

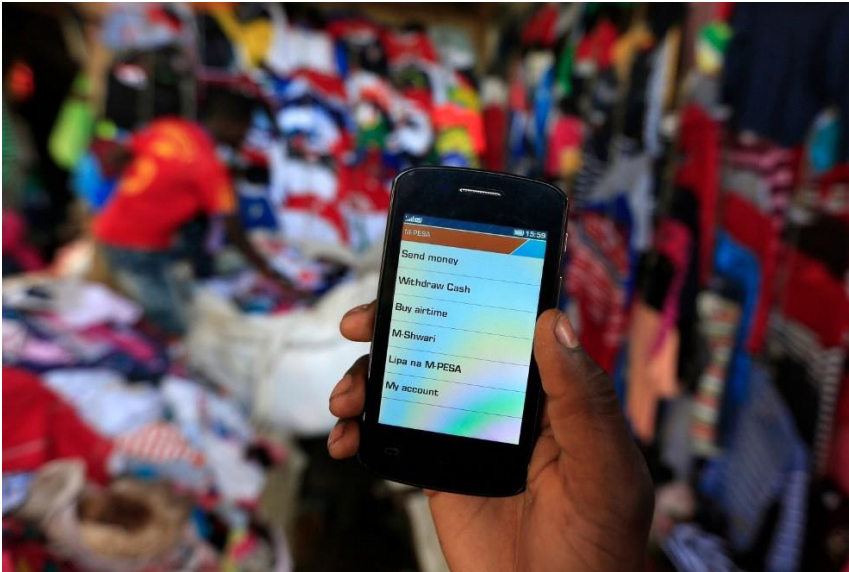


POLICY BRIEF

Harnessing Digital Finance for Women Entrepreneurs

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Source: <https://www.brookings.edu/articles/beyond-mobile-payments-going-up-the-value-chain-of-fintech-in-africa/>

Key Messages

- Digital financial services provide a cost-effective alternative to traditional banks, which can enhance firm performance.
- Adopting and using digital financial services can greatly benefit businesses owned by women in their day-to-day operations.
- Although digital financial services can benefit women-owned businesses, the impact is greater for those facing financial constraints.
- The study shows that digital financial solutions, such as mobile money technologies, can help women-owned businesses overcome the obstacles in accessing finance, improving their business performance by 42.5%.

What is the issue?

Women entrepreneurship plays a critical role in achieving sustainable development goals (SDG) of achieving gender equality and poverty reduction by promoting economic growth. The Kenya government's Vision 2030 identifies entrepreneurship as a key tool in eradicating poverty and creating wealth for its people. Policies aimed at improving women's entrepreneurship have had limited

success, as women-owned businesses have struggled to survive and succeed compared to male-owned ones. This disparity in performance is attributed to finance-related obstacles.

Digital financial services (DFS) and technology can promote financial inclusion and level the playing field for male and female entrepreneurs. According to the latest World Bank Enterprise survey, 53% of Kenyan women-owned businesses reported adopting DFS due to high transaction costs associated with traditional bank services, such as bank fees, time spent conducting banking activities, and the risk associated with cash movement.

In Kenya, 36% of households are women-headed and in dual-headed households, women are likely to be the primary caregivers and endure most of the economic and social hardship. DFS can help alleviate social difficulties faced by women entrepreneurs while balancing work and home responsibilities.

Why is this important?

As a low-cost financial innovation that leverages the telecommunication infrastructure, DFS and mobile money is likely to transform and/or fundamentally change how financial services could reach previously excluded groups, especially women. This transformative innovation is likely to increase financial access and inclusion due to its lower transaction costs. However, there is limited knowledge on the implication of firm performance and more importantly, how DFS can help women-owned businesses overcome performance challenges.

Understanding whether DFS is a catalyst that improves the performance of women-owned businesses is important for developing strategies that could increase the use and adoption of DFS in business operations. Furthermore, this study is important in identifying the channels with which DFS affects business performance. This is crucial in crafting solutions that increase women's participation in the economy and the attainment of SDG goals.

What should policymakers do?

Awareness campaigns: Outreach programs aimed at increasing digital finance literacy amongst women should be intensified. Policymakers should intensify their efforts to promote financial inclusion, particularly for women.

Remove barriers and constraints in mobile money development. High transaction costs associated with traditional bank accounts are a barrier to financial access. The mandate of mobile money services should be expanded to allow them to offer a wider range of products traditionally provided by banks,

with streamlined regulations. The 2021 law regulating mobile money loans should focus on weeding out informal and unscrupulous providers, without interfering with pricing models. Excessive regulation can hinder cash-strapped businesses from accessing fast and efficient financing. This law may lead lenders to increase loan costs because they cannot access or share customer information to determine appropriate risk-based pricing.

Increase competition in the mobile money services industry: Hesitancy and low adoption of DFS and mobile money, are attributed to higher fees. Uncompetitive practices by mobile money service providers due to market concentration could be keeping fees artificially higher than they would ordinarily be. For example, there are four service providers in Kenya dominated by Safaricom's M-Pesa platform. Due to its dominant position, Safaricom has stifled innovation and prevented potential cost reductions for users by squeezing out competitors from entering the market.

Source

Lemma and Mlilo (2024). Digital finance and the gender gap in enterprise performance: Evidence from Kenya. *AERC Working paper series*.



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