

## Chapter 90

# The Impact of Institutional Factors on Female and Male Owned Firm Financing: Evidence From South Asian Countries

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### ABSTRACT

*The study compares the impact of the commercial environment on external financing of female- owned micro, small and medium enterprises (MSMEs) compared to those that are male owned in seven South Asian countries. The region exhibits weak institutional and regulatory regimes which result in expropriation of profits from MSMEs. It is likely that such commercial environments add to the risk of lending to MSMEs and this may further manifest a gender bias toward males. This study uses a unique dataset of over 5000 firms from World Bank Enterprise Surveys and combines this with additional information drawn from World Bank macro-economic data. Interval and logit regressions are used. Contrary other studies, this research indicates that once females have access to formal financing they use a higher proportion of formal financing in their firm capital structure than their male-counterparts. A gap in accessing external finance for female-owned MSMEs presents both a waste of human resource and a lost potential to lift standards of living, presenting an opportunity for reform.*

### I. INTRODUCTION

The study compares the impact of the commercial environment on external financing of female- owned micro, small and medium enterprises (MSMEs) compared to those that are male owned in seven South Asian countries. South Asia<sup>1</sup> poses a number of institutional obstacles for accessing external finance and in many cases, access is even harder for women. An empirical comparison of the impediments, for

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the South Asian countries excepting Maldives, provides a base from which policies may be formulated to facilitate participation of small businesses in obtaining finance and encouraging business formation. One important dimension in the access to finance debate and which is relatively less analysed, is gender gap (Aterido, Beck, & Iacovone, 2011).

Women make up more than half of the population in Asia, and the United Nations estimates that the Asia-Pacific economy would earn an additional \$89 billion annually if women were able to achieve their full economic potential ("UN Women's flagship report: 2011-2012 Progress of the World's Women: In Pursuit of Justice," 2013). Initiatives in the microfinance area, have focussed on making money available to women and it is of interest to observe what traction these initiatives are achieving. The extent to which institutional development has a differentiated effect on female- and male-owned MSMEs warrants serious attention given the magnitude of additional GDP that may be generated and the related impact on per capita income.

The importance of the institutional environment for corporates making choices regarding financing is well established. Using cross-country analysis, La Porta et al. (1997), Demirguc-Kunt and Maksimovic (2001), Booth, Aivazian, Demirguc-Kunt, & Maksimovic (2001), Rajan & Zingales (1995) and Beck et al. (2008) present evidence that a country's legal and financial environment influences a firm's use of external financing. The heterogeneity of both form and magnitude of institutional imperfections existing in each country varies widely and according to Carvalho (2008) depends on the level of its institutional development. The inclusion of measures relating to gender may indicate even less uniformity across the nations of South Asia. While the literature on gender and entrepreneurship is extensive, it is predominantly associated with mature economies and little work exists in relation to emerging economies and low income countries (LICs). Although, there are reports and studies that touch on gender and MSMEs, these do not explicitly explore the issue of external financing.

There is a need for a context specific study in South Asia to generate baseline stylised facts to help policymakers design better credit programmes for these smaller enterprises. Similar to La-Porta, Silanes, Shleifer, & Vishny (1997) and Demirg-Kunta & Maksimovic, (2001), institutional theory is well suited to investigate differences in the factors that have potential to impact on a firm's accessibility to external financing. In the South Asia region, the World Bank Enterprise surveys, conducted by the World Bank, provide data relating to female and male led firms.

## **MSMEs in South Asia**

Enterprises owned by women, as mentioned in the UN (2013) report, have tremendous potential for adding to the economic output of economies in South Asia. This will necessarily involve social change, empowering women and transforming society through the removal of constraints or barriers that effectively stymie such potential. Currently, this potential remains largely untapped, with fewer than 10% of the entrepreneurs in South Asian countries being women (Sinha, 2005). While this Sinha evidence is a little dated, there is no significant evidence to suggest that the figures have moved dramatically. Accordingly, the potential to raise living standards across the region remain latent. Consistent with this perspective is an Asian Development Bank study, which observes that there are only 8%-9% formal MSME enterprises owned by women in South Asia, compared to 38% -47% formal MSME enterprises owned by women in East Asia, Central Asia and Eastern Europe (*Women Entrepreneurs in Asia and the Pacific*, 2013).

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