business financing. Unless women themselves form an inquisitive attitude about financing, they are likely to continue to face problems. They need to think beyond personal finances and to proactively explore the financing schemes offered by financial institutions.

#### **3.2 REPORTING OF NEGATIVE BANK EXPERIENCES**

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Unpleasant bank experiences should not become reasons for avoiding bank finance. Such negative experiences should in fact become stimulus for more resilient efforts for a successful enterprise. To ensure that this does not happen, a simple complaints system is needed so that negative experiences, especially if they are discriminatory, can be reported to the bank authorities and the State Bank of Pakistan. This could take the form of a 'hotline'.

#### **3.3 RISK MANAGEMENT SEMINARS**

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Female entrepreneurs are generally risk-averse. In Pakistan, owing to the fear of default and its negative implications for the reputation of the family, female entrepreneurs tend not to take the risk of accessing bank finance. Risk is an essential part of a business. Female entrepreneurs must be encouraged to develop a vision to expand their business and to realise that vision by taking risks. This can be done by organising risk management seminars for female entrepreneurs. Group training sessions providing information on group guarantee system, as adopted by Bangladesh should be organised.

#### **3.4 MAINTAINING PROPER BOOKS OF ACCOUNTS**

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There is an urgent need for female entrepreneurs to devote time and resources to maintaining proper books of accounts. They should be encouraged either to develop their own accounting skills by undertaking relevant short courses or to consider using the services and advice of professional accountants.

#### **3.5 EFFECTIVE LOBBYING AND ESTABLISHMENT OF WOMEN FORUMS**

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Women Chamber of Commerce and other such forums should be used to build awareness of financing schemes available to female entrepreneurs, discuss problems in accessing finance, develop their accounting and finance skills, as well as build a lobby for ensuring access to finance for female entrepreneurs. A public-private partnership is suggested so as to help female entrepreneurs overcome social and other pressures to access finance.

***“Finance is crucial at any stage in the life of an enterprise, be it start-up or a growing phase. Lack of finance is a critical problem because the consequence of under-capitalisation during enterprise formation and development results in underperformance during the life of the business. The behaviour of finance providers can be a crucial factor in facilitating or hindering the access to finance by entrepreneurs.”<sup>19</sup>***

Female entrepreneurs are apprehensive and reluctant to approach formal finance providers such as banks and other financial institutions. This section discusses the perspective of the finance providers on access to finance for female entrepreneurs. Finance providers were interviewed in Lahore, Islamabad and Karachi to obtain their viewpoint. None of the commercial banks except one had specific lending schemes for female entrepreneurs.

### 1 FINDINGS

#### 1.1 DISCRIMINATION IN LENDING

Female entrepreneurs had mentioned discrimination in lending, but the finance providers were not willing to acknowledge any discrimination against women entrepreneurs on the basis of their gender. Some of them opined that access to finance for female entrepreneurs has improved since 2004. Finance providers generally had reservations about providing finance to female entrepreneurs because of the specific characteristics of female-owned enterprises, such as innovativeness, lack of documentation and barriers to communication with the female owner, owing to social pressure.

A finance provider stated:

*“A few years back, banks' approach to finance was that finance can only be provided to males. They [banks] were all very male orientated. This, however, has changed with the emergence of foreign banks and the local privatised credit banks. Female customer orientation has improved, but you must understand that females are not very organised in terms of business planning and cash-flows. They are not financially literate and when they come to the bank they come with their male relatives, who do not let us establish a working relationship with the females. Females also come to the banks with the preconceived notion that the whole society is against them and thus no one is going to help them. Somehow every time we request a document, females raise a hue and cry stating it is discrimination. You call their house and you are interrogated by the mother or mother-in-law and then by all the relatives before you are allowed to talk to the actual person. We are just doing our business. Their businesses are small and we need more information about their businesses but they are not very co-operative. We can give them loans based on cash-flows and business plans, but they need either to develop expertise to prepare them or to use professional advice of qualified accountants.”*

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<sup>19</sup>Marlow, S. and Carter, S. (2004), 'Accounting for Change: Professional Status, Gender Disadvantage and Self-Employment', *Women in Management Review*, 19 (1): 5-16.

It can be concluded from interviews with the finance providers that the characteristics of female-owned enterprises make financing a female entrepreneur a challenge. Female entrepreneurs are justified in expressing concerns about the non-cooperative attitudes of the bank staff but their lack of proper documentation and the banks' inability to establish a working relationship with the female entrepreneur act as barrier to providing finance to female entrepreneurs.

## 1.2 COLLATERAL REQUIREMENTS

Female entrepreneurs had identified an inability to arrange collateral as a possible reason for not accessing bank finance. Finance providers opined that as risks have to be hedged, collateral is important and they cannot dispense with this requirement.

*“Women do not approach the banks because they do not have the collateral in their name or if they do have something in their name that is just for legal or tax purposes... I think, banks are not to be held responsible for this. Women need to know their rights and protect their rights. We need an assurance that loans will be paid and we need the guarantee in the form of collateral. I have just one question: if the female entrepreneurs were to give a loan to someone would they not require some kind of a guarantee that their money would be repaid? It is not our money that we loan, we are custodians of other peoples' money and we must protect that money. However, I must make it clear that collateral is not so much of a big issue as it is made out to be by the female entrepreneurs. If an applicant has a good application supported with relevant, accurate and useful documents, we try our best to facilitate the female entrepreneur; if she is a skilled entrepreneur she can show her previous work and her cash-flow statements to the banks. All we need is to have a basic idea that she is producing and selling. If they are successful in gaining the bankers' confidence it can work out for them. Seed capital, however, is an issue and for that we need collateral”.*

This is an interesting statement. The banker, on one hand, is trying to build a case for collateral, but on the other hand argues that if the entrepreneur has good experience and accurate documents, collateral is not an issue; but he then concludes that for 'seed capital' collateral will be required.

Collateral is an important issue and most of the banks are not willing to lend without collateral. As custodians of other peoples' money they have to secure the repayment of loans. It is, however, important to note that finance providers did state that female entrepreneurs may be given loans on the basis of cash flows and business plans. Some female entrepreneurs had also observed that they were able to obtain loans on the basis of cash-flows, business plans and a good relationship with the banks. So even though collateral is possibly one of the main reasons why banks do not provide finance to female entrepreneurs, proper business planning and complete, reliable documentation may at times be substitutes for collateral.

## 1.3 PRUDENTIAL REGULATIONS FOR SMEs

The State Bank of Pakistan Prudential Regulations for SME Financing allow and encourage banks to lend money to SMEs on the basis of cash flows rather than collateral. SBP also encourages banks / DFIs to identify the sources of repayment and assess the repayment capacity of the borrower on the basis of the assets conversion cycle and expected future cash-flows.

*“Banks / DFIs shall specifically identify the sources of repayment and assess the repayment capacity of the borrower on the basis of assets conversion cycle and expected future cash flow. In order to encourage cash flow based lending, banks / DFIs are allowed to take clean exposure, i.e., facilities secured solely against personal guarantees, on an SME up to Rs. 3 million provided that funded exposure should not exceed Rs. 2 million.”<sup>20</sup>*

<sup>20</sup>State Bank of Pakistan (2005). *Prudential Regulations for SME Financing*

Finance providers are aware of this; as one said:

*“Yes, SBP encourages cash-flow-based lending and this might resolve the problem of collateral but for that the financial and accounting skills of female entrepreneurs need to be developed. The prerequisite for cash-flow-based lending is accurate and organised data which they [SMEs] don't have.”*

Another finance provider opined:

*“The cash-flow will be determined by the consultant or for new business there will be a feasibility study. Female entrepreneurs are usually reluctant to go to a consultant to have a feasibility study done, and if they have a business that is already running then they usually do not have the cash-flows documented. So the option of cash-flow-based lending is just not feasible in the context of female entrepreneurs.”*

Finance providers generally had significant concerns about the ability and competence of female entrepreneurs in preparing documents, for example cash-flows, financial projections and business plans. Even though arranging collaterals and guarantors are key impediments in accessing finance, maintenance of proper books of accounts, preparation of business plans and cash-flows should be considered by female entrepreneurs on an urgent basis.

#### 1.4 LACK OF ACCOUNTING AND FINANCE SKILLS

*“It is recognized that a large number of SMEs will not be able to prepare future cash-flows due to lack of sophistication and financial expertise. It is expected that in such cases banks / DFIs shall assist the borrowers in obtaining the required information and no SME shall be declined access to credit merely on this ground”.<sup>21</sup>*

In the opinion of finance providers, the lack of accounting and finance skills among female entrepreneurs is the main problem.

*“Let us be honest, I mean both male and female entrepreneurs, they don't find time to maintain their accounts. They would know things off the top of their heads, everything is registered, is stored in their brains, but they hardly find time to put it down on a piece of paper. Even if they have their accounting records, they are not relevant, organised or systematic. Banks don't find it easy to lend to these clients, because they don't have a history of their records, but I would say whereas men might appoint an accountant to help them prepare documents, females do not even trust accountants. We [bank] do advise them to go to accountants, but according to them they do not have the finances or maybe they do not trust male accountants. Female entrepreneurs will not develop till they either develop their own accounting skills or hire professional accountants”.*

Another finance provider opined:

*“Professional accountancy bodies such as ACCA should come forward and conduct training, with SMEDA and other associations, for women entrepreneurs to acquaint them with basic accounting and book-keeping skills.”*

Even though the State Bank of Pakistan has specifically stated that banks should not refuse loan applications only because the SMEs might not be able to prepare cash-flow statements, the banks are generally not willing to be proactive in pursuing the SBP's Prudential Regulations. They are generally not very proactive in assisting SME borrowers in preparing the required documents, because it takes time and effort. In these circumstances, female entrepreneurs must dedicate time and resources to developing accounting and finance skills.

#### 1.5 SOCIAL AND CULTURAL BARRIERS

In the opinion of the finance providers, the social and cultural problems and taboos of society also deter these organisations from providing finance to female entrepreneurs. Banks are apprehensive about taking a woman to a court in the case of default.

<sup>21</sup>State Bank of Pakistan (2005). *Prudential Regulations for SME Financing*

*“It is difficult because of the recovery problems. It is not easy to recover a loan from a woman. You can handcuff a man but not a woman. If she is from a village, the whole village will turn against those who go to arrest her. You must understand that in Pakistan, it is difficult to finance a female entrepreneur. It is the banks' responsibility to recover loans and they will do anything to recover a loan. If we have to talk about equality, then we must apply processes without discrimination but it is more easily said than done, so we tend to shy away from female entrepreneurs.”*

The above comment is interesting. It shows that how social taboos can become an obstacle in the development of females. Empirical studies,<sup>22</sup> however, have shown that women are more trustworthy and honest than men, and hence are less likely to default willingly on their payments - a fact even acknowledged by some finance providers.

*“I would say they [women] are really good in terms of repayment; our experience of five or six years in Pakistan also tells the same story, that women are better in terms of repayments but there's a reason for it. It is not that she is a woman so she is a better client, the reason she is a better client is that she has limited access to finance and when she gets the finance she uses it very carefully.”*

Female entrepreneurs generally were apprehensive of accessing banks owing to fear of default. Finance providers are also apprehensive of lending because of the fear of default. The apprehensions of both are grounded in the social and cultural taboos of the society. A strong case exists for both sides to understand the concerns of one another and work towards a win-win situation, with the finance providers accepting that women may default, but it should not prevent them from lending to them. Female entrepreneurs should accept that default is part of business and it can happen to any business, but it should not prevent them from approaching banks when they need money.

## 1.6 DEVELOPMENTAL VERSUS COMMERCIAL OBJECTIVES

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Perhaps the main problem on the part of most of the financial institutions is the lack of a development objective. Banks do not want to use their resources for something that is time consuming and does not provide good value. Even though the female entrepreneurs are now being encouraged by the government, banks do not usually see much value in lending to female entrepreneurs.

*“The problem with access to finance for women entrepreneurs is that it is time consuming because of the cultural problem, so it does not maximise our return and it does not add to our bottom line. I mean that probably it is more efficient for the bank not to finance women...women think that we are not very cooperative and business friendly, and we think that they are not. Honestly, these days the emphasis is on consumer banking. The government will have to intervene if finance to female entrepreneurs is to be encouraged. Transaction costs will have to be brought down and procedures of lending simplified and stabilised. Many argue that commercial banks should have the same kind of outreach that micro-finance banks have, when it comes to female entrepreneurs. My answer is that the objective of commercial banks is profitability and they are successful at that. Micro-finance has a development objective, we have a commercial objective and one must distinguish commercial banks from micro-finance banks or maybe the government should set up development banks whose main purpose should be to develop female entrepreneurs.”*

It is important to note here that a substantial number of the female entrepreneurs were of the opinion that there are problems with the implementation of policies and regulations. A female entrepreneur stated:

*“I have heard that the government wants to encourage female entrepreneurs. SMEDA has set up female entrepreneur cells. There is a female bank but I do not see much impact. Policies are only successful if they are implemented by people who have the same vision as those who formulated the policies. The micro-finance institutions such as KASHF and Khushali Bank*

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<sup>22</sup>Smith, Dayle M. (2005). *Women at Work: Leadership for the Next Century*. p. 218. Prentice Hall

*have made an impact. They are helping female micro-finance entrepreneurs but there is no one to help female SME entrepreneurs. Maybe commercial banks are trying to help female entrepreneurs but I do not see any impact. They need to go out and tell females about what they are doing for them. They need to reassure the females and convince them to bank with them and to provide them finance. If females cannot come to banks, banks can go to them just as KASHF and Khushali are doing.”*

Commercial banks have to be more proactive in providing finance to female entrepreneurs. Unless commercial banks incorporate development objectives in their strategy and mission, female entrepreneurs are likely to continue facing problems in accessing bank finance. The State Bank of Pakistan will have to play a crucial role in encouraging commercial banks to provide finance to female entrepreneurs.

## 2 CONCLUSION

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Finance providers are generally not willing to acknowledge discrimination in lending. In fact, according to them, specific characteristics of female-owned business, such as their inability to prepare a relevant business plan for innovative products, absence of proper books of accounts, inability to prepare cash-flows and business plans, negative attitudes of female entrepreneurs, barriers to establishment of working relationships with female entrepreneurs and difficulties in prosecuting female defaulters are the reasons for the limited access to finance offered to female entrepreneurs. Even though finance providers acknowledge that arranging collateral is a problem for female entrepreneurs, they are only willing to consider the option of cash-flow-based lending, if female entrepreneurs can provide reliable documents needed for cash-flow based lending.

### 3 RECOMMENDATIONS

#### 3.1 THE ACTIVE ROLE OF THE STATE BANK OF PAKISTAN

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The State Bank of Pakistan (SBP) should assume an active role by encouraging banks to design and advertise products customised to the needs of female entrepreneurs, especially for seed capital. Separate financing schemes with favourable terms such as low interest rates and grace periods should be introduced to put women on a level-playing field with men. It is important that the SBP should enforce its Prudential Regulations relating to cash-flow-based lending in its true spirit, as this would facilitate access to finance for female entrepreneurs. The SBP needs to encourage banks to allocate a proportion of their total lending portfolio that they must lend to female entrepreneurs on soft terms and conditions, including lower interest rates.

#### 3.2 BUSINESS DESKS FOR FEMALE ENTREPRENEURS

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The finance providers should establish business desks for female entrepreneurs, providing advice on finance and other support services, as most of the female entrepreneurs do not have access to proper advice about financing and other business-related issues.

#### 3.3 DEVELOPMENT OBJECTIVES AND FOCUS ON OUTREACH

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Banks in Pakistan are commercially motivated. They are generally not willing to providing finance to female entrepreneurs. Nonetheless, access to finance for female entrepreneurs is important and financial institutions need to be encouraged by the SBP to reach out to female entrepreneurs. Providing finance to female entrepreneurs may not be commercially viable for banks in the short term, as they have commercial

objectives but, to ensure an equitable and sustainable Pakistan, it is essential that female entrepreneurs are encouraged. As Pakistan has a huge female population for the development of enterprises, it is essential that females also are encouraged to develop enterprises that may grow into national and international brands. The banks thus need to be encouraged to have development objectives.

#### 3.4 ENCOURAGE COLLATERAL-FREE LENDING

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Under the Mahila Udyam Nidhi financing scheme of SIDBI Bank of India,<sup>23</sup> female entrepreneurs are provided with soft loans for setting up industrial units on a small scale. No security, including collateral security, is insisted upon from the borrowers. Such schemes need to be explored and studied and, if feasible, implemented in Pakistan.

#### 3.5 ENCOURAGE CASH-FLOW-BASED LENDING

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Cash-flow-based lending should be encouraged. The banks should be proactive in assisting their clients in projecting cash-flows. Awareness seminars may be conducted for creating awareness of cash-flow-based lending as well as facilitating the preparation of documents required for cash-flow based lending.

#### 3.6 THE ROLE OF FIRST WOMEN BANK LTD.

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The First Women Bank Ltd. was established to assist female entrepreneurs. It should thus play a more proactive role in providing finance to them. Generally, there is a sense of dissatisfaction with the performance of the First Women Bank Ltd. The bank should market its products more aggressively in order to build a rapport with female entrepreneurs. It should come up with innovative but, most importantly, customer-friendly products and schemes, its staff should be encouraged to have a co-operative attitude towards its female customers.

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<sup>23</sup><http://www.sidbi.in/mun.asp>

# General Recommendations

## 1.1 PUBLIC-PRIVATE PARTNERSHIP

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A public-private partnership is needed to encourage female entrepreneurs to access finance. Policy makers should facilitate first the establishment of enterprises by females and secondly their transition from small to medium-sized entities. This might necessitate positive discrimination policies so as to create a level playing field for women. The government should thus formulate policies that will encourage female entrepreneurs.

## 1.2 MEDIA CAMPAIGN

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Public private partnership is also needed to help female entrepreneurs overcome social barriers. Like Population Planning media campaign, a media and advertising campaign has to be initiated to create respect for working female entrepreneurs.

## 1.3 ACCOUNTING AND FINANCE WORKSHOPS FOR FEMALE ENTREPRENEURS

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Accounting bodies such as ACCA should, in collaboration with the banks, SMEDA and Women Chamber of Commerce, conduct accounting and finance workshops for female entrepreneurs as well as building awareness of business development services.

## Conclusions

This research report provides an overview of the current status of access to finance for female entrepreneurs in Pakistan, highlighting the problems they face while accessing bank finance. It is concluded that female entrepreneurs face a plethora of social and cultural barriers as they try to obtain finance. At times, the perceived or real discriminatory attitude of bank officers towards female entrepreneurs, their own lack of knowledge of accounting skills and thus inability to maintain proper books of accounts, reluctance to obtain professional advice of accountants, fear of default, high interest rates, unpleasant banking experiences, documentation and bureaucratic procedures, lack of family support, difficulties in finding guarantors or collateral, lack of awareness of financing schemes and high risk-averseness exhibited by female entrepreneurs prove to be some of the factors hindering the growth of female enterprise.

Finance providers were hesitant to lend finance to women, as it is generally not considered commercially profitable. Specific characteristics of women-owned enterprises, for example, inability to arrange collateral and guarantors, or to prepare cash flows and business plans, as well as the social barriers in dealing with female entrepreneurs and then prosecuting those who default, serve to deter banks from providing finance to female entrepreneurs.

## ANNEXE 1: THE SME SECTOR IN PAKISTAN AND FINANCING

Most of the female-owned enterprises in Pakistan fall into the SME category. Table A1.1 highlights different studies that illustrate that access to finance is a major issue faced by SMEs of Pakistan.

**TABLE A1.1: STUDIES REVEALING SME'S FINANCING PROBLEMS IN PAKISTAN**

| Study  | Finding   |
|--|---|
| SME Policy <sup>24</sup>   | Only 9% of the total SME financing comes from banks. The rest of the financing is obtained from retained earnings and informal sources, usually at exorbitantly high interest rates.  |
| SME Development in Pakistan: Analysing the Constraints to Growth <sup>25</sup> | <p>Difficulties faced by SMEs with credit:</p> <ul style="list-style-type: none"> <li>• lack of access and connection with banks</li> <li>• collateral requirements</li> <li>• delays in loan processing and high costs of finance</li> <li>• corruption in obtaining finance.</li> </ul> <p>Supply-side constraints:</p> <ul style="list-style-type: none"> <li>• weak and poorly enforced creditor rights</li> <li>• high per-unit cost of SME lending</li> <li>• SMEs' weak reputation and financial systems.</li> </ul> |
| SMEDA <sup>26</sup>  | 75% of the SMEs go out of business during their first two years, mainly owing to insufficient capital for investment in the business.   |
| Why Are Pakistan's SMEs Bank-Shy? <sup>27</sup>                                | There is a gap between what is being done by the regulatory authorities and development agencies for the SME financing institutions and what is being delivered by these institutions to the SME market.  |

<sup>24</sup>SME Policy 2006. Ministry of Industries, Production & Special Initiatives. Government of Pakistan. [www.smepolicy.net.pk/smepolicy2006.html](http://www.smepolicy.net.pk/smepolicy2006.html)

<sup>25</sup>Bari, Faisal. Cheema, Ali and Ehsan-ul-Haque (2005). *SME Development in Pakistan: Analyzing the Constraints to Growth*. Asian Development Bank: Pakistan Resident Mission

<sup>26</sup>[www.smeda.org](http://www.smeda.org)

<sup>27</sup>Pakistan Financial Services Sector Reform Programme (2005). *Why are Pakistan's SMEs Bank-Shy*.

## ANNEXE 2: GLOBAL STATUS OF WOMEN ENTREPRENEURS AND ACCESS TO FINANCE

TABLE A 2.1: RESEARCH STUDIES ON ACCESS TO FINANCE AS A BARRIER FOR FEMALE ENTREPRENEURS

| Authors (year)   | Research findings  |
|--|--|
| Aldrich, Elam and Reece (1997) <sup>28</sup> ; Carter and Rosa (1998) <sup>29</sup> ; Marlow (2002) <sup>30</sup> ; Cornet and Constantinidis (2004) <sup>31</sup> | Gender will have a negative impact upon women during locating, accessing and managing finance, which are critical activities for most firm owners.   |
| Clark and Kays (1995) <sup>32</sup>  | 41% of female entrepreneurs observed that lack of money was the greatest obstacle to starting a business, and 47% cited lack of capital as the greatest barrier to business growth.  |
| Marlow and Carter (2004) <sup>33</sup>   | Barriers to access to finance for female entrepreneurs are critical.   |
| Marlow and Carter, (2005) <sup>34</sup>  | Businesses run by women are usually small in scale, less profitable, restricted to certain sectors, are characterised by lower levels of capitalisation (start-up capital is only one-third as much as men typically have), and do not grow with time, as female entrepreneurs are less likely to use external financing as the business grows.  |
| Smith (2000) <sup>35</sup>   | Women's hampered access to finance has traditionally limited the kinds of businesses that they can open, and this explains why they are concentrated in retail and personal services, areas that are characterised by a lack of hard-assets and hence banks are reluctant to lend them money because in the majority of the cases they consider collateral rather than cash flows when making lending decisions. |

<sup>28</sup>Aldrich H., Elam A. and Reece P. (1997), 'Strong Weak Ties and Strangers: Do Women Owners Differ from Men in their use of Networking to Obtain Assistance?' in Birley, S. and MacMillan, I. (eds), *Entrepreneurship in a Global Context* (London: Routledge).

<sup>29</sup>Carter, S. and Rosa, P. (1998), 'The Financing of Male-and Female-Owned Businesses', *Entrepreneurship and Regional Development*, 10: 225-41.

<sup>30</sup>Marlow, S. (2002), 'Self-Employed Women: A Part of, or Apart from, Feminist Theory?', *Entrepreneurship and Innovation*, 2 (2): 83-91.

<sup>31</sup>Cornet, A. and Constantinidis, C. (2004), 'Female Entrepreneurs and Financing', paper to the RENT XVIII Conference, Copenhagen, Denmark, November: 25-6.

<sup>32</sup>Clark, P. & Kays, A. (1995). *Enabling entrepreneurship: Microenterprise development in the United States*. Washington, DC: The Aspen Institute.

<sup>33</sup>Marlow, S. and Carter, S. (2004), 'Accounting for Change: Professional Status, Gender Disadvantage and Self-Employment', *Women in Management Review*, 19 (1): 5-16.

<sup>34</sup>Marlow, S. and Carter, S. (2005), *Access to Finance: Women's Enterprise and the Role of the Accountant*, ACCA UK.

<sup>35</sup>Smith, Dayle M. (2005). *Women at Work: Leadership for the Next Century*. p. 218 (Prentice Hall)

**TABLE A2.2: BANKERS' OPINIONS ON ACCESS TO FINANCE FOR FEMALE ENTREPRENEURS**

| Authors (year)  | Research  |
|---|---|
| Marlow and Carter (2005) <sup>36</sup>                  | Bankers in the research study stated that applicants' gender has no impact upon business funding, but women are less likely to seek bank funding. They make approximately 20% of applications and apply for smaller amounts of funding than their male counterparts.                |
| Wilson, Carter, Tagg, Shaw and Lam (2007) <sup>37</sup> | The study highlights the presence of individual attitudes held by bank loan officers, who are particularly concerned with the character of the business owner. Some lenders believe that business ownership is not "socially appropriate" for women.                                |
| Orser, Riding and Manley (2006) <sup>38</sup>           | After controlling for the size and sector of the firm, women business owners were just as likely as men to seek all type of external financing except for external equity capital. Male and female business owners who applied for financing were equally likely to obtain capital. |

<sup>36</sup>Marlow, S. and Carter, S. (2005), *Access to Finance: Women's Enterprise and the Role of the Accountant*, ACCA UK.

<sup>37</sup>Wilson, Fiona, Carter, Sara, Tagg, Stephen and Shaw, Eleanor (2007) "Bank Loan Officers' Perceptions of Business Owners: The Role of Gender". *British Journal of Management*, Vol. 18, No. 2, pp. 154-171

<sup>38</sup>Riding, Allan L. Orser, Barbara J. and Manley, Kathryn (2006) 'Women Entrepreneurs and Financial Capital'. *Entrepreneurship: Theory and Practice*. Volume 30, Number 5. pp. 643-665(23)

### ANNEXE 3: WOMEN ENTREPRENEURS IN PAKISTAN AND ACCESS TO FINANCE

TABLE A3.1: ACCESS TO FINANCE PROBLEMS FOR FEMALE ENTREPRENEURS IN PAKISTAN

| Study  | Finding  |
|--|--|
| Women Entrepreneurs in Pakistan: How to Improve their Bargaining Power <sup>39</sup>                               | <ul style="list-style-type: none"> <li>• 31% women considered finance as a perceived barrier to growth.</li> <li>• The predominant source of the start-up capital for women entrepreneurs was reported to be personal savings (73%), while informal sources were in second position.</li> <li>• Only 4% of respondents had access to formal sources of credit.</li> <li>• 46% asked for concessionary finance as an important factor that could help their businesses grow.</li> <li>• One-third of the women entrepreneurs thought that lack of adequate financing facilities was a major factor that had negatively affected their business in the recent past.</li> <li>• 66% of women believed that being a woman was a major constraint in obtaining formal finance.</li> </ul> |
| Changing Role of Women in Pakistan: A Study of Social and Economic Activities of Women Entrepreneurs <sup>40</sup> | Women clients of OPP (Orangi Pilot Project) and FWB (First Women Bank) had faced a difficult loan acquisition procedure, and this kept many women from taking loans, though the majority of them thought that they did need loans for business expansion.  |

<sup>39</sup>Goheer, Nabeel A. (2003) *Women Entrepreneurs in Pakistan: How to Improve their Bargaining Power*. International Labour Organization.

<sup>40</sup>Dr. Nasreen Aslam Shah (2002) *Changing Role of Women in Pakistan: A Study of Social and Economic Activities of Women Entrepreneurs*. University of Karachi.



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