Chapter 3

Expanding the financing options of women-led businesses in the MENA region

This chapter addresses issues related to the supply and demand sides of financing for women-led businesses in the MENA region. The first section presents a supply-side analysis of banks' financing practices, based on the results of a survey of banks carried out by the OECD in collaboration with the Union of Arab Banks. The section reviews whether banks consider women's businesses as a market for their own development, the amounts and types of loans they provide to those businesses and the ways and means to enhance the proportion of bank lending to women's businesses. The second section consists of a practical guide to improving the demand side of lending to women-led businesses, by providing concrete advice to women on how to approach banks for financing their businesses, within the context of the larger financing needs of their businesses.

Introduction

Entrepreneurial activity and performance rates in the Middle East and North Africa (MENA) region are well below those of comparably developed regions. The OECD-IDRC study *New Entrepreneurs and High-Growth Enterprises in the Middle East and North Africa* (2013) concludes that, in addition to the general unfavourable business climate, both women's economic participation and entrepreneurs' access to finance are amongst the most important factors affecting entrepreneurship negatively in the region.

With small and medium-sized enterprises (SMEs) accounting for up to 90% of businesses in the region and creating more than half of the jobs (Saleem, 2013; Kerr, 2013); ensuring their access to finance and support should be a priority to sustain economic growth. This is all the more important as the creation, survival and growth of SMEs have been negatively affected by socio-political changes that have taken place in a number of MENA economies since 2011, coupled with the global financial crisis. While banks in the MENA region are generally considered to be more averse to risk and more conservative than in other parts of the world, they tend to be both financially stable and modernising, and could certainly play a greater role in lending to SMEs.

At the same time, women-led businesses represent a growing market; they have significant potential to positively affect economic growth in the region, and are substantially under-banked.[1]

The OECD publication *Women in Business: Policies to support women's entrepreneurship development in the MENA region* (2012c), identified access to credit and bank finance as one of the themes around which the OECD-MENA Women's Business Forum (WBF) should develop its work. Indeed, bank financing is the main source of external financing for SMEs. Bank financing is all the more important for women as women entrepreneurs tend to come from poorer segments of society than men[2] and, for cultural reasons, may also be less likely to be funded through family loans and grants or through debt and equity investments.

Previous studies[3] show that bank lending to women-led businesses is hampered by information asymmetries that exist between banks and women entrepreneurs. Business women face specific difficulties that are related to their lack of collateral security to meet the lending requirements of banks, and their relative inexperience in approaching lenders with bankable projects.

Significant economic gains could thus be achieved with banks targeting their products and services to women entrepreneurs more effectively. The first section of this chapter summarises the conclusions of a survey carried out by the OECD in collaboration with the Union of Arab Banks on the existing financing practices of banks to women entrepreneurs in the MENA region.

In parallel, in order to improve the demand side of lending to women-led businesses, there is a need to improve women's capacity to approach banks within the wider framework of business financing. The second part of this chapter is dedicated to providing concrete advice to businesswomen on how to approach banks as part of their broader financing strategies.

3.1. Better targeting of banks' financing practices on women-led businesses in the MENA region: results of a survey led by the OECD in collaboration with the Union of Arab Banks

In 2013, the WBF partnered with the Union of Arab Banks (UAB) to survey banks in the region about their financing practices, decision-making processes and existing enterprise support services to women entrepreneurs. Responses highlight the bottlenecks and gaps and help identify targeted solutions to increase financial offerings by banks to women-owned businesses. The methodology of the survey is developed in the Reader's Guide of this book. This chapter summarises the conclusions drawn from responses of 19 MENA banks operating in 4 MENA economies[4] to a questionnaire that had been addressed to 172 banks operating in 18 MENA economies. Most of the banks surveyed are regular commercial banks, although a very few are microcredit institutions, with slightly different business goals.

The response rate of the survey was low and presents some country biases, which prevents generalisations about banks in the MENA region. However, this survey was the first survey of its kind, and its results provide preliminary insights that will require further investigation. The survey results were also complemented by interviews with bankers.

3.1.1. Women's businesses as potential new lending opportunities for banks in the MENA region

Women-owned businesses[5] represent a fertile market segment for banks, which could reap significant returns for both banks and MENA economies. At a time when bank customers, including SMEs, are starting to look beyond banks to alternative sources of finance (Ernst and Young, 2013), women-led businesses are one of the potential future markets for banks' lending development.

In this context, some banks value investment in women-led businesses as part of a wider expansion strategy in their quest for new markets, to develop niche expertise and diversify risks (Ernst and Young, 2013). In their responses to the survey, all banks stated that they have previously financed or are currently financing businesses owned by women. For example, at the time, Khaleeji Commercial Bank of Bahrain reported investment in 11 projects involving women-led businesses, and considers these interests as part of its broader strategy to penetrate new market segments and expand its presence in the region. The bank sees many opportunities for growing its business, not only in its domestic market, but also in the wider MENA region (Khaleeji, 2011). The Banque Tunisienne de Solidarité (BTS) also reports a focus on highly-educated youth. One of the aims of Al Barid Bank in Morocco is to extend banking services to rural and excluded segments of the population. The BTS functions as an alternative to the classic banking system, co-operating closely with non-government organisations and offering interest rates at less than 50% of the market rate with progressive reimbursement schemes. Jordan Ahli Bank notes in its Annual Report 2012, that the bank aims to give "women business owners the support, information and knowledge they need to excel in their SME ventures".

Quds Bank, based in the Palestinian Authority, did not complete the questionnaire but it is one of the very few surveyed MENA banks which include the financing of women entrepreneurs among its annual targets. The bank's 2011 Annual Report states, that "the bank will launch a package of tailor-made personal loans … benefiting currently untargeted sectors such as women, education, SME loans and others".[6] BLC Bank, Lebanon, is another bank which is targeting women entrepreneurs and has not completed the OECD questionnaire. With the support of the International Finance Corporation (IF), BLC Bank has launched the Women's Empowerment Initiative (WEI) which aims to provide assistance to women entrepreneurs in any phase of the business cycle with procedural information, advice on business development, financial counselling, and networking opportunities through its Women's Unit and Facebook page (Quds Bank, 2011).

3.1.2. Bank loans to women-led businesses in the MENA region

In spite of this stated interest, the volume of loans granted to women-led SMEs by the banks surveyed in the MENA region still represents only a small fraction of the investment activity of banks. When questioned about their lending practices, all the banks reported having provided loans to women-led businesses. However, among these banks, women-led businesses generally account for less than 10% of the total loan portfolio. Banks which are specifically focused on the development of SMEs, such as the BTS and Attawfiq Micro- Finance Bank of Morocco, where women-led businesses represent 31% to 60% of their total portfolio, Bank al Etihad, in Jordan – a member of the Global Banking Alliance for Women[7] –are exceptions.

The financial products most often offered to women entrepreneurs by respondents include loans distributed across the three main time frames (short-term, medium-term and long-term), deposit and cash management products, payment and transfer facilities, lines of credit and trade finance. The core of these products relates to conventional SME lending, reaffirming the findings of earlier studies (Rocha et al., 2011). None of the banks that completed the questionnaire report offering Sharia-compliant products (which tend to be more common in the GCC market), insurance products or technical advice to women entrepreneurs.

The majority of the loans granted to women by the banks surveyed are for businesses operating in the retail and services sectors, where firms are generally smaller and growth rates more measured than in other sectors, such as manufacturing and information and communication technology (ICT) (OECD/IDRC, 2013). When banks were asked to describe projects that they had recently financed, their responses mentioned residential and commercial projects, education, healthcare, cosmetics, beauty, fitness and green projects. In particular, the Jordan Islamic Bank mentions a school, a pharmacy, a laser treatment centre, a special education centre and a residential student service. Bank Al Etihad, Jordan, reports having financed an events management company, a supermarket, and an arts shop, while Investbank, Jordan, has financed a jewellery store, a social magazine and a beauty centre. In Tunisia, the BTS reported providing finance for women-led SMEs in the areas of crafts, small-scale agriculture and services.

The businesses which obtain financing from the banks surveyed are overwhelmingly urban and relatively young. As women are becoming more decision-making in their consumption of goods (Ernst and Young, 2012), women-led SMEs are well-placed to provide for the needs of this emerging consumer group. Some banks mention loans for more high-tech projects; the Jordan Ahli Bank financed architecture, civil engineering, technology and web design projects.

The size of the loans granted to women-owned businesses by the banks surveyed varies significantly. Bank Al Etihad in Jordan reports having granted 17 loans to women-led businesses with an average size of JOD 338 000 (EUR 346 000),[8] while the Jordan

Islamic Bank reports a total of approximately JOD 1.6 million (EUR 1.6 million) loans to women-led businesses, with an average loan size of JOD 90 000 (EUR 92 000). The Housing Bank for Trade and Finance in Jordan states that it provided 79 loans with an average size of JOD 80 000 (EUR 82 000) to women-led businesses in Jordan, Syrian Arab Republic, the Palestinian Authority, Bahrain and Algeria. In Jordan, the Capital Bank of Jordan (CBJ) reports having issued loans for 5 projects, each valued at approximately JOD 200 000 (EUR 205 000). In addition, the CBJ granted 25 loans, each averaging approximately JOD 60 000 (EUR 62 000) to co-owned (man/woman) businesses. In Tunisia, the BTS has provided, since its creation, 43 070 small loans of about EUR 3 500 each. In Bahrain, Khaleeji Commercial Bank granted loans valued around BHD 800 000 (EUR 1.5 million) to 11 SME projects. Some banks report offering loans to women-led businesses through microfinance institutions.

3.1.3. Targeting women entrepreneurs with bank loans and strategies

a. Women and the criteria for the attribution of loans

The banks surveyed state that their policies and procedures related to lending are gender-neutral and non-discriminatory. Yet gender-neutral policies and procedures can often have an "unintended differential impact on men and women" (World Bank and OECD/INFE, 2013). The premium that banks place on collateral and credit history, as well as, business experience and strategy, in their bank lending decisions tends to disadvantage women entrepreneurs given their relatively low level of economic integration compared to men. In addition, overly stringent risk management regimes may further discourage banks from taking risks in this new market.

Almost all the banks surveyed indicate the existence of a credit history (90%) and collateral (80%) as the most important criteria for loan eligibility. The Islamic Bank of Jordan added that a risk report from the Central Bank is also a key element, while the Arab Bank cited the importance of sector and market studies. When asked about other important factors, 80% of banks rated the existence of a business strategy (e.g. business plan) as important, prior business experience (80%) and the applicant's qualifications (75%). Among other elements considered important by respondent banks are "salary slips and other proof of ability to repay" and other "financial statements".

In this context, MENA women face specific difficulties. With a low participation rate in the formal labour market (see Chapter 1), limited professional networks and mentorships, low self-confidence and a low number of bank accounts held by women, as well as legal barriers, such as limited inheritance rights for women, women have more difficulties in meeting the requirements regarding their work experience and the availability of collateral. When combined with limited financial literacy, their credit profile is significantly weaker than men's.

Improved business education which focuses on preparing women to meet banks' expectations in terms of financial and business strategy may contribute to bridging the gap between entrepreneurs and financial institutions. Such measures, however, will not address the low levels of formal bank account penetration among women in the MENA region (Demirguc-Kunt and Klapper, 2012), which calls for a co-ordinated approach by domestic authorities, financial institutions and other relevant stakeholders (Ehlermann-Cache, 2011).

Women are relatively inexperienced when it comes to developing a solid business case and then persuasively pitching their project to investors with realistic forecasts for the growth and evolution of their company. The banks surveyed insist on the necessity for SMEs to develop business plans demonstrating their strategy in the short to medium-term, as well as to track financial records, such as balance sheets and audits. However a judiciously prepared business plan requires expert tools and professional advice which may be inaccessible to many women entrepreneurs. According to Tania Moussalem, Head of the Strategic Development and Financial Management group, BLC Bank, Lebanon, this problem "can be definitely alleviated through proper education and training because, though graduating from universities, they [women] still lack some managerial and financial skills".[9]

In order to alleviate women's lack of experience and business knowledge, banks or other organisations, such as chambers of commerce, are well placed to propose training solutions as a non-credit service to inexperienced entrepreneurs. This is especially relevant as previous studies show that women entrepreneurs have a strong preference for banks as "partners" rather than dealing with them in a merely transactional relationship (Vital Voices, 2012).

More widely, it is generally recognised that MENA banks tend to be particularly risk averse. They tend to have more rigorous due diligence requirements for SMEs than banks in other regions. Risk-adjusted pricing models, credit guarantees and the establishment of credit bureaus could facilitate the management and mitigation of the perceived and real risks of banks.[10] Likewise, by cultivating innovative approaches to collateral requirements and measurement, as well as expanding into non-credit services, such as enterprise development support,[11] banks can proactively foster access of women business-owners to bank finance and cultivate a new market position (World Bank and OECD/INFE, 2013). Such diversification can help banks to improve customer profitability, build internal expertise, strengthen client loyalty and generate new business, as SMEs often have needs beyond the provision of financial services.

b. Targeting women entrepreneurs more effectively

There is little evidence that banks use targeted strategies to reach women entrepreneurs, in spite of the majority of banks identifying women-owned businesses as potentially profitable and being quite focused on SMEs. Further, the surveyed banks do not report offering tailored programs, personalised services or customised products aimed at women-led businesses. Only three of the surveyed banks (Attawfiq, Jordan Islamic Bank and Khaleeji Commercial Bank) reported the existence of targets in their annual credit strategies to increase financing to women-led businesses. This confirms the results of the Vital Voices survey conducted among MENA women business owners, where 50% of these related that their financial institutions had no programmes specifically targeted at women (Vital Voices, 2012).

At the same time, many banks acknowledge that services, products and programmes focused on financing women-led businesses remain premature. Jordan Ahli Bank states that they are interested in learning more on the "needs and pains" of women entrepreneurs in accessing finance and running a business, as a prelude to launching a financing and advisory service dedicated to women entrepreneurs in Jordan.

Box 3.1. Setting up the right dynamics in the UAE

In the UAE, SMEs comprise around 80% of the overall economy, and supporting the SME sector has become a national priority. Nevertheless, small businesses account for less than 2% of banks' lending portfolios, compared to an average of 12% to 15% in some more developed countries. Government, women's business organisations and banks are working together to create an environment that will nurture the development of women-led businesses. The National Bank of Abu Dhabi plays a leading role in this effort.

In the UAE, women entrepreneurs are voicing the same concerns as other SMEs in the country. For many of them, establishing an SME is not just a problem of finding loan, it is also about culture, more specifically a "risk culture". Managing an SME involves taking risks and making mistakes. In the first years in particular, SMEs are likely to experience ups and downs and banks need to know more about the life-cycle of a start up. Legal issues are also at stake, as the UAE laws for setting up a company as a free zone require a cash deposit of USD 81 674.

Current practices of UAE banks

There is a growing awareness among the banks of the region that SMEs are becoming an important contributor to economic growth. However, existing policies are insufficient. According to an official from Mashreq Bank, every bank has its own individual criteria for assessing risk before a loan is granted. Banks want to see the track record of financial and other business performance as part of the applicant's credit assessment. Additionally, banks generally support established businesses, and are reluctant to support venture capital or angel funding. They like to diversify their portfolios and SMEs offer a large and diversified base of customers. This helps in the overall risk management of the lending portfolio.

HSBC launched its dedicated SME business banking department in the Emirates around eight years ago. In 2010, it signed a memorandum of understanding with the UAE Ministry of Economy, committing USD 100 million towards SMEs and extended it to a further USD 100 million this year. Another UAE bank, Mashreq Bank, offers a free business account with no minimum balance, business credit and debit cards, access to its internet banking service for businesses and a dedicated relationship manager. Banks in the UAE have similar concerns to the banks that participated in the questionnaire for this publication: insolvency and good corporate governance of SMEs. Some are calling for the creation of credit bureau ratings and reforms of current insolvency laws, as well as access to other forms of finance such as business angels, private venture and private equity.

Encouraging SMEs

Government initiatives to encourage small businesses include the SME 100, a ranking of the 100 top-performing small businesses based on a number of financial and non-financial evaluation criteria and Abu Dhabi's Khalifa Fund for Enterprise Development. This initiative is designed to foster Emirati entrepreneurship through training, development and consultation. The Khalifa Fund for Enterprise Development was initiated in June 2007 as an independent agency of the Government of Abu Dhabi, and has now gathered AED 2 billion in capital to fulfil the various requirements of entrepreneurs. The fund has established a comprehensive programme to expand entrepreneurs' business projects, to cultivate an appropriate business-enabling environment and to enhance the capabilities of potential entrepreneurs.

The Khalifa Fund for Enterprise Development has revealed that an overwhelming volume of applications and enquiries have been received from a broad range of institutions, governmental agencies, SMEs, influential decision-makers and numerous others seeking to participate in the Abu Dhabi Entrepreneurship Forum (ADEF) 2013. According to the latest figures, over 1 000 applications have so far been received, but this number is constantly rising. The ADEF was held on the 8-9 October 2013, and was dedicated to understanding and reducing small business failure, as well as to the benefits of a healthy SME eco-system.

The role of women's business associations

The Dubai Business Women's Council (DBWC) is among the most active business associations in the UAE. In 2013 it held a meeting with senior management officials from the National Bank of Abu Dhabi (NBAD) that explored various ways to support female entrepreneurs in the Emirates through banking services provided to SMEs by NBAD. The DBWC organises the high-profile monthly event "Majlis Business" to provide information about the latest knowledge, skills and best practices for women entrepreneurs and leaders.

The leading role of the NBAD

The NBAD supports women's entrepreneurship through trend-setting, co-ordination and the development of specific programmes destined to help women-led businesses. It also participates in consulting activities in co-operation with the DBWC. The NBAD is the oldest and second largest (by assets) bank in the UAE. Founded in 1968, today the NBAD operates in 13 countries across four continents and is publicly traded on the Abu Dhabi stock exchange. The NBAD has two formal women's programmes, both launched in 2012. These programmes were developed in close co-operation with women's business associations such as the DBWC. "Velvet", exclusively for women, combines personalised global private banking with commercial banking services. Velvet aims to empower women with financial knowledge and investment tools and offers both onshore and offshore banking services including savings accounts, wealth management, and inheritance planning in line with cultural sensitivities. Last but not least, Velvet private advisers are all female.

The "Fursati" programme (which means "my opportunity" in Arabic) is run in collaboration with the Dubai Businesswomen's Council. Fursati offers its women customers topic-specific seminars to meet the needs of women in business. The objective is to support the development of entrepreneurship and develop investment skills while also giving women valuable opportunities to network. The first programme, launched on 18 November 2012, was "The Venture Tool Box," a foundation exercise/course for business owners and managers who want to gain further understanding of some of the fundamental principles associated with owning and operating a start-up or established business.

The absence of legal and procedural barriers is a necessary first step to enhancing women's access to finance. However, such a perspective risks discounting the "gendered interpretation and implementation of gender-neutral economic laws" (Chamlou, 2008) and policies. Banks also appear to demonstrate little awareness of "culturally driven constraints faced by women entrepreneurs, such as their mobility and higher demands on their time, [which] may further limit their ability to access finance" (IFC, 2011). Instead, some of the banks questioned the need to develop specific financial products targeting women entrepreneurs.

Reaching out to women will also require redesigning bank-client relationships. The majority of banks (80%) in this survey report using their own full service branches to reach women. Full service bank offices are staffed with experienced professionals who can provide the full range of bank services to their clients. Bank staff meet clients in person (at local level branches) which helps develop banker-client relationships, thereby resulting in greater relationship lending. Relationship lending is particularly important for SME finance, and even more so for women-led businesses, to reduce information asymmetries between borrower and lender.

At the same time, reflecting the surge in internet access and use in the MENA region (Dubai School of Government, 2013), 65% of banks report using the internet, social media and phone banking as marketing and distribution channels to connect with women business owners. Such methods potentially open up new opportunities for banks and women entrepreneurs to engage with one another. These technologies have the capacity to further reduce impediments to financing by helping to raise awareness of bank products, their processes and services. This is especially useful since some women entrepreneurs report that the process of applying for a loan appears "too complicated" (Vital Voices, 2013). In addition, the information sharing and networking possibilities generated by such technologies could further pave the way for innovation in the field of SME finance for women-owned businesses.

In the future, there are opportunities for banks, policy makers and women's associations working together to develop targeted approaches to reduce the financing gap for women entrepreneurs. The UAE is an interesting example (see Box 3.1) of the focus of the national reform agenda for bank financing on SMEs as well as women.

The development of tailored products and services by banks can broaden the financial inclusion of women-owned businesses. Banks can take actions to enhance their transparency, improve information sharing and their outreach efforts to deepen their penetration of this new market segment. At the same time, there is a need for women entrepreneurs to master specific skills to become bank-ready and meet banks' expectations as well as master the ability to pitch their projects in a persuasive manner.

3.2. Helping women entrepreneurs define their financial needs and sources of funding: a practical guide

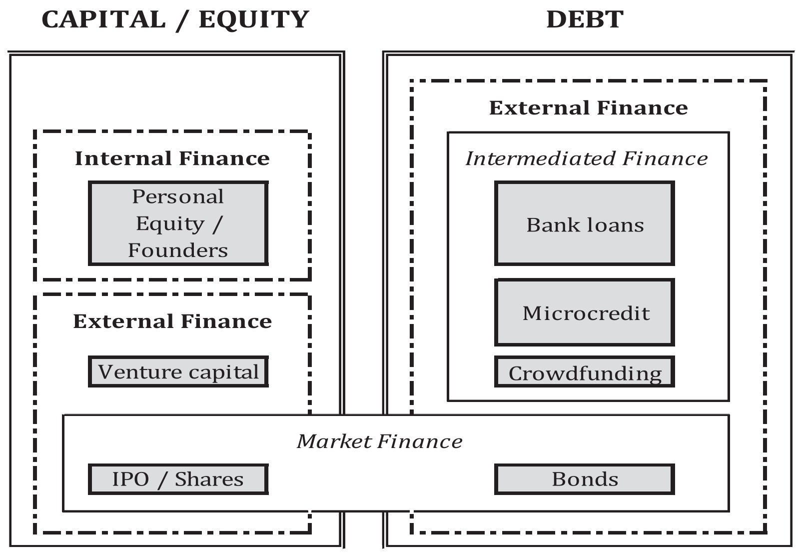
In order to define their financial needs and identify sources of funding, women entrepreneurs need to be guided through the options of bank financing as part of the larger range of financing options available to them. In addition, they need to be given concrete advice on how to approach banks and financial institutions in general.

The purpose of this guide is to build the capacity of women entrepreneurs to finance their businesses externally, and especially by banks. This guide reviews the existing financing options, accompanied by examples of practices in the MENA region and practical tips for women entrepreneurs.

Whether the company is a very small business, an SME, or a large company, a variety of financing options exist. There are basically two modes of financing that operate in tandem throughout the life of a company:

- financing by strengthening equity and issuing calls for investors (contribution of personal funds, private equity, capital increase); and
- debt financing (indebtedness to a bank or to a specialised institution – for example one specialised in leasing).[12]

Figure 3.1. A variety of financing options are open to women entrepreneurs



These financing products are available to companies in various forms according to their size. Small businesses will move towards using family capital and credit (from a bank or microfinance institution) when they have guarantees. In theory, companies can also call for capital funding. There are diverse forms of capital funding, depending on the type of project and the company's stage of development (creation, innovation, search for new markets, etc.). Larger companies may also use public offerings on capital markets (stocks, bonds). While this method of financing is currently underdeveloped in the MENA region, it is receiving growing attention from public authorities. The entrepreneur also has to choose whether to welcome other partners into the management of the business (by opening its equity portfolio to investors), or whether to retain independent control over the decision-making process (and opt for bank credit).

3.2.1. The contribution of personal funds

a. What is equity?

Equity is the capital that constitutes the company itself, which the enterprise has at its disposal in the medium and long term. It comprises a large majority of the share capital (initial capital and capital increases), reserves (undistributed profits) and the net operating result for the year, as well as investment subsidies. Equity refers to the savings of the entrepreneur and other total personal assets. These may be savings accumulated over time or profits from a former business.

Equity is essential because it represents a stable funding resource for the company and gives it financial strength. It represents a safety cushion for the company's creditors, as well as a skilled resource for the company itself. Each new partner can add key strategic contributions.

Throughout its development, an enterprise builds its equity. Its profits increase its equity whereas its losses decrease it. If losses become too large, the equity of the enterprise can turn negative. Such a situation is dangerous for the business because its stable jobs are no longer backed by stable resources. Creditors are no longer assured of repayment in case of default since the debt amount is larger than the value of the company's assets (buildings, equipment, etc.). Selling the assets at their balance sheet value will not be enough to repay the debt.

An enterprise with low equity compared to its debt will be less financially sound. The higher the equity, the more the company is sure to withstand temporary difficulties. This, in turn, can help to ensure its sustainability.

Equity financing is an important source of funding for an enterprise. However, this is rare because many activities require high start-up funding for logistical equipment, personnel, or real estate, for example.

The personal financial contribution in the creation of a business or a takeover project represents the totality of the capital invested by the entrepreneur (and, if any, by his/her associates) as opposed to borrowed capital. If the entrepreneur (or his/her associates) provides a large part of the necessary funds, the business will be stronger as it will be less indebted in case of difficulties. Nevertheless, it is important not to invest the totality of one's savings so as to preserve a security margin in case of unforeseen events in the life of the business.

There is no agreed upon standard regarding personal investment in the creation of a business or takeover project. However, a personal contribution is generally expected. The financial commitment is evidence of personal commitment to the professional project. In general, for a solid project the recommended contribution is generally at least 30% of the total budget. However, an entrepreneur who wants to create a business and whose personal contribution is less than 30% should not be discouraged. He/she must try to present the project as is, or to compensate for this shortfall in personal funds with an additional warranty.

Unsecured loans can be granted to an individual. They then add to the personal contribution of the financing plan for the project. Finally, in some financing plans, including specific loans or the intervention of a mutual guarantee organisation, a minimum personal contribution may be imposed.

Tips for women entrepreneurs

To find capital, think about investing your personal funds: the higher the amount of your contribution, the more your partners will take you seriously. In addition, this contribution will help to fund the start-up costs or certain investments not covered by bank loans.

The most common means of financing never covers the entire investment. You will need to be ready to commit a minimum of your personal equity to convince capital providers.

b. Equity financing has many advantages

The higher the equity the more creditworthy the enterprise is deemed to be. This constitutes a safe means of financing that reassures investors and business partners. It is a guarantee of confidence in the project. Furthermore, this solution increases the chances that the entrepreneur will obtain a bank loan. The proportion of the personal financial contribution is part of the overall balance of the financing plan for a new business or takeover project. Hence it must be understood in terms of the many other criteria that differ depending on the type of project. That is why it is difficult to establish a clear rule on the matter. However, the personal financial contribution should reflect the financial commitment of the project initiator and respect the balance that will secure funding partners and promote the project's success.

Tips for women entrepreneurs

Call on your loved ones:[13] Your family and friends may be able to help you get started. A loved one who has knowledge of management and who will be able to identify the risks and benefits of the new company is especially valuable. Choose someone you trust and who trusts you.

Determine whether to request a loan or equity finance. In the first case, you will have to repay the money lent; in the second situation, loved ones may participate in decision-making and receive a share of the profits but you will not have anything to pay back.

You can also apply for unsecured loans, which are medium-term loans granted by non-bank financial institutions at a reduced or zero rate. Their goal is to help finance the long-term needs of a business creation, such as the initial investment, or the working capital requirement (WCR). Check with the national agency for business creation if necessary.

3.2.2. Microcredit

Microcredit primarily targets women, based on the fact that they constitute the majority of the poor, and because their recovery rates are higher. Women also tend to devote a larger share of their income to household consumption compared to their male counterparts. Microfinance uses credit, savings and other financial products (such as micro-insurance) to help families take advantage of income-generating activities and better manage risk.

Professional microcredit

Professional microcredit aims to help entrepreneurs start or expand their businesses. Professional microcredit is a small loan over a maximum period of five years, granted by a non-bank financial institution, and intended to finance the creation of a business or business development project.

The repayable loan can be used to acquire the initial materials required to start a business, obtain a first contract, and thus engage in entrepreneurship, or else it can be used to hire an employee to develop the business. This loan can also complement other bank loans or financial aid to create or acquire a business.

The interest rate for microcredit is often slightly higher than the rate of a conventional bank loan. This rate includes a contribution to the solidarity fund used to finance other microcredit schemes for future applicants.

Tips for women entrepreneurs

Conduct a thorough comparison of microcredit interest rates. They can be high if you need a large sum of money, and thus strain your operating profit margins.

Selected regional practices

In **Saudi Arabia**, the Saudi Credit Bank (SCB)[14] provides assistance to small businesses through zero-interest loans. Saudi citizens with limited resources or in a difficult financial situation are eligible. Loans are granted in exchange for a mortgage collateral or security.

Some community organisations in **Bahrain** provide microcredit, such as, the Bahraini Development Women Association and the Awal Women's Society.

According to the Grameen Foundation, the Egyptian Al Tadamun Microfinance Foundation has financed over 60 000 women microentrepreneurs in the region of Cairo. Its loans are mostly granted for projects in agriculture, domestic services and artisanal activities.

In **Jordan**, programmes that lend primarily to women are: the Micro Fund for Women[15] (96% of borrowers are women), FINCA Jordan[16] (98% women, low income entrepreneurs), Tamweelcom[17] (95% women), Alwatani[18] (85% of borrowers are SMEs run by women), Ahli Microfinancing Company[19] (all sectors except agriculture), Development and Employment Fund[20] (small projects and micro-activities), and Middle East Microcredit Company-MEMCC[21] (for rural SMEs).

In **Lebanon**, the public initiative Economic and Social Fund for Development (ESFD) aims to support businesses that are too small to secure a loan. It provides microloans of up to EUR 20 000 for investment or working capital. It relies on partner banks, such as the Lebanese Bank of Commerce, Société Générale de Banque au Liban, Crédit Libanais, as well as the European Investment Bank (EIB).

The Palestinian Network for Small Enterprises and Microfinance brings together credit unions whose outstanding loans rose from USD 20 million at the end of 2000 to USD 42 million in September 2006 (World Bank, 2010). Some programmes specifically grant loans to women; for example, the Palestinian Business Women's Association[22] (100% of its borrowers are women), FATEN[23] (99% women) and Palestinian Agricultural Relief Committees-PARC[24] (100% women).

The BTS is the first Tunisian bank specialising in financing small projects through direct financing or through microcredit associations (MCAs). It gives its loans without requiring collateral or personal guarantees at an annual interest rate of 5%, which is the lowest in the market. Beneficiaries are mostly skilled young people with a higher educational or vocational training degree who do not have the financial means or guarantees but display a firm commitment and a passion for entrepreneurship and self-support for the success of their project.

3.2.3. The bank loan

a. What is a bank loan?

The principle of the bank loan is simple: the bank lends the amount needed to launch or develop the company in exchange for payments spread over time in addition to a fixed or variable remuneration in the form of interest. This is the most well-known and commonly used system of debt financing. This type of financing can be used both by individuals for their projects (real estate, consumption) and by entrepreneurs, associations and large companies.

The bank loan has the advantage of providing external resources while avoiding the intervention of third parties in the management of the business, unlike funding from investors.

Bank debt is not intended to fund risky transactions that could jeopardise the resources of the bank (deposits of savers). Bank loans are used to finance assets that can generate sufficient returns without too much uncertainty regarding the repayment of credit instalments. Most often it is used to finance fixed assets (machinery, furniture), real estate and construction work, but it can also finance intangible assets (patents, internet business-oriented website) that increase revenue relatively safely.

The bank must guard itself against information asymmetries, that is, the ability of companies to use the borrowed funds for a private or non-professional project. To avoid this situation, the bank will ask for guarantees (a sufficiently-funded deposit account, personal property, guarantee, mortgage on business property) and a substantial personal cash investment. It will also require invoices or quotes to justify the company's investment. In the MENA region, it is customary for the guarantee requested to exceed the amount borrowed (120% to150% of the amount).

Box 3.2. Testimony of a banker

Regarding the financing of projects, I wish to remind you first of all that a bank will never take a greater risk than the risk taken by a shareholder. The main purpose of a bank is to be reimbursed, regardless of the nature and form of its support. Therefore it will always seek to optimise the risk level of its intervention.

It is not so much the real guarantees that you will put at the disposal of the bank that will reassure it and encourage it to lend you money, but rather the credibility and/or reliability of your projects.

In order to conduct your search for bank financing, you must therefore be well acquainted with your banker's expectations and his/her way of analysing risk. For instance, here are a few elements taken into consideration by a credit risk analyst: the detailed CVs of the company's shareholders, the business associates' assets, the level of control over the project and the business plan (reliability, credibility of the data based on conservative assumptions).

Tarek El Bitar – Banque Palatine – BPCE Group

Tips for women entrepreneurs

Note that the amount of the bank loan granted will depend on the quality of the project and on the guarantees you can offer. It will also depend on your personal financial contribution. You can apply for a bank loan after starting your business. The banker will often ask you to be able to prove three to five years of past business activity.

If you have significant equity, you will need to weigh the pros and cons: it is sometimes more profitable to finance by debt when interest rates are low.

For a general credit, banks often require the personal guarantee of the project initiator, who is then required to accept a mortgage on his/her home or to use his/her personal property as collateral. In this case, it is better to opt for the matrimonial regime of separation of property to protect one's family.

b. Short-term advances

Credit facility and authorised overdraft

The credit facility and the authorised overdraft is a form of short-term credit for use over short periods.

This credit must be authorised by the bank prior to use; that is, the bank specifies in advance and in writing the conditions of use, in terms of duration, amount and interest rate. The duration of use is set with the banker.

The authorised amount is stated on the credit facility or overdraft contract. It is determined based on the operating needs of the business. The financial terms are specified in the contract, which is signed between the entrepreneur and the bank. The bank may establish an overdraft contract including these terms or include the overdraft in a more general service agreement.

The credit facility and the overdraft offer great flexibility in managing cash. This type of credit can help to deal with temporary business shortfalls that the entrepreneur may face. It can be used to deal with any unforeseen events, such as a customer's delayed payment, which leaves the entrepreneur unable to cover the salaries of the company's employees. Such payment extensions are granted to customers for commercial reasons.

The entrepreneur will have to pay the bank interest based on the total amount used and the duration of use. The interest (also called premiums) is taken directly from the company's bank account.

Tips for women entrepreneurs

Cash flow forecasts serve to evaluate the cash flow of the company over time. They are part of the financial documents to be provided with the business plan and are generally forecast over a monthly period. But if you conduct weekly cash flow forecasts, you may be able to avoid embarrassing surprises. This document can help you predict cash shortfalls and anticipate the situation by seeing your bank to solve the problem.

Discount

The discount is a form of professional short-term credit. The entrepreneur can use it if she has sold goods to a customer, and granted him/her a payment extension.

To materialise this claim and facilitate the settlement at maturity, the entrepreneur issues a bill of exchange payable on the due date. The fact that the customer returns this bill signed for acceptance signifies his/her endorsement of the settlement deadline.

If the entrepreneur needs finance immediately, she can ask her bank to advance her the same amount on her account (after review of the application by the bank and the signing of a discount line agreement).

The discount has many advantages although this list is not exhaustive:

- The immediate advance of the amount due by the customer, that is, a more positive cash flow than with any another traditional way of short-term financing (cash facility, authorised overdraft)

- The selection of the trade receivables for which the entrepreneur wishes to obtain a discount line from her bank, depending on the state of her cash flow
- Receivables from customers are not recognised in the balance sheet of the company, as they have been the subject of a transfer to the bank

In exchange for this funding, the bank charges different types of fees such as:

- Fees for the delivery of the discount remittance (summary sheet which summarises the commercial papers that are discounted)
- A fee per commercial paper discounted in the same discount remittance
- Interest rates calculated in advance on the amount of the commercial paper issued at discount. These interest rates are also calculated on the duration of the advance of funds that is made (the time of delivery and the maturity of the effective date)

All these fixed and/or percentage-based fees are, in principle, included in detail in the discount line agreement between the bank and the entrepreneur.

c. Investment financing

Business investment loans

A business loan is used to finance a professional investment, whether it is tangible property (equipment, vehicle, computer, etc.), or an intangible need (financing the working capital of the company, financing the purchase of a licence, a patent, etc.). A business loan is generally repayable in monthly or quarterly instalments. Each payment consists of a portion of the principal, interest and possible death and disability insurance. The loan periods vary depending on the type of item to be financed.

The details of the loan are included within the special conditions of the loan agreement with the bank. The general conditions of loan discounts supplement this information.

Some banks offer either deferred payment (the ability to postpone payment until the end of the loan without any interim loan payment), or payment flexibility (to vary the amount of its maturities up or down). Use of these options indicates that the entrepreneur anticipates a period of cash shortfall.

There are many benefits to business investment loans, such as:

- the capacity to obtain 100% financing in order to avoid using one's own cash, although in some cases a personal financial contribution may be requested;
- the possibility to choose the repayment period, while remaining close to the life of the financed object;
- the possibility of early repayment;
- the ability to receive a tax reduction by declaring the loan interest in the “financial expenses” line of the income statement;
- flexibility in the sense that the bank can often take specific situations into account.

Loan periods vary depending on the type of items to be financed, that is, depending on the lifetime of the item, its obsolescence, its value by the end of the loan, and/or in terms of its tax depreciation. Indeed, it is better to base the repayment period on the duration of the tax amortisation of the object financed.

Interest is calculated at the rate provided in the deed on the amount and duration of the loan. It is listed in an amortisation table attached to the deed. This interest can be calculated with a fixed rate from the beginning to the end of the loan; in this case all the payments will be of the same amount. Interest can also be calculated with a variable or indexed rate which may vary depending on the performance of an index, either internal to the bank (e.g. the base rate of the bank) or external to it (e.g. using an interbank reference rate).

In loans with variable or indexed rates, the rise or fall of the benchmark results in an increase or decrease in the rate of the loan as provided in the loan agreement. However, some loans with variable or indexed rates may be capped upward and limited downward, which protects the entrepreneur against any fluctuations in the interest rate benchmark. Bank interest may in some cases be regulated, meaning that the government sets the conditions for granting loans and the interest rate.

Application fees are included in the loan agreement. The amount is generally proportional to the amount of the loan with a minimum charge. Life and/or disability insurance is often optional, but recommended when available and is also included in the additional costs of the loan. The cost of making guarantees is the responsibility of the borrower. This cost varies with the type of security (pledge of the business, personal security, etc.) and the nature of the underwriter required to intervene (e.g. a notary). If the agreement is subject to stamp duty, the tax is borne by the borrower.

Tips for women entrepreneurs

If you choose to use a bank loan to invest in the necessary equipment for the life and development of your business, you will need to submit a complete loan application to the bank, which will include at least:

- the estimate or pro forma invoice for the equipment;
- your latest balance sheet and income statement;
- your financial plan.

The bank will review these documents and may ask for additional information to assess the financial strength and profitability of your business, as well as its capacity to repay the loan. Generally, the bank will grant you an agreement that includes the provision of a warranty on the financed item(s) or on your business.

Real estate or equipment lease

In the case of a lease, it is the bank or its specialised subsidiary that buys necessary real estate property or equipment on behalf of the entrepreneur and rents it out to her for the duration of the agreement, which is normally between 8 and 15 years for real estate and between 2 and 5 years for movable property (e.g. a utility vehicle). Before making a decision, the bank sends an expert to assess the quality and value of the property for which the lease is requested. Monthly or quarterly instalments are called rents, and are payable in advance (referred to as "term accruing"). One hundred percent funding is possible without payment of an increased first month's rent. The first month's rent can also be increased and thus correspond to a cash payment made in a transaction involving a classic business real estate loan.

At the beginning of the lease, the entrepreneur may also pay a guarantee deposit, which often corresponds to the cash value of the asset at the end of the lease. Depositing a guarantee or an increased first month's rent reduces the monthly rental payments.

Throughout the duration of the lease agreement, the entrepreneur is the tenant of the financed property. At the end of the lease, or under the agreement according to the type of agreement signed, she usually has the option to purchase the property at a price determined at the beginning of the contract. The price to purchase the agreement or the outstanding capital takes account of the rent already paid: it is the residual value.

Tips for women entrepreneurs

Make sure to contact the relevant leasing agencies: these are mainly major commercial banks, specialised leasing companies or regional development corporations.

Before deciding on the issue of funding, the leasing company examines the financial situation of the company.

Business mortgage

A business mortgage is often a long-term loan (8 to 15 years) paid back according to a schedule set from the start. Mortgage payments are composed of a part of the capital borrowed, the interest due on the borrowed capital, plus, if applicable, disability and life insurance. The bank almost always requires using the property financed by the loan as collateral (e.g. mortgage).

Interest is calculated at the rate provided in the deed on the amount and duration of the loan. It is listed in an amortisation table attached to the deed. This interest can be calculated with a fixed rate from the beginning to the end of the loan; in this case all the payments will be of the same size. Interest can also be calculated with a variable or indexed rate. However, some loans with variable or indexed rates may be capped upward and limited downward, which protects the entrepreneur against any fluctuations in the interest rate benchmark. Bank interest may in some cases be regulated, meaning that the government sets the conditions for granting the loan and the interest rate.

Selected regional practices

In Bahrain, the Tamkeen Fund[25] supports SMEs in difficulty, with loans of up to BHD 10 000. The Bahrain Islamic Bank[26] has also set up specific banking services for SMEs. The Bahrain Development Bank[27] has specialised in SMEs since 1992, and provides them with various conventional and Islamic bank loans; the bank also offers a financial education programme to its customers.

The Khalifa Fund[28] for SME development in the **United Arab Emirates** offers various loan products according to the entrepreneur's profile and situation:

- khutwa (microfinance), which specifically targets women (divorced, widowed, or retired);
- bedaya (start-up loan);
- zeyada (growth loan), for SMEs at an early stage of development;

- tasnea, for industrial projects that require heavy investments.

Moreover, Mashreqbank[29] and Standard Chartered[30] have developed products for small businesses, including trade finance products.

In **Egypt**, a number of banks (the National Bank for Development, Banque du Caire, Banque Misr, the Principal Bank for Development and Agricultural Credit, the Commercial International Bank, and HSBC) focus on the SME market, within which women are very active. NGOs, as well as the SFD, are also very active in this segment.

In **Lebanon**, with the support of the IFC, the BLC Bank launched the Women's Empowerment Initiative (WEI), which offers services for women entrepreneurs, especially in terms of facilitating access to finance. Through this initiative,[31] the number of loans to women grew by 55% and the number of bank deposit accounts held by women by 17% (December 2012).

"Initiatives like these are key to changing attitudes about the role of women in society. At the same time, we are also demonstrating that there is a considerable commercial advantage in providing women with concrete means to access financing for their businesses." (Maurice Sehnaoui, CEO, BLC Bank).

Some banks in **Jordan** have developed products specifically for women entrepreneurs. One example is the Jordan Housing Bank for Trade and Finance [32] and its *Sayyidaty Account* service. After opening a deposit account with at least JOD 1 000, the entrepreneur becomes eligible for a loan (Bearing Point, 2007).

The **Palestine Development Fund** provides financial support to the small business sector in the Palestinian Authority. Branches of the Arab Bank, Cairo Amman Bank, Bank of Palestine, Al Quds Bank, and Egypt Arab Land Bank in Gaza have shown their support for SMEs.

The *Crédit Jeunes Promoteurs* in **Morocco** is a joint state/bank loan that is available from almost all Moroccan banks. It is intended for Moroccan nationals aged 20 to 45 years old at the time of the loan application. These individuals must hold a higher education degree or vocational or training qualifications. It funds 90% of the project amount to a maximum of MAD 1 million (45% provided by the state and 45% by commercial banks), for a period of 12 to 15 years for state loans and a minimum of 7 years for bank loans (with a 5% rate for state loans, 9% for bank loans).

In **Morocco**, Bank al Amal[33] grants equity loans to Moroccan residents overseas (*Marocains Résidents à l'Étranger* – MREs, Moroccans living abroad) or to current and former MREs who have exercised an activity abroad and seek to create or expand businesses in Morocco. Jointly with another bank, the Bank Al Amal finances the creation or development of business in all sectors, with the exception of housing and trade (funding ceiling: 40% of the investment, not to exceed MAD 5 million, for a period of between 2 and 15 years, with a maximum grace period of 4 years, and a rate of 7% to 10% depending on the length of the loan).

In **Tunisia***,* the Banque de financement des PME (BFPME) is dedicated to small and medium-sized enterprises. It is intended to help finance the creation of productive entities (excluding those related to tourism and real estate development) whose total cost is between TND 80 000 and 4 000 000. It also covers extension projects (excluding tourism and real estate development) with a total cost (net capital assets + new investment) of between TND 80 000 and TND 4 000 000. The BFPME finances physical investments (excluding land) and intangible investments for creation and extension projects by issuing medium and long-term loans.

In the **Philippines**, the Rizal Commercial and Banking Co. (RCBC), one of the largest banks in the country, launched a loan programme for SMEs run by women in 2012. The Women's Enterprise Loan was established with the co-operation of the IFC.

In the summer of 2013, public authorities in **India** created *Bharatiya Mahila Bank* (BMB), the first bank dedicated to women in general, and, more specifically, to self-help women's groups.

The Global Banking Alliance (GBA) for Women is a network of financial institutions committed to providing women entrepreneurs with customised financial products. It is supported by the IFC (World Bank Group). Network members share best practices and provide financial services to women entrepreneurs. Its members include:

- Abu Dhabi: The National Bank of Abu Dhabi;
- Saudi Arabia: National Commercial Bank;
- Australia: Westpac;
- Brazil: Itaú Unibanco;
- Canada: Scotiabank;
- China (People's Republic of): Bank of Deyang;
- Costa Rica: Banco Nacional de Costa Rica;
- Ecuador: Banco Pichincha C.A.;
- Indonesia: Bank Internasional Indonesia (BII), OCBC NISP;
- Kenya: Diamond Trust Bank Kenya Limited (DTB);
- Lebanon: BLC Bank s.a.l.;
- Malawi: NBS;
- Mozambique: BCI;
- Nigeria: Access Bank, Diamond Bank;
- Uganda: Bank of Africa, Centenary Rural Development Bank, dfcu Limited, PostBank Uganda Limited;
- Pacific: Westpac Pacific Banking;
- Papua New Guinea: National Development Bank;
- Turkey: Garanti Bank;
- Democratic Republic of Congo: RAWBANK S.A.R.L.;
- United Kingdom: The Royal Bank of Scotland Group, Standard Chartered;
- Tanzania: Selfina.

3.2.4. Cash management tools

a. What are the advantages of placing capital?

The entrepreneur may want to save to gradually build up business capital, to prepare for a possible contingency, to receive a return on capital that she does not immediately need or to develop personal capital.

The availability of funds is essential for an entrepreneur who must be able to cope with any contingency. For this type of saving, a formula with regular deposits is preferable because it makes it easier to forecast expenses by spreading them out over time.

As part of setting up a precautionary savings account for cash management, for just dealing with contingencies, or even for coping with an unforeseen expense, the most suitable savings options may vary. According to available cash levels and planned expenditures, the entrepreneur may prefer to seek a more flexible savings solution that makes funds easily available.

b. Payment deadlines

Any payment extension granted (to the customer or by the supplier) can be considered as a method of business-to-business financing. By granting a payment extension to a client, the entrepreneur, in effect, finances the latter's cash needs. The situation is reversed in the case of a delay granted by a supplier, which finances the entrepreneur's cash needs.

Managing these payment extensions which are granted or received by the company can be an important first step in reducing the need for cash. It can therefore limit, at times dramatically, the funding level later requested from the banker.

In practice, it is more difficult to ask the customer to pay more quickly because he/she faces the same cash flow issues with his/her own customers. At the same time, asking one's suppliers for a extension is not easy either. It all depends on the relationship of the entrepreneur with the supplier (the length of the business relation) and on the monthly volume of orders received by the supplier from the company.

Tips for women entrepreneurs

A piece of advice to increase bargaining power with the supplier: optimise the number of suppliers for each item ordered by the company. By reducing the number of suppliers, the contractor increases the volume ordered from each one and is thus in a better position to negotiate an extension of the payment period.

c. Trade discount

In addition to the payment period, another method for managing capital, whether one is a customer or a supplier, is to use a trade discount. A trade discount is a transaction in which a customer pays the supplier's invoice in cash or in a short period of time (defined by the supplier, usually 10 days), instead of waiting for the deadline, in exchange for a small percentage discount (also defined by the supplier).

But beware, the discount given to a customer to encourage rapid settlement must be calculated carefully, because the operation can be very expensive. The cost of the discount must be calculated and it must be compared with other possible loans in the banking market and their respective ease of access.

Tips for women entrepreneurs

To avoid being faced with liquidity problems, after each statement make it a habit to strengthen your own funds by reincorporating some of your results. This will allow you to financially strengthen your business, and will avoid long negotiations with your bank. You will thus be able to build a sufficient reserve, which will be a strong sign for your bank and which, in turn, will accompany you in your development projects.

d. Factoring

Factoring is a way of financing the accounts receivables of a company. Through this method, the company sells the debt it has on its customers to a specialised financial institution. Thus, by selling its debt to the financial institution, the company immediately recovers some cash, and the burden to ensure the collection of debt is placed on the financial institution.

Factoring is a financing technique available for any type of business in any sector, regardless of its size, provided that it works with corporate clients. However, as with any type of financing, prior approval of the financial institution is required.

The factor or factoring firm is a specialised financial institution with which the entrepreneur signs a factoring agreement. This contract sets up the framework within which the entrepreneur may assign her bills to this organisation. Upon signing the contract, the entrepreneur may submit bills as they are issued, under the conditions specified by the agreement. The factor pays the agreed amount and ensures recovery of the debt at maturity.

When a company sells goods or services to another company, the claim appears when an invoice is issued. If this bill is payable on an agreed date, the entrepreneur will have to wait for this term to cash the funds.

Factoring offers several types of benefits:

- First, factoring enables the immediate return of cash upon invoicing without waiting for maturity.
- On the other hand, once the claim has been assigned, the entrepreneur no longer has to worry about paying the bill. It is the financial institution that takes on the task of collection.

Before approving the factoring agreement offered to an entrepreneur, the factor analyses the entrepreneur's client file to assess the risk. For this to happen, it will be necessary to provide the following information for each client company: contact information, national ID number and the total amount of the outstanding bills to be transferred to the factor. After signing the factoring agreement, the entrepreneur shall deliver to the factor a copy of the invoice, stating the schedule of payments granted to the client.

The factor pays the entrepreneur the amount for each invoice received, after deducting its costs and possible holdback. He is responsible for getting paid directly by the client at maturity and takes care of any arrears.

The factor finances the entrepreneur's accounts receivable and as such gets paid from this funding. This amount takes into account the risk he takes in this operation, and the cost of the collection service. The agreement usually provides a holdback to cover the risk of an unpaid bill; the deposit is generally refunded by the factor in case of termination of the business relationship or non-renewal of the contract at maturity.

Credit insurance is a service provided by factoring companies to their customers who seek to protect themselves against the risk of customer insolvency, but do not need the invoice financing service. In this case, the factor provides its service to prevent risks and safeguard against any payments not made. He can inform the entrepreneur on the creditworthiness of customers. Credit insurance also offers delinquency monitoring, management and recovery services. Credit insurance can also include a guarantee up to 100% of the invoice amount in case of default.

3.2.5. Financing international trade

a. Background information

The requirements and expectations for international trade are very specific. Companies are looking for guidance and advice to help them comply with the formal requirements of writing letters of credit, as well as to help them decide which International Commercial Terms (Incoterms) to use. This is especially true as trade between geographical areas is changing dramatically.

Until recently, in a favourable economic environment, international trade transactions have increased without a corresponding change in payment security; payments were made by simple transfers. This situation needs to be reconsidered today in view of the rising risks in a deteriorating economic climate which has forced companies to seek new security solutions for both import and export. Indeed, commercial risks and political risks endure. Some countries such as Spain and Italy are now in the same risk category as Turkey or Colombia.[34] (On the other hand, companies are looking for solutions to reduce their need for working capital, including through negotiable documentary credits. From the moment the letter of credit is confirmed by a bank, the company can make it "liquid", provided the required documents are compliant.

Medium-sized companies are also looking to streamline costs by standardising their operations and by dematerialising their documentary credits, including through internet tools. In addition to these operations, SMEs are also looking for export support solutions (prospecting for customers and suppliers).

The letter of credit or documentary credit

This is an arrangement between financial institutions for the payment of international trade transactions. The payment is based on documents, and not on the actual goods or services covered. It guarantees the payment of the exporter's transactions. Upon order by the importer, a foreign financial institution agrees in writing to pay the exporter a specified amount within a specified time, against the documents detailed under the letter of credit.

There are several methods of payment. For letters of credit payable on sight, payment is due upon presentation of the specified documents. For letters of credit due on a fixed date, payment is made after a certain period of time following the delivery of the documents.

Tips for women entrepreneurs

Short-term financing is very costly for the company. Plan your finance plan accordingly.

Box 3.3. The documentary credit process

1. Contract: The contract is made between the buyer/importer and the seller/exporter. During negotiations, it is agreed that the payment will be an irrevocable letter of credit.
2. Opening instructions: The buyer requests that his/her bank open a documentary credit, notification of which must be issued without confirmation from the seller's bank. In the opening instructions, the buyer fills out a form specifying the documents required for the importation of the goods.
3. Creditworthiness of the buyer: The buyer's bank verifies the creditworthiness of its client as well as the signatures on the application form. It also ensures that the instructions are clear and complete.
4. Opening: The buyer's bank issues the letter of credit and sends it via the SWIFT network to the seller's bank. The buyer then receives a copy of the consignment.
5. Control: After receiving the letter of credit, the seller's bank verifies the authenticity of documentary credit and if it is subject to the UCP (Uniform Customs and Practice). It then checks if the instructions do not contain errors.
6. Notification. The seller's bank notifies the client that it has received a letter of credit in his/her favour.
7. Control: Upon receipt of the notice, the recipient checks whether the conditions specified in the letter of credit are consistent with what had been established during the negotiations. If the beneficiary does not agree with any term, he/she must ask the buyer to modify the conditions.
8. Shipment of goods: The recipient sends the goods and prepares the documents required by the documentary credit instructions.
9. Delivery of documents. The beneficiary submits the documents to his/her bank.
10. Verification: The seller's bank verifies that all documents comply with what is required in the documentary credit. If errors are found, the client is no longer guaranteed payment.
11. Sending documents: The seller's bank sends the documents to the buyer's bank and requests payment.
12. Verification: The buyer's bank in turn verifies all documents to confirm compliance.
13. Payment: If everything is in order, the buyer's bank makes payment to the seller's bank, less any applicable fees.
14. Debit of the buyer and delivery of documents: The buyer's bank debits the client for the amount of the documentary credit, less any applicable fees and gives him/her all the documents. The buyer can then clear the goods and take possession.
15. Payment: The seller's bank pays the customer less any applicable fees.

Supply chain finance

In addition to the traditional tools of trade finance, a company can now find funding through the structures of supply chain finance (SCF). SCF is intrinsically linked to the financing of the company's working capital. It is part of the asset financing solutions that make it possible to obtain different types of loans depending on the quantity, availability and quality of the borrower's assets.

The SCF solution enables a client company and its provider to conduct their business as part of a tripartite funding scheme: when a client buys products or services from a provider, he/she can use his/her own credit line to ask the bank to pay without waiting for the payment of the bill. The supplier, provided he/she accepts to pay a fee proportional to the receivable, is then sure to be paid in full a few days after the delivery of the goods or services, which considerably improves his/her cash flow. The entrepreneur thus has a longer timeframe to pay the bill to the bank: up to 90 days following delivery (since the negotiated funding is backed by her credit line).

b. Cash credit for export

Pre-financing for foreign currency export

This is a short-term cash credit in local currency, reserved for leading export customers to locally fund the production cycle of an export order (for acquisition of raw materials and supplies, operation fees, storage costs, etc.). It is primarily intended for leading import and export businesses and SMEs. This form of credit is for a maximum of one year, but is renewable.

Advice for women entrepreneurs

To apply, you must submit to your bank proof of a firm order for export and of having obtained prior approval from the bank committee in charge of this credit line. Pre-financing is generally 10% of the annual export revenue and can reach 15% for seasonal activities.

Mobilisation of Foreign Currency Receivables

This is a cash credit in local currency following the mobilisation of a debt in foreign currency granted to the exporter when the exporter has granted its foreign buyers payment terms. The objective is to mobilise foreign assets denominated in foreign currencies with the aim of rebuilding the company's cash flow, pending receipt of the proceeds of the bills. This mobilisation is done through an authorised line. The amount can reach 100% of the debt. The mobilisation of foreign currency receivables can generally be carried out in Euros, United States dollars, British pounds, Swiss francs, and Japanese yen.

Foreign currency refinancing

This is a short-term instrument that is widely used by importers. It allows banks to negotiate with their correspondents who are responsible for the credit lines for financing imports. This instrument allows the importing company to defer the settlement of imports. The duration is specified in the contract (generally 30 days minimum and up to 360 days), and the amount of credit is equal to the amount of the import operation, plus interest. The importing company's bank proceeds with the payment of the provider under the terms of the contract. At the same time, it gives the client a repayment term of up to

360 days. Eligible transactions involve all imports irrespective of their payment methods, billing currency or country of origin of the goods.

Export credit

States provide export credits benefiting from public support through export credit agencies. The goal is to help domestic exporters to compete with other countries in foreign markets. Export credit agencies extend credit to foreign buyers either directly or through private financial institutions for which they provide or guarantee operations. These organisations may be public institutions or private companies acting on behalf of the state.

Specifically, this device provides access to credit rates – guaranteed by the government – that are more advantageous than those offered on the banking market. In addition, from the perspective of the bank, this type of credit is covered in case of default by the borrower.

Selected regional practices

The "import" loan of the Islamic Development Bank: The Islamic Development Bank (IDB) finances the import operations of products that contribute to the mutual economic development of member countries of the Islamic Conference. Your business is eligible if the entrepreneur lives in an IDB member country. The loan period varies from 9 to 18 months. The maximum funding covers up to 100% of the transaction amount (under a Murabaha contract) for export operations valued at less than, or equal to, USD 3 million. Maximum funding covers up to 80% of the transaction amount for export operations worth more than USD 3 million. The transaction currency is the Islamic dinar, the IDB unit of account. The bank grants loans and donations. The loans are interest-free (according to Sharia), but they involve administrative costs of between 1.5% and 2.5% for standard loans.

The Arab Investment and Export Credit Guarantee Corporation[35] (Dhaman) is a multilateral organisation established in 1974 under an international convention registered with the Ministry of Foreign Affairs of **Kuwait**. Dhaman began operations in 1975 from its permanent headquarters in Kuwait. In particular, Dhaman guarantees Arab exporters against commercial risks for their exports to global markets. These can include the buyer's insolvency under domestic law, such as in cases of bankruptcy, pre-bankupcy regime (concordat), or receivership and the buyer's failure to the extent that the insured exporter has fulfilled all his/her obligations under the export agreement) and non-commercial risks (transfer restrictions, wars and civil disturbances, measures taken by the authorities of the importer's country to prevent the insured exporter from being paid by the importer, and failure to pay the buyer when the buyer is a government entity or a public entity guaranteed by the government).

In **Morocco**, the product "Damane Export" supports the cash flow of exporting companies through a reduction of 70% of the risk taken by banks for extending operating loans to exporters. "Mezzanine Export" encourages investment for export, through co-financing between banks and the Central Guarantee Fund. The latter intervenes via an equity loan to co-finance up to 40% of the investment programme at a rate of 2%.The guarantee of export markets increases access to international markets. It consists of guaranteeing the bank financing granted under the guarantees required by Moroccan companies that are bidders for, or holders of, public contracts for construction works, supplies or services abroad.

In **Tunisia**, COTUNACE provides economic operators with many products and services, including a Standard Commercial Credit Insurance (SCCI), Simplified Credit Insurance for SMEs (SCI), an Export Multirisk Insurance Contract (CAMEX), as well as general insurance. In addition, the National Fund for the Promotion of Handicrafts and Small Trades (FONAPRAM) aims to promote craft projects. It encourages small trades through an investment premium equal to 6% of the project cost or through a grant repayable over 11 years with a grace period not exceeding the term of repayment of the bank loan and with an arrears interest rate of 4%.

3.2.6. Call for investors

SMEs looking for financing through bank credit often have difficulties meeting the eligibility criteria (lack of equity, lack of or insufficient collateral). Procuring capital from investors not only eliminates constraints related to the limits of an entrepreneur's personal funds, but also constitutes a form of guarantee for the banker.

> According to a 2007 study (Library House – Dow Jones) conducted on 600 European companies with professional investors in their equity portfolio, companies headed by women require an average of 35% less capital to generate 12% more revenue.

a. Venture capital

For the company in need of capital, venture capital consists of opening capital to one or several investors. The term "venture capital" generally relates to investment in unlisted companies.

This form of financing is only available for certain types of projects, generally innovative ones with high growth potential and strong prospects for rapid returns on investments.

The art of venture capital consists of taking majority or minority stakes in the capital of small and medium-sized enterprises that are generally unlisted. This investment helps fund their start-up, growth, transfer, and sometimes, their recovery and survival.

Venture capital principally supports businesses in three areas. It provides the financing and capital necessary for their development; it supports the entrepreneur when strategic decisions have to be made; and it facilitates the improvement of the company's potential for generating value for its customers, shareholders and all officers and employees.

The actors on the market are segmented according to the company's level of maturity:

- If the company is in its pre-start stage, it should approach a seed capital fund.
- If the company is in its development stage, it should approach a venture capital fund.
- If the company is in its development stage, it should apply to a growth capital fund.
- If the business owner or shareholder of the company, wishes to transfer the company (takeover of the company by employees, for example), it should approach a transfer capital fund.
- If the company encounters difficulties, it can appeal to turnaround capital.

b. Different types of venture capital

The creation stage: seed capital

Investors in seed capital, who are mostly individuals, provide capital, along with their networks and experience, to entrepreneurial projects that are still at the research-and-development stage. The objective of this stage, which is financially very risky, is to finalise the development of a technological prototype that makes it possible to meet the technological challenge, and begin to assess the existence of a potential market. The signing of a first client constitutes the transition to the venture capital stage.

Seed capital can also be sought at a later stage when investors are involved at the time of creation of the start-up and/or in the first phase of development.

Business angels usually intervene after the intervention of "love money": the support and interest-free loans that allow the entrepreneur to find the money to start his/her activity before the intervention of venture capital professionals (risk capital, growth capital).

The innovation stage: risk capital

Venture capital investors provide capital, along with their networks and experience, for the creation and early development of innovative companies with high growth potential. The few successful projects should more than offset the capital losses of those who fail.

The development stage: growth capital

Growth capital is for companies that have passed the venture capital stage, and have thus validated the potential of their market and need additional funding to support and accelerate their growth, whether it is organic growth (financing their needs in working capital) or external growth (acquisitions).

Transfer capital/LBO

Transfer capital, also known as leveraged buyout operations (LBO), involves acquiring the entire capital of a profitable company, usually operating in a mature market, through a combination of capital and bank financing (structured debt). This allows the president of a company, in partnership with a venture capital fund, to transfer his/her business, or more generally to prepare his/her succession, by selling his/her business in several stages (double trigger LBO).

Turnaround capital

Investors in turnaround capital usually acquire all the capital (or a majority share) of a company in difficulty, and then inject the financial resources required to implement a recovery plan.

c. Who are the external investors?

External investors are partners or shareholders who inject private capital into your business. This may be cash funds (in cash) or in kind funds (machine, building, patent). In exchange for their capital, external investors receive shares of the company. This means that they may have a say in the daily management of the business since they hold part of it.

Business angels

Business angels are very wealthy patrons of an enterprise. They act as individuals and inject capital into companies that often represent a niche or an innovative profession. They represent an effective way of funding an enterprise and offer the benefit of the expertise of an experienced sponsor.

Venture capital companies

Venture capital companies specialise in equity investment. They generally focus on innovative and creative projects with a relatively high expected rate of return. These investors may be involved in the daily management of the company.

Crowd funding

Crowd funding is a collective investment (a network of individual investors). The principle is simple: the entrepreneur tries to raise funds from ordinary citizens recruited through websites, including social networks. Any citizen can invest in a given project, in exchange for shares in the company.

Tips for women entrepreneurs

Are you considering calling on external investors? Think of the degree of autonomy you want to maintain because you will not be the only one to decide!

Box 3.4. How investment funds intervene

Mechanism 1. The investment fund redeems your shares or those of other shareholders wishing to dispose of their stakes.

In practice, this mechanism does not bring new financial resources to the company. The investment fund directly redeems your shares but does not bring new funds into your company. It only allows you to let shareholders dispose of their stakes if they wish to do so, and, more importantly, to increase the value of the assets that you have built over the years. The investment fund that is solicited then analyses the business plan of the target company (balance sheets from the last three years of operation, forecasts, growth strategy, etc.). Based on the fund's mandated audits (accounting, legal, fiscal) and on its perception of the risk associated with investing in the target company, it offers shareholders a price determined by valuation methods. You can either accept or refuse this price.

Mechanism 2. The investment fund brings new capital into your business. This is called a capital increase.

The investment fund wishes to finance the development of your company by increasing its revenue. It is thus ready to finance new investments (machinery, recruitment, buyout of competitors, etc.) and/or to finance the operating needs (inventories, accounts receivables, etc.) of the company. To do so, it brings in new financial resources to meet the costs of the growth strategy, which you have previously calculated. In this case, the entry of investment funds in the capital of your business is done either by issuing new shares (of your company) or by issuing bonds. The latter is an instrument of private debt issued by the company itself and underwritten by the investment fund. This effectively means that the investment fund lends financial resources to your company, which pledges to pay them back: like any debt, it has a maturity and entitles the lender to payment of interest, collected by the fund. The main advantage of this mechanism is that the private debt originally issued may be redeemed in the company's shares, which avoids the outflow of your business capital.

Initial public offering (IPO)

An initial public offering is the traditional way of listing on a stock exchange. It is the process by which an issuer (company, the state) sells securities to the investing public. These securities may be ordinary shares, preferred shares, bonds, convertible bonds into ordinary shares, etc. This sale is executed on the primary market on which the securities are to be traded and circulated beyond a circle of usually 100 people, or through methods such as canvassing, advertising, etc. For trading purposes, the entrepreneur entrusts one or more trading companies with the shares to be circulated so that they commit to circulating them to their customers, institutional investors, businesses and individuals.

This method involves the preparation of a prospectus to be filed with a securities commission, as well as the filing of an application for listing. The prospectus contains detailed information for potential investors so that they can make informed investment decisions.

Certain conditions must be met for a company to complete an initial public offering:

- The company must have strong growth in sales and profits.
- The company must have an aggressive expansion strategy.
- It must have an effective management team and a sound financial structure.
- The company must compare favourably with other companies in its industry.
- The company must work in an industry sought after by investors, such as those associated with high technology.
- The use of the proceeds of the issue must have interesting prospects for the company (investors are not looking for companies that will use the proceeds of the offering to repay all or some of its long-term debt or a shareholder).
- The size of the business is a very important criterion to achieve a certain level of liquidity and generate enough interest. The value of the company will need to be able to carry the burden of this dilution into the hands of the public.

A public offering has a number of advantages:

- Increasing the value of the company by eliminating the private company discount
- Providing a certain flexibility to the founding shareholders that can help diversify their investment portfolio and facilitate their financial, tax and estate planning
- Improving access to a wide range of financial instruments and markets, including additional common shares, convertible bonds, convertible preferred stocks, and issues of subscription rights for existing shareholders and other persons

- Facilitating mergers and acquisitions by raising funds through the sale of additional shares and the direct issue of shares, which increases flexibility and offers benefits from tax rollovers
- Increasing the compensation opportunities for management and employees (through stock option schemes and other incentive plans)
- Enhancing the company's visibility, thereby allowing it to be more present in the community and to improve its relationship with its customers and suppliers.

Bonds

There are different types of bonds that enable (individual and institutional) investors to lend money to a company. This is also a form of debt, much like credit. Bonds constitute contracts whose terms are determined by the company and the investor: the amount, the interest rate, the conditions of repayment, etc. This type of financing is commonly used by large businesses, which can issue bonds on marketplaces in order to raise large sums of money.

Selected regional practices

In **Morocco**, the aim of the Sindibad fund[36] is to strengthen the equity of companies by investing in innovative or high technology companies in the start-up stage of their development. Eligible for this funding are start-ups with an innovative project in the fields of engineering sciences, life sciences and new ICTs. The fund can invest between 10% and 35% of the company's equity, up to a maximum of MAD 4 million, by buying a stake in the equity and quasi-equity of the company. The duration of the fund's stake in a company is five to seven years.

Also in **Morocco**, the Société de Participation et de Promotion du Partenariat (SPPP-Moussahama) makes equity investments in existing or future Moroccan and foreign companies. It also provides them with advice and technical assistance, and develops studies to serve as the basis for equity investments. This type of financial stake is open to any unlisted company in the start-up or growth stage, with high growth potential, excluding those involved in real estate and trading activities. The amount of the financial stake may not exceed 49% of the capital of the company (and 10% of Moussahama's equity). The sale of the equity position occurs as soon as the company has reached its cruising speed, within five to seven years.

Siparex operates in the Maghreb. It is a minority shareholder and member of the board of Tuninvest Finance Group (Tunisia), CapitalInvest (Morocco) and Beltone MidCap (Egypt). It carries out consulting and management assignments for the managers of these funds. In all, these actors from emerging countries represent EUR 500 million invested in some 80 companies.

The Oasis 500 and I-Park programmes provide financial and technical assistance to start-ups in Jordan**,** as well as the Bab RizJamel, AGFUND, Centennial Fund and Riyadah in Saudi Arabia.

In Bahrain, the Bahrain Development Bank[37] is contributing 20% of the Venture Capital Bank SME fund.

At the **regional** level,[38] Abraaj, a private equity group, has USD 6.6 billion under management and operates in 11 countries in the region. Abraaj makes its investments in

SMEs through its platform Riyada Enterprise Development (RED), and through its offices in Cairo, Istanbul, Riyadh, Beirut, Amman, Ramallah and Karachi.

3.2.7. Public aid to development

Various bilateral and international donors have established mechanisms to fund companies at different stages of development.

Selected regional practices

PROPARCO (Groupe agence française de développement) [39]

PROPARCO's financing is open to all private companies and private sector projects with the exception of real estate and short-term projects. Such funding typically ranges from EUR 2 million to EUR 100 million and targets entrepreneurs who either already have significant experience in the industry or have a partner company with an international reputation in the field. PROPARCO also expects the project promoters to bring in a minimum capital of about 30% of the project's cost in the case of an expansion programme, or 40% of the project's cost in the case of a new project, known as a "greenfield".

PROPARCO intervenes in several ways, by:

- Investing in the equity and quasi-equity of the company, in which it takes a minority stake which will be transferred to other shareholders after 4 or 8 years, to third parties, or on the financial market. The minimum expected rate of return is about 15%.
- Granting a medium- or long-term loan. The objective here is to finance medium- and long-term investment programmes (start-up, expansion, restructuring, privatisation, etc.) against collateral (bank guarantee, group guarantee, mortgage, security, etc.). The loan period varies from 3 to 15 years with a possible grace period.
- Providing a guarantee on the repayment of loans in local currency. This operation facilitates the mobilisation of resources in local currency from private borrowers, as part of the financing of their long- and medium-term investment programmes. It also requires collateral (bank guarantee, group guarantee, mortgage, security, etc.).

The PROPARCO office in Casablanca[40] also covers venture capital operations in Algeria, Mauritania and Tunisia.

The Islamic Development Bank

The Islamic Development Bank (IDB)[41] uses several financing instruments to promote development projects in its member countries. In particular, it offers private entrepreneurs the following products:

- The sale of a deposit: the IDB acquires and delivers assets, and then immediately resells them to the beneficiary, adding a premium mutually agreed upon by the bank and the beneficiary. The latter pays the price on a semi-annual basis over a period of up to 20 years.

- The istina'a: the IDB supports the production of equipment, or the construction of a structure, in accordance with the specific characteristics requested by the beneficiary at a specific price. This price is paid over a specified period.
- Murabaha: This instrument is used for the financing of trade (imports and exports). The IDB buys the required raw materials and sells them to the beneficiary. In the case of import financing, the financing period can be up to 30 months; it extends to 120 months for exports.
- Leasing: assets are leased to the beneficiary who becomes the owner after a specified period of up to 20 years.
- Financing lines: the IDB provides financing lines to national development finance institutions or Islamic banks to promote the growth of SMEs, particularly in the industrial sector.
- Equity investment: the IDB makes equity investments in productive industrial or agro-industrial projects that are economically and financially viable. IDB financing is limited to one-third of the project's capital.
- Profit sharing: this type of funding is used for projects with a high rate of return. It is a form of partnership between the IDB and another party to finance a project. Each partner receives a share of the net profit (or loss) in proportion to its investment.

In **Lebanon**, the European Commission and the Lebanese government have jointly created the Economic and Social Fund for Development[42], operated by BLC Bank. It supports the financing of start-ups and promising projects in the country (providing working capital and equity). The amount should not exceed LBP 75 million for a period of 5 years, with a grace period of one year at most, low interest rates and no commission.

In **Saudi Arabia**, the Women's Higher Technical Institute, affiliated with the Technical and Vocational Training Corporation (TVTC), aims to grant loans of up to SAR 200 000 to its graduates to help them launch small businesses.

In **Tunisia**, the task of the Fonds de Promotion et de Décentralisation Industrielle (FOPRODI) is to encourage the creation and development of SMEs. It must also provide incentives for the decentralisation of investment in the industrial sector. For SMEs, FOPRODI acts as follows:

- For the first portion of the investment and up to TND 1 million, the investment made with FOPRODI's resources should not exceed 30% of the minimum capital.
- For the remainder of the investment up to TND 3 million, FOPRODI's investment should not exceed 10% of the minimum additional capital.
- A study and technical assistance premium representing 70% of the total cost of the study and technical assistance, to a maximum amount of TND 20 000.

In **Tanzania**, the Sero Lease and Finance Limited (SELFINA)[43] has provided small-scale lease financing services to help women entrepreneurs since 2002.

Tips for women entrepreneurs

″You will need to be **patient**, and sometimes even **resilient."**

You will meet different banks and financial institutions, various interlocutors at varying intervals. Moreover, you will face the same questions from your interlocutors. Be patient and do not give in to discouragement.

“Do not put all your eggs in one basket”.

In your search for funding sources, multiply contacts with banking and financial institutions. Do not canvass only your bank. You can compare the rates offered by different institutions, as well as their terms (duration, repayment, etc.). You can put them in competition with each other to maximise your benefits. This will represent significant savings for your business: an interest rate of 5.5% negotiated with a bank instead of 6% proposed elsewhere can be a significant saving (especially depending on the amount of principal borrowed).

Be transparent

This means that you need to have a unified accounting system, established in the rules of the art and compliant with the chart of accounts. Be in good standing in regard to your administrative commitments (up-to-date declarations of the various taxes due, etc.). This provides the banker with evidence of the company’s good faith, proving that it is transparent. The balance sheet gives an accurate vision of the health of the company. Banks also expect visibility from their clients (constant financial communication with your banker), a high level of organisation and efficient monitoring of the company’s financial management (financial balance, profitability, creditworthiness).

Behind transparency lies a fundamental concept in the company-bank relationship: **confidence**. As much as the banker needs to build your confidence in him/her, the banker must also have confidence in you, as a business executive and in your capacity as a manager. Only progressive development of this mutual trust over time will eventually facilitate access to funding.

Tips for women entrepreneurs on how to deal with bankers and investors

Tell a story

Recount what led you to the idea of your project, your successes, the obstacles you faced and what you learned from your mistakes. Visualising your personal trajectory makes it possible for investors to better assess your entrepreneurial profile and your resilience in business, and to see your strengths as well as the possibility of their involvement in the project.

Show your project meets a real demand

Give specific examples of problems that your business can solve. Make sure it is clear, with supporting figures. Bankers and investors need to understand whether your project meets a real need to better assess their commitment.

Be understandable and use simple terms

Avoid using complex words so that your presentation is accessible to all. Managing to clearly explain your project in simple language increases your chances of success. Remember that you may have to present your project to investors who have no knowledge of your market or your industry.

Be credible

Make sure you have a solid business model to present so that investors can get a better idea of the benefits of their investments in the short, medium and long term. Talk about growing your market and show your long-term vision for your project. Talk about your serious partners and business associates. Show that you believe in your product and that you have tested it. Talk about your sales, recommendations, clients and concrete results.

Remember that investors will endeavour to access a lot of information about you and about your company, and that they will have questions that can determine their decision if they suspect something dishonest in your presentation.

Conclusion

This survey is intended to provide information on the existing financing practices of banks with regard to women entrepreneurs in the MENA region. The practical guide which follows it gives businesswomen concrete advice on acquiring finance and developing their businesses.

Despite its extremely limited scope, the survey illustrates banks' attitudes towards women entrepreneurs. Although banks consider women entrepreneurs to be a potentially profitable section of the market, there is little awareness of the need for products and services adapted to women's differing needs. The current gender-neutral policies of many financial institutions in reality serve as a barrier to women's access. The premium placed on collateral, credit history, business experience and the business strategy of prospective borrowers forms an obstacle to accessing finance. This presents a supply-side problem in terms of suitable products available to women. To capitalize on the preliminary results of this survey, further research in this area could be undertaken.

The demand-side problem is addressed by the practical guide included in this chapter. Women frequently have a low level of financial literacy and are generally ill-equipped with the skills and knowledge required to successfully approach banks for funding. In addition, there is a perception among some women that the loan application process is over-complicated. They are also often unaware of the business development services (BDS) available to them. This lack of skills and knowledge, in addition to the barriers identified on the supply-side, mean that few women succeed in obtaining the finance and support they need. The guide gives information on existing external finance options available to entrepreneurs, especially from banks. It also gives examples of practices in the MENA region, along with helpful tips for women entrepreneurs.

Supporting women with training and information to allow them to access the financial services they require, while providing financial products tailored to women, would improve women entrepreneurs' access to financial services. In addition, banks' current private non-credit services such as business coaching and financial planning advice could be adapted to women. Such efforts would stimulate growth and further develop the private sector in the MENA region.

Notes

1. Under-banked refers to adults who do not use formal or semi-formal financial services as referred to in The Financial Access Initiative (2009).
2. See Chapter 1, Gender inequality and entrepreneurship: A statistical portrait of the MENA region.
3. See OECD (2012c).
4. Bahrain, Jordan, Morocco and Tunisia.
5. For the purposes of this study, a business is called "women-led" when women make up more than 50% of the partners or of the directors responsible for the day-to-day operations of the business, or when the sole proprietor of the business is a woman.
6. Quds Bank (2011), Annual Report.
7. The Global Banking Alliance for Women is a global network of financial institutions committed to increasing women entrepreneurs' "access to capital, markets, education and training", for more information refer to: http://www.gbaforwomen.org/
8. All currencies were converted on 30 October 2013.
9. Interview carried out as part of the OECD research project in 2013.
10. For more information on the role of credit guarantees, refer to: Storm (2013).
11. Enterprise development support services could include, business coaching, accounting and financial planning advice, business intelligence, business tools and value chain networking.
12. Islamic finance products are treated here within debt financing, despite some of them being capital products (mudharaba, musharaka and sukuks in particular).
13. This is what is called "love money".
14. http://www.mof.gov.sa/en/docs/ests/sub_tsleef.htm
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32 http://www.hbtf.com/.

33 http://www.bankalamal.ma.

34 See the rating assigned by COFACE. Online at www.cofaceuk.com.

35 http://www.iaigc.net/.

36 http://www.fondssindibad.com

37 http://www.bdb-bh.com/index.php?page=content&id=6

38 Including Turkey, India and Pakistan.

39 http://www.proparco.fr/Accueil_PROPARCO/produits-services/Les-produits-financiers

40 http://www.proparco.fr/Accueil_PROPARCO/regional-website/Portail-Maroc/Les-activites-de-Proparco-au-Maroc.

41 http://www.isdb.org/

42 http://www.blcbank.com/business-3/ESFD%20Microcredit/Credit%20Facilities

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Annex 3.1A: Glossary

Employment and labour

Term	Definition
Economically active	Persons currently involved, or seeking to become involved, in activities that generate (monetary) income in exchange for application of their labour and skills.
Labour force	The total labour power available to the production economy, including employed and unemployed persons.
Work force (or workforce)	Employed persons in an economic sector or enterprise. Unemployed persons cannot be attributed to particular sectors; therefore, unlike the labour force, the work force does not include any unemployed persons.
Labour force participation	Persons who are economically active as defined above (i.e. persons either in employment or unemployed).
Unemployment	Denotes economically active persons not currently employed, but seeking employment.
Employee (stable)	A person in a contractual relationship (which may or may not be written) working for another, receiving paid wages or unpaid.
Unpaid work	Work that generates income for others, for the commercial benefit of a family or enterprise, but for which the worker is not individually remunerated in cash or in kind.
Subsistence work	Work that results in products for the worker's own (or his/her family's) consumption.
Vulnerable employment	Part-time, seasonal or non-contract based work, without social security coverage (e.g. retirement pensions, injury, health, unemployment compensation etc.).
Not in the labour force	Persons not employed or seeking employment.
Care work	Unpaid work in support of the health, feeding and support of household members, such as children, the elderly and others who ensure the capacity and reproduction of the labour force.
Own-account workers	Own-account workers are those workers who, working on their own account or with one or more partners, hold the type of job defined as a self- employed job, and have not engaged on a continuous basis any employees to work for them during the reference period.
Self-employment job	A self-employment job is a job where the remuneration is directly dependent upon the profits derived from the goods and services produced. The incumbents make the operational decisions affecting the enterprise, or delegate such decisions while retaining responsibility for the welfare of the enterprise. This includes one-person operations.

Entrepreneurship and enterprise

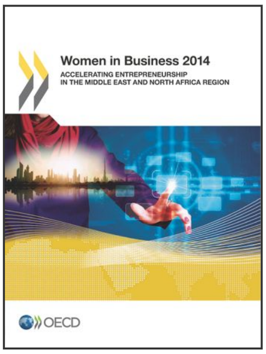
Term	Definition
Entrepreneurship	The operating or planning of a new market-oriented venture by a person on his or her own account or in partnership with others; the competencies required to exercise this quality.
Entrepreneurial activity	Putting entrepreneurship into effect, in a market context.
Entrepreneurship or entrepreneurial activity rate	Proportion (%) of a population (male, female or combined total, usually adults) involved in the early (planning or start-up) or established phases of an entrepreneurial venture.
Venture	The object of an entrepreneurial activity, which may or may not be in operation as a business.
Business	An operation geared to supplying a market, which may or may not be incorporated (registered) as a firm. Definitions and procedures for registration may differ across countries and apply in some or all of a number of different fields (zoning, tax, municipal services etc.).
Firm	A business, usually incorporated or registered.
Enterprise	A general term – synonymous with venture, business or firm.
Formal	Usually synonymous with incorporation or registration (see business).
Business discontinuance	Selling, shutting down or otherwise ceasing operations of a business; the ending of the entrepreneur's ownership/management of the business.

Business development services

Term	Definition
Business development support (BDS) service	"…services that improve the performance of the enterprise, its access to markets, and its ability to compete… (*It*) includes a wide array of business services, both strategic and operational…training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion… Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labour laws and other regulations… Strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing" (Committee of Donor Agencies for Small Enterprise Development, 2001, *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention*, pp. 1, 11).
Business incubator	"A business unit that specialises in providing space, services, advice and support designed to assist new and growing businesses to become established and profitable" (NBIA, 2012)[1]. Standard services include, but are not limited to: marketing assistance, legal and financial advisory, mentoring, and access to business networks. Business incubators differ from standard business support services in that they host start-up firms based on pre-determined selection criteria (most standard business support services offer services to any firm, either free of charge or in return for service fees) [OECD (2011), "Business incubators in the MENA Region", *in* "Fostering Women's Entrepreneurship and Employment in the Middle East and North Africa", p. 69].

Gender-neutral	Favouring neither men nor women, assuming that men and women are equally able and essentially similar.
Gender-sensitive	Understanding and considering the socio-cultural factors underlying sex-based discrimination. The ability to acknowledge and highlight existing gender differences, issues, and inequalities and integrate these into strategies and actions (World Bank, "Gender and Development: A Trainer's Manual"). Gender-sensitive approaches use specific methods and tools to provide women more opportunities for their participation in the development process.
Gender-sensitivity training	Training that challenges culturally-embedded and deeply-held views about women's roles in society and the economy that underlie sex-based discrimination and reinforces an approach that fully takes into account the different needs, priorities, and opportunities of both women and men. Gender awareness gained through gender sensitivity training enhances understanding of the socially-determined differences between women and men based on learned behaviour which affects access to, and control over, resources. This awareness can then be applied through gender analysis into projects, programmes, and policies to increase development effectiveness.
"Mainstream" BDS services provider or organisation	Offers its services to both men and women.
"Mainstream" business incubator	Offers its incubation facilities to good projects, irrespective of whether the lead entrepreneurs are men or women.
Women's business incubator	An incubator offering its physical incubation spaces and services only to projects led by women entrepreneurs.

Many of the official definitions of the glossary can be found on the OECD website on statistics, available at: http://stats.oecd.org/glossary. The definitions in this table have been simplified.



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