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Challenges of Women-owned MSMEs in Accessing to Finance

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Background

Cambodian women have actively participated in most business activities, particularly in micro, small and medium-sized enterprises (MSMEs). The presence and contribution of women in the country's economy and MSMEs are prominent. According to the 2014 National Institute of Statistics, as cited in the IFC report, women own 61 per cent of all businesses – micro, SMEs and large – in Cambodia, significantly higher than in many countries in Southeast Asia¹. Yet, the majority of them (62 per cent) own micro-enterprises². Women's enterprises are concentrated in smaller industry sectors than men's. Four sectors account for 97 per cent of all women-owned enterprises: wholesale and retail trade and services (66 per cent), accommodation and food (17 per cent), manufacturing (10 per cent), and other services (7 per cent)³.

Due to the fact that most women own micro-businesses in Cambodia, women entrepreneurs face many challenges in running their businesses. The lack of financing sources has been the top issue as they started their business from scratch using their own funds or money borrowed from families or friends. It has never been easy for these entrepreneurs to access finance from financial institutions (FIs) or banks⁴. The 2020 KAS report also discloses that limited financial literacy and tax compliance are major issues that hinder women entrepreneurs' adoption of digital technologies to finance their businesses.

Defining women-owned MSMEs (WMSMEs) in terms of access to finance refers to a condition that women entrepreneurs who own a micro-business

¹ IFC. 2019. *Exploring the Opportunities for Women-owned SMEs in Cambodia*. Washington, D.C., USA: International Finance Corporation.

² ADB. 2015. *Promoting Women's Economic Employment in Cambodia*. Mandaluyong City, Philippines: Asian Development Bank.

³ Ibid.

⁴ Seng, Sopheak. 2022. *Enhancing MSMEs Business Resilience for Women Entrepreneurs in Cambodia: Enabling Business Environment, Overcoming and Managing Risk*. Phnom Penh, Cambodia: Cambodia Women Entrepreneurs Association.

can seek financial support or investment without discrimination. They also need collateral support and a low-interest rate from banks and FIs that allow them to scale up their business and maintain its operation during a hard time of financial problems.

Some factors might help reduce barriers for WMSMEs to access appropriate forms of capital, including increasing women's financial literacy and accessible financial information and entrepreneur financing. Other practical forms of supporting women to access finance include intervention from business associations and networks, related skill building for women's readiness to finance, and women's participation in policy formulation to enable accessible finance opportunities from the state.

Some considerable consequences would potentially pull back efforts to promote a vibrant entrepreneurship ecosystem in Cambodia due to the lack of access to finance for women entrepreneurs. First, challenges in accessing finance among micro-businesses, start-ups and marginalised groups owned by women significantly affect the sustainable growth of local economic development as it is the main development sector to create decent job opportunities for people. Besides, without being able to access loans or investments, women-owned start-ups and micro businesses won't be able to grow or scale up their businesses no matter how potential or innovative business they have owned. It limits their ability for small-scale investment⁵. Lastly, women entrepreneurs easily fall into the debt track and lose the ability to repay as they choose alternative financing sources without accessible loans with low-interest rates. Normally, the interest rates from informal loans surpass the rate of FIs at an average of 18 per cent annually⁶. It is risky for women-owned micro-businesses, and start-ups face an inability to pay back with high-interest rate loans. This deteriorates their financial stability, business competency, and ability to repay loans.

Government's policies to support SMEs and MSMEs

The Cambodian government has initiated various policies to support and promote MSMEs. To enable the friendly entrepreneurship landscape of MSMEs, the government stated in the Rectangular Strategies Phase IV's objectives to develop strategies, laws, and regulatory frameworks to formalise and upgrade MSMEs in the country. Increasing access to finance is among the mechanisms to boost MSMEs. The Industrial Development Policy (IDP) (2015-2025) was also established as a tool to enable a conducive environment for enhancing SMEs' capabilities by creating more linkages with large enterprises

⁵ Advocacy Policy Institute. 2021. *The Voice of Women Street Vendors during Covid-19*. ASSESSMENT REPORT ON The Impact of Covid-19 on Women Street Vendors and their Socio-Economic Rights, page 8.

⁶ Husain Haider. 2021. *MFIs Increasing Fees after 2017 Rate Cap*: IMF. Khmer Times.

<https://www.khmertimeskh.com/50859581/mfis-increasing-fees-after-2017-rate-cap-imf/#:~:text=Fees%20as%20a%20percentage%20of,period%2C%20according%20to%20their%20analysis.>

and promoting SMEs' innovation, creativity, and productivity⁷. Moreover, the government established the Entrepreneurship Promotion Fund, the Skills Development Fund, and the TECHO STARTUP Center to support MSMEs and start-ups by providing training, mentoring, coaching, networking opportunities, and funds, either in grants or as co-investments⁸.

In July 2019, the Council of Ministers adopted National Financial Inclusion Strategies (2019-2025) to build financial inclusion that allows Cambodians to access affordable financial services for their economic activities across relevant sectors. This strategy aligns with the Financial Sector Development Strategy 2016-2025 and the Royal Government's Rectangular Strategy-Phase IV⁹.

Additionally, in 2020, the Cambodian government launched the SME bank as a mechanism to support the development of Cambodian agribusinesses and SMEs linked to foreign direct investments, the tourism sector, and tech start-ups. The SME bank provides small and medium size enterprises easy access to finance in all phases of their lifecycle, including creation, expansion, or business transfer. The SME bank launched the SME Co-Financing Scheme to facilitate registered and unregistered SMEs' access to affordable and adequate financing with a maximum interest rate of 7 per cent¹⁰.

In the same year, the government also established a Credit Guarantee Corporation of Cambodia (CGCC), aiming to support the development of SMEs to enhance their access to formal loans. The CGCC is operated under the technical and financial guidance of the Ministry of Economy and Finance. Its mission is to provide credit guarantees to lenders on loans made to businesses based on international standards to share the risk with lenders and to improve financial inclusion. In 2022, the CGCC offered Women Entrepreneurs Guarantee Scheme (WEGS) to women and women-owned SMEs. The WEGS aims to 1) support women and women-owned businesses access to formal credit through CGCC's credit guarantees by giving a higher guaranteed coverage of 80 per cent and lower guarantee fees of 1 per cent annum for all sectors, 2) to support participating financial institutions to increase women's loan portfolio, and 3) to extend guaranteed loans to women-owned businesses with favourable credit guarantee features. To get the WEGS, WMSMEs must have registered their businesses with government authorities. Non-registered businesses must proceed with the registration after the guarantee is approved; otherwise, an additional Guarantee Fee of 0.5 per cent per annum

⁷ United Nations, Economic and Social Commission for Asia and the Pacific 2022. *Access to Finance of Micro, Small and Medium-Sized Enterprises (MSMEs) in Cambodia*. MSME Financing Series No. 2 (Bangkok, United Nations 2022), available at www.unescap.org/kp/2021/micro-small-and-mediumsized-enterprises-access-finance-cambodia

⁸ Ibid.

⁹ RGC. 2019. *National Financial Inclusion Strategy (2019-2025)*. https://www.nbc.org.kh/download_files/publication/blueprints_eng/Final_NFIS_in_English.pdf

¹⁰ SME Bank. 2020. *SME Co-Financing Scheme*. <https://smebankcambodia.com.kh/wp-content/uploads/2020/09/scfs.pdf>

of the outstanding guaranteed amount is imposed on every anniversary of the guarantee¹¹.

Despite the tremendous support from the Cambodian government to MSMEs, accessing loans from banks remains one of the major issues for most WMSMEs. This was revealed by a survey of SHE Investments with more than 100 women entrepreneurs. Three prioritised issues regarding access to finance were identified by women entrepreneurs. These include 1) the requirement of the collateral for loans request, 2) high-interest rates on loans, and 3) the complication of the application procedure when accessing a bank loan.

This policy brief identifies key bottlenecks for young women entrepreneurs (YWEs) in accessing finance. It then provides policy recommendations addressing the issues in order to improve financial accessibility for WMSMEs in Cambodia.

To collect WMSMEs' issues regarding access to finance, on 1st April 2022, SHE Investments conducted a survey to identify the issues with more than 100 YWEs. Many issues were collected through the survey. On 13th May 2022, the issues were brought to discussion in the first advocacy workshop, and seven major issues were categorised¹². Then, YWEs prioritised **three major issues (1. Requirement of the collateral for loan request; 2. High-interest rates on loans; 3. The complication of the application procedure when accessing bank loans)** that they believe are their most common. On 4th August 2022, SHE Investments conducted a hybrid consultative workshop (in-person and via Zoom) to discuss the three major issues further. The workshop was participated by 77 YWEs who own micro-businesses and representatives of NGOs and associations such as YEAC, AGILE, Pact, The Asia Foundation, and FASMEC.

¹¹ CGCC. 2022. *Women Entrepreneurs Guarantee Scheme (WEGS)*. Credit Guarantee Corporation of Cambodia. <https://www.cgcc.com.kh/en/women-entrepreneurs-guarantee-scheme/>

¹² The list of categorized seven major issues can find in detail in the appendix

Findings of Issues & Recommendation

Difficulty in accessing finance is the most significant constraint WMSMEs have faced, which has impeded their business growth. Through a survey, most WMSMEs prioritised three issues with regard to access to finance through banks. Detailed issues were discussed amongst WMSMEs during the consultative workshop as follows.

Key Issues	Recommendations	Solution holders
1) Requirement of the collateral for loan request During the focus group discussions (FGDs), women entrepreneurs revealed that it is increasingly difficult to borrow money from banks for micro and informal businesses, and collateral requirements have made the situation more challenging. Typically, banks set a high value on collateral such as land and house titles (soft or hard titles), ownership of a store certificate, equipment facilities, and other fixed and current assets. The banks also study the ability of the collateral to generate money. Since most women entrepreneurs start their businesses from scratch with low working capital, they cannot fulfil the bank's requirement to get approval on the loan request. In this regard, most WMSMEs decided to use their own fund or peer-to-peer lending. Some sought loans from informal lenders with high-interest rates.	<ul style="list-style-type: none"> • Every FIs/banks shall consider providing flexible lending conditions, especially micro/small loan sizes to WMSMEs who have the ability to repay without collateral. 	Financial Institutions
	<ul style="list-style-type: none"> • The CGCC shall consider enlarging guarantee's scheme to cover micro-business besides SMEs and guarantee on informal business sectors. 	The CGCC, Ministry of Economy and Finance

<p>2) High-interest rates on loan</p> <p>Those who are able to access bank loans are also faced with high-interest rates. There is a lack of loans with low-interest rates that would accelerate the growth of women's businesses. Such loans with low-interest rates provided by the SME bank have been attractive. Yet, it is eligible only for small and medium-sized enterprises with a minimum annual turnover between US\$625,000 to US\$175,000 (or employ 10 to 50 staff). Women-owned micro-enterprises are not likely to access such loans. Likewise, the process of getting such loans is complicated for them to complete. During the group discussions, all women entrepreneurs who can access bank loans said that the interest rates charged by banks are between 10 per cent – 12 per cent per annum. This rate is exceptionally high and has hindered their business growth since the profit made from their business is small. These entrepreneurs wished for a bank policy to support WMSMEs with low-interest rates and long-term loan repayment.</p>	<ul style="list-style-type: none"> • FIs/Banks shall provide loans to WMSMEs with a lower interest rate. They should also simplify the documentation and criteria of loan requests. This will allow women entrepreneurs to getting more loans to expand their businesses, making their businesses more profitable. Consequently, they can repay their bank loans without delay. • Currently, SME Bank has provided a better loan interest rate to only small and medium-sized enterprises who are eligible to access SME bank's loan with the low-interest rate (5.5% -7 %per annual). Then, SME bank shall also include MSMEs in its scheme so that they are able to get the benefits of the scheme. • Other FIs/Banks shall consider a similar rate to SME Bank, so WMSMEs can widely access to the finance/loan. 	<p>Financial Institutions</p> <p>1. Financial Institutions 2. SME bank 3. Ministry of Economy and Finance</p>
<p>3) The complication of the application procedure when accessing bank loans</p>	<ul style="list-style-type: none"> • FIs/banks shall consider reducing the requirement and simplifying the long /complicated application procedure based on size of loan category (Micro-loan, small loan, medium, and large loaning). For 	<p>Financial Institutions</p>

<p>The complicated process of accessing bank loans is another critical barrier mentioned by WMSMEs. Since women run micro-businesses, it is difficult for them to fulfil the bank procedure requirements when they apply for a loan request. Besides the collateral, financial record and credit history are also required by banks for their assessment. As stated by women entrepreneurs, many assessments are conducted by bank officials during the application process, to make sure that women entrepreneurs can repay. Some entrepreneurs have failed to meet the bank's requirements when applying for a loan request.</p>	<p>Micro and small loans, FIs/banks shall consider accepting the equivalent documents (ID Card, Family Book, Spouse ID Card, Invoices/Receipts from buying and selling...etc.)</p>	
	<p>Alternative Recommendations</p>	
	<p>Establish a Micro-Enterprises Working Group (MEWG)</p> <ul style="list-style-type: none"> • The MEWG should be established under the National Bank of Cambodia (NBC) with cooperation from the Ministry of Commerce to formulate and oversee financing policies related to micro-enterprise development in Cambodia. The working group should enable mechanisms to collect data and feedback on micro-enterprise loan lending with the FIs and enforce policies to address micro-enterprises needs in loan lending. • The MEWG should also closely monitor the professional banking principles and ethics of FIs 	<p>National Bank of Cambodia and Ministry of Commerce</p>

	and respond properly to those FIs who do not follow NBC's policies in encouraging and providing micro-enterprises with access to finance.	
	<p>Support WMSMEs in building readiness to access loans</p> <ul style="list-style-type: none"> • Development partners who work directly with WMSMEs should take a leading role in disseminating information about the different financial sources (either from the government or the private sector) available for WMSMEs. They should create a tool or platform that can share information about the sources and how to access them. • Strengthen the capacity and business performance of WMSMEs through financial education, improving their accounting records, and developing and improving financial statements and business plans to ease access to finance. 	<p>1 Development partners 2 Ministry of Women's Affairs</p>

Appendix

1. Definition of MSMEs

	Micro	Small	Medium	Large
Ministry of Industry and Handicraft (2005)				
Number of employees	Less than 10	10 to 50	51 to 100	More than 100
Assets excluding land	Less than USD 50K	USD 50K to 250K	USD 250K to 500K	More than USD 500K
Tax Department of the Ministry of Economy and Finance (2018)				
Number of Employees	Less than 10	10 – 50	51 to 100	More than 100
Annual Turnover	Less than 62.5K	USD 62.5K to 175K	USD 175K to 1M	More than USD 1M

Source: UNESCAP. 2022. *Micro, Small and Medium-sized Enterprises' Access to Finance in Cambodia*. MSME Financing Series No. 2. Bangkok, United Nations.

2. List of the categorised seven major issues were found on 13th May 2022

No.	Issues
1	Lack of access to information from FIs/Banks
2	Requirement of the collateral for loan request
3	High-interest rates on loans
4	The complication of the application procedure when accessing bank loans
5	COVID-19 impact leading to late payment/ bad record history
6	Single women-owned business finds it hard to access loan
7	Discrimination on people with disability for access to loans