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RESEARCH ARTICLE

FINANCING WOMEN'S ENTREPRENEURSHIP: A FOCUS ON EXCLUSION THROUGH MICROFINANCE

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ABSTRACT

Financing women's entrepreneurship remains a challenge. The aim of this research is to find rational factors that explain the exclusion of women owners of very small businesses or microenterprises. The research question is "Why do microfinance institutions exclude women entrepreneurs from financing?"The chosen analytical framework is trade-off theory to explain this exclusion. Our methodological approach is quantitative. The data used are secondary and extracted from the database of a microfinance institution in Gabon. We selected one hundred and sixtywomen'svery small business owners and their characteristics. The structural equation technique was used for data processing. The results indicate that women owners are excluded from financing by microfinance institutions because they borrow large amounts, divert the sums borrowed from investment to domestic consumption, are late in repaying and borrow for the long term. Paradoxically, recidivism in borrowing and the cultural proximity of women entrepreneurs to microfinance institution managers do not favor their financing. Paradoxically, they are not excluded from financing by the risk they present. Age is not a factor that excludes them from financing. Our theoretical contribution is to complete the trade-off theory by specifying the factors that determine risk. Our managerial contribution is to help microfinance institution managers to improve their practices by better targeting women's entrepreneurs. They can also introduce controls to combat the detour of borrowed funds towards investment. Finally, they can correct the paradox noted in this paper, by financing more repeat offenders, as they honor their repayments.This result can also be used as an institutional policy to encourage more state support for women entrepreneurs.

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INTRODUCTION

According to several recent studies, access to financing remains problematic for women entrepreneurs owning microenterprises. This paper aims to find the rational factors that contribute to the exclusion of these women's entrepreneurs from financing by the microfinance sector, microfinance institutions (MFIs). But they are not discriminated against (Kouty et *al.*, 2015, p.24). Servet (2006) considers that it is difficult to give an exact definition of microfinance encompassing microcredit. However, we will retain the following criteria: "geographical or spatial, mental and social proximity between the organization and its customers, small amount lent by the MFI, risk limitation, guarantee, trust, conditions for granting microcredits, short-term, poverty and exclusion".Microfinance is a tool for creating microenterprises (Guérin, 2002; Guérin et *al.*, 2006).

The tiny loans granted are enough for hard-working entrepreneurs to start or expand their micro-activities. Very small businesses (VSBs) and micro-businesses that borrow do not have sufficient collateral and present a high risk of default. To remedy this, MFIs select loan applications according to the subjective characteristics of the entrepreneur. These MFIs offer solutions to the reluctance of commercial banks to make small loans profitable, given the enormous transaction costs involved (Attali et *al.*, 2007). Notwithstanding the characteristics and principles of microfinance, such as the geographical proximity of clients, short-term or very short-term loans, low loan amounts, insufficient or non-existent client guarantees, etc., we don't know exactly what factors prevent women owning VSBs or micro-businesses from being financed by VSBs. This research attempts to fill this gap.

Thus, we attempt to answer the question: "Why do microfinance institutions exclude women entrepreneurs from financing?" The aim of this paper is to show that MFIs exclude women owners of VSBs or microenterprises from their financing with rational factors, naturally or not. It is interesting to find other contextual explanatory factors that may justify the exclusion of women from VSB financing.

REVIEW OF LITERATURE

VSBs have a personal character, often embodied by the self-employed worker, Ferrier (2002). The size of a VSB is often reduced to its workforce. The latter is contingent on criteria such as sector of activity, geographical location and culture. VSBs employ fewer than five people (Julien and Marchesnay, 1994). Our observations in Gabon indicate between 1 and 3 employees. VSBs centralize their responsibility, often financial, in a single person (Le Vigoureux, 1997). Its autonomy is very limited, as it is mainly dependent on financing organizations. The VSB is subject to the entrepreneur-owner, who concentrates decision-making power in her hands (Mahé de Boislandelle, 1996). Companies with greater credit risk and subjective risk incentives borrow under stricter covenants (Berlin and Mester, 1993). Financing women's entrepreneurs is possible if they have the personal collateral or wealth that can be pledged to support them (Berger and Udell, 1995). External debt may also be preferred to internal financing because it reduces auditing costs (Diamond, 1984). Similarly, some researchers have shown that adverse selection favors external debt over external equity (Myers and Majluf, 1984). Credit always depends on the lender's trust in the borrower and the strength of their relationship (Berger and Udell, 1995). Several authors have studied the factors that foster the personal relationship between the VSB owner and the MFI, that build trust and promote the granting of microcredit (De Bruyne, 2008; Armendáriz and Morduch, 2010).

Cultural proximity strengthens the existing bonds between actors, thereby reinforcing their trust and commitment (Powell, 1998). According to Hofstede (1994), national culture is a kind of average of beliefs and values around which individuals living in a country are situated. He identifies five dimensions of national culture: hierarchical distance, degree of masculinity versus femininity, collectivism versus individualism, control of uncertainty and the orientation of life towards the long or short term. Hofstede (1991) considers that members of a collectivist society need to develop interpersonal bonds in order to develop a relationship of trust.The assumption underlying this definition is the presence of shared values for the parties involved in the exchange. Fukuyama (1994) postulates that trust is linked to the "expectations of members of a community" in which individuals usually share certain norms and adopt predictable behavior based on shared values. In our context, the owner-managers of MFI are teachers from West African countries (Togo and Benin). The majority of micro-entrepreneur clients share a common vernacular language or religion with these owner-managers, indicating a cultural proximity between the actors.

THEORETICAL FRAMEWORK: Riding et al (2012) show that companies have difficult access to external resources, as this is linked to the scale of the risks assumed by lenders. We mobilize compromise theory. It states that the business owner chooses between equity and debt (Myers, 2001). This theory is based on Modigliani and Miller's (1963) thesis that debt increases the firm's profitability due to the tax savings it generates, but at the same time increases the risk of bankruptcy. Although Adair and Adaskou (2014) argue that this theory explains, albeit only in part, financial leverage behavior, we retain it to explain the bankruptcy risk of women entrepreneurs' microenterprises. This risk represents an important factor for women's entrepreneurs with their affiliated microfinance institution, which may use it to refuse them loans and thus exclude them from financing their activity.

Hypotheses

From the above, we infer the main hypothesis H0: "the women'sentrepreneur present a risk that excludes her from financing by the MFI".

From this we deduce secondary hypotheses related to risk factors linked to the entrepreneur.

H1 "the amounts borrowed by the women's entrepreneur favour her exclusion from MFI financing".

H2 "the women's entrepreneur's repeat borrowing does not exclude her from MFI financing".

H3 "the women's entrepreneur's age favors her exclusion from MFI financing".

H4 "the geographical proximity of the women's entrepreneur to the MFI's head office does not exclude her from MFI financing".

H5 "the destination of the sums borrowed by the women's entrepreneur favors her exclusion from financing by MFIs."

H6 "the women's entrepreneur's cultural proximity to MFI managers does not exclude her from MFI financing".

H7 "the women's entrepreneur's delay in repayment favors her exclusion from MFI financing."

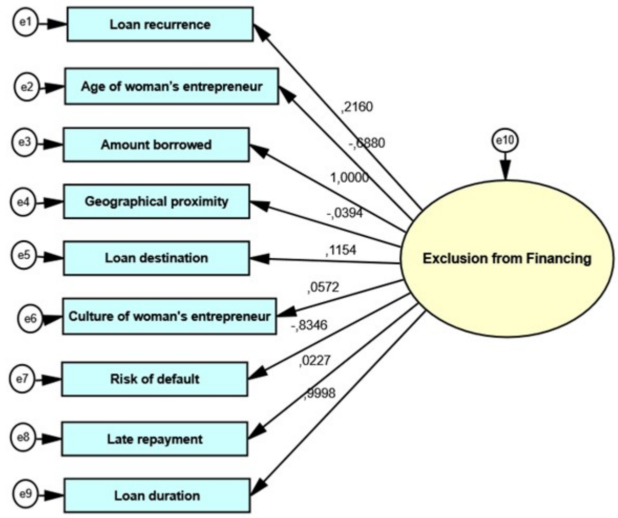
H8 "the duration of the womenentrepreneur's loan favors her exclusion from MFI financing."

METHODOLOGY

We adopt a quantitative methodology. Our approach is explanatory, following a hypothetico-deductive logic to explain the factors that contribute to the exclusion of women entrepreneurs from VSB financing. We study this issue using secondary data from a MFI in Libreville, Gabon, specializing in individual loans. These data are extracted from the database of this MFI in 2022, from which we have extracted 168 women's entrepreneurs and their characteristics. VSB financing is assimilated to personal loans granted to women's entrepreneurs. The variables used are various factors such as loan amount, loan destination, loan recidivism, age of the entrepreneur, default risk calculated as the ratio between the amount still to be repaid and the total amount borrowed, geographical proximity to the MFI's head office, culture of the entrepreneur, repayment delay and loan duration. Do these factors, which are supposed to create a relationship of trust between the microfinance institution and the women's entrepreneur, really facilitate the financing of VSBs run by women? Or do they help to exclude them from financing?

RESULTS

We present the empirical results, their interpretations and decisions on the hypotheses.



Source: Author 2024, with MFI secondary data, result from AMOS v.23 software.

Figure 1. Microfinance exclusion model for women's entrepreneurs

The criteria for structural equation modeling are correct. This model is well suited to the data. The factor of proximity of entrepreneurs to the headquarters of their affiliated MFI opposes exclusion from financing, as the sign of its coefficient is negative, i.e. entrepreneurs who are geographically close to the MFI's headquarters are not excluded from financing by the lending MFI. The age of these entrepreneurs is opposed to exclusion from financing. This is explained by the probability of access to microcredit, which increases with age, and there is a maximum age beyond which this probability begins to decrease according to Kouty et *al.* (2015, p.25). Paradoxically, women's entrepreneurs are not excluded from financing because they present a risk of default. This result is explained by the MFI, which imposes a positive externality for bad borrowers. These women'sentrepreneurs are also excluded from financing because they borrow very high amounts, well above the microfinance principle, representing a high risk of non-repayment because their micro-enterprise does not have sufficient financial resources to honor their commitments.

The duration of the loan is a determining factor that excludes women's entrepreneurs from financing. Indeed, for MFIs, the longer a transaction lasts, the riskier it is for the customer, since the horizon for MFI loans is very short, three months at most. Paradoxically, these women entrepreneurs are repeat borrowers, i.e. those who have borrowed several times and are experienced in borrowing, but are excluded from the 22% financing.

This situation can be explained if these entrepreneurs present a risk or if they repay late, but repeat borrowing reduces the risk of default and therefore promotes confidence and access to financing. Women entrepreneurs are excluded from financing by MFIs because they do not use the sums borrowed for investment. Instead, they use the sums borrowed for domestic consumption. Paradoxically, the cultural proximity between the entrepreneur and the MFI managers (all from the same country and all speaking the same language) favors exclusion from financing, whereas the same culture should break down the obstacle or cultural barrier by fostering trust between the two actors. However, this result can be explained by the fear of avoiding the "iso-culture" effect, which favors lowering the guard on bad entrepreneur-clients of the MFI, or no longer noticing the weak signals of bad entrepreneur-clients. The delayed loan repayment factor is not significant, as its p-value is greater than 10%. Nevertheless, it favors the exclusion of women's entrepreneurs from MFI financing. These interpreted results enable us to confirm or refute the hypotheses retained.

DISCUSSION OF RESULTS

Our result on the geographical proximity of entrepreneurs and their micro-enterprises, which does not exclude them from financing, is in line with those of Belletante (1991); Servet (1996); Binks and Ennew (1997); Mayoukou (2000) and Lelart (2006, 2008), for whom geographical proximity reduces the risk of default. This result confirms the principle that an MFI is a proximity bank. Our result is in contradiction with Indjendje Ndala (2018), who points out that exclusion from financing by an MFI can be caused by the actor's distance from the headquarters of her affiliated MFI, as the lending MFI has to bear significant costs associated with obtaining information on these entrepreneurs. Our finding that age does not exclude a women's entrepreneur from financing by an MFI is in contrast to Samba and Balamona (2015, p. 44), who point out that as age increases, a person's chances of obtaining a microcredit decrease. The paradoxical result of the entrepreneur's risk not favoring her exclusion from financing confirms the findings of Bardhan and Udry (1999); Bloch and Coeuré (1995) on the presence of high-risk women's entrepreneurs not identifiable by the lending MFI, which imposes a negative externality for good borrowers and a positive externality for bad borrowers (Laffont and N'guessan, 2000). The result on high amounts that exclude women entrepreneurs from financing by MFIs is at odds with Guérin et *al.* (2006) definition of low amounts lent by MFIs. It also disagrees with Attali et *al.* (2007) on low loan amounts that are unprofitable for commercial banks. The result on the long loan duration that excludes the entrepreneur from financing by an MFI is in line with the work of Hollinger (2004), who argues that "access to longer-term loans for small and medium-sized producers remains extremely rare or non-existent." The paradoxical result of recidivism in borrowing, which favors the exclusion of the entrepreneur from financing, is at odds with Schreiner (1999), for whom a high level of borrowing experience reduces the risk of default. It is also at odds with the results of Morduch (1999) and Simtowe et *al.* (2006), who defend the idea of a "dynamic incentive" for good, i.e. more experienced, clients. The result that the sums borrowed are used for consumption rather than investment, thus excluding the entrepreneur from financing, is in contradiction with Sen (2000), for whom these entrepreneurs

Table 1. Standardized regression coefficients

Variables explicatives		Variable expliquée	Coef.	p-value
Geographical proximity	<---	Exclusion from Financing	-0,0394	0,042
Age of women's entrepreneur	<---	Exclusion from Financing	-0,6880	***
Risk of default	<---	Exclusion from Financing	-0,8346	***
Amount borrowed	<---	Exclusion from Financing	1,0000	***
Loan duration	<---	Exclusion from Financing	0,9998	***
Loan recurrence	<---	Exclusion from Financing	0,2160	***
Loan destination	<---	Exclusion from Financing	0,1154	0,019
Culture of woman's entrepreneur	<---	Exclusion from Financing	0,0572	0,021
Late repayment	<---	Exclusion from Financing	0,0227	0,645

Source: Author 2024, with secondary data from MFI.

Table 2. Decisions on research hypotheses

Hypotheses	Decisions
H0: "the women's entrepreneurs presents a risk that excludes her from financing by the MFI".	Invalidated
H1 "the amounts borrowed by the women's entrepreneurs favour her exclusion from MFI financing".	Confirmed
H2 "the women entrepreneur's repeat borrowing does not exclude her from MFI financing".	Invalidated
H3 "the women entrepreneur's age favors her exclusion from MFI financing".	Invalidated
H4 "the geographical proximity of the women's entrepreneur to the MFI's head office does not exclude her from MFI financing".	Confirmed
H5 "the destination of the sums borrowed by the women's entrepreneur favors her exclusion from financing by MFIs."	Confirmed
H6 "the women entrepreneur's cultural proximity to MFI managers does not exclude her from MFI financing".	Invalidated
H7 "the women entrepreneur's delay in repayment favors her exclusion from MFI financing."	Confirmed
H8 "the duration of the women entrepreneur's loan favors her exclusion from MFI financing."	Confirmed

Source: Author 2024.

lack an "exchange card". The paradoxical result that the cultural proximity of women entrepreneurs to MFI managers favours their exclusion from financing contradicts the ideas of Fukuyama (1994), Hofstede (1991, 1994) and Powell (1998). Our results confirm the principles of microfinance, such as geographical proximity (local bank) and temporal proximity (short-term or very short-term loans). Our results also confirm the principle of small loans. These results also highlight three of the paradoxes mentioned above.

CONCLUSION AND CONTRIBUTIONS OF THE RESEARCH

Our theoretical contribution is the model advocated in this research, which reflects the particularities of women entrepreneurs faced with their exclusion from financing by MFIs. Our results complement the trade-off theory by specifying the risk factors borne by women entrepreneurs that could exclude them from financing by the microfinance sector, namely high loan amounts, repeat borrowing or borrowing experience, the destination of the sums borrowed for domestic consumption, the cultural proximity of the women's entrepreneur-borrower and the MFI manager, and the duration of the loan. Moreover, these factors are not necessary and sufficient conditions for exclusion from financing, as in our context, women entrepreneurs are not excluded from financing despite presenting these risk factors. As a managerial contribution, the results of this research can be of use to microfinance practitioners. Indeed, MFI managers can improve their practices by better targeting women entrepreneurs. They can also introduce controls to combat the detour of borrowed funds towards investment. Finally, they can correct the paradox noted in this paper, by financing more repeat offenders, as they honor their repayments. These are good clients who can benefit from the principle of dynamic incentives or progressive microcredit amounts. This result can also be used as an institutional policy to encourage more state support for women entrepreneurs. We need to continue our investigations by qualitatively studying the convergence or divergence of the expectations of MFI managers and those of the women's owners of microenterprises, through cross-views, to better understand the lack of enthusiasm for financing these women entrepreneurs.

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