



Access to Credit for Businesswomen in Indonesia

PENSA
PENGEMBANGAN USAHA
PROGRAM FOR EASTERN
INDONESIA SME ASSISTANCE

**ACCESS TO CREDIT FOR BUSINESSWOMEN
IN INDONESIA**

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Executive Summary

Women entrepreneurs in Indonesia have a strong presence in the micro, small and medium enterprise sector. In fact, women-owned businesses represent 60 percent of the total micro, small and medium enterprises in Indonesia, offering an important contribution to Indonesia's economic growth¹.

With so many women working in the MSME sector in Indonesia, access to credit for businesswomen becomes an important issue to consider. Although Indonesian laws regarding borrowing (formally) do not discriminate women, some women business owners say it is still difficult for women to access formal credit.

This initial study was conducted in Surabaya with a study group of 58 business women and 20 business men using structured interviews and in-depth interviews. A national bank and two state banks offered general information about the credit process and perspectives on women borrowers in Indonesia. The experience of applying for credit described by the women and men in the study refer to several different banks in Surabaya.

The study offers two views: one of general information about loan processes and credit to women in Indonesia, and the other a snapshot of a particular population in Surabaya. This study should be considered an initial foray into the issue of access to credit for businesswomen. With a look at the trends indicated in these early findings, further studies can more fully explore the dynamics indicated here, using a larger survey size and broader geographic coverage. Arrangements will be made to conduct a follow up study to provide a more comprehensive and in-depth analysis on the issue of access to credit for businesswomen.

The study was conducted with two questions in mind:

- Do business women in Indonesia represent a particular kind of credit risk for banks?
- What issues do women borrowers perceive when they apply for credit?

While Chapter One looks at the loan processes in Indonesia and offers general information about businesswomen as borrowers with specific focus on borrowing activity in 2004, Chapter Two offers more specific information from the banks' perspectives about the kind of regulations and conditions required to access credit. Chapter Three focuses on the study population in Surabaya, examining the issues businesswomen face in applying for and accessing credit. Finally, Chapter Four offers recommendations to banks and policy makers for improving access to credit for businesswomen.

The findings from this study indicate the following about credit for businesswomen:

Banks:

- Do not consider women as primary targets, though their credit worthiness appears to be no different from male borrowers, and in some cases even better.
- Recognize the disparity between funds lent to women versus men as purely a reflection of demand rather than bias.
- May be especially critical of business plans from women-owned businesses.

¹ www.depkop.go.id

Businesswomen:

- Perceive interest rates as too high and collateral requirements too restrictive. Find the loan application process more complicated and onerous than male applicants.
- Are cautious borrowers, taking minimum amounts of capital necessary in order to avoid default.
- Do not all consider their businesses a primary source of income, an important issue if that indicates a lower demand for credit.

The data provided by banks for this study indicates that credit performance by women is quite good, even better than for men. Low credit disbursement to women is simply an issue of demand, but banks could make efforts to increase credit delivery to women, especially as women appear to be far more cautious in applying for credit and more conscientious in repaying loans.

Based on these conclusions, banks and policy affecting credit should advocate for small and medium enterprises, ensuring that women business owners especially do not experience excessive burden in accessing loans from banks.

Research Methodology

This study was conducted in Surabaya, the second-largest city in Indonesia. As the capital city of East Java province (one of 30 provinces in Indonesia), Surabaya's current population stands at about three million.

Partner banks in the region were to provide information about applications for credit by businessmen and women. This had to be modified when confidentiality issues arose and approvals for collaboration were not released.

General information about loan application processes and regional loan allocations for women comes from one private national bank and two state-owned banks in Indonesia. The private national bank is recognized as one of a limited number of banks in Indonesia that pays particular attention to small and medium enterprises.

For specific information about the experience of applying for credit, this study relies on the experiences of 78 members of a study group, formed by locating and interviewing businesswomen and businessmen in Surabaya, East Java. Each person interviewed offered further contacts, and in this way the study group of 58 businesswomen and 20 businessmen was assembled. To gather information, the survey used questionnaires and interviews.

The study examines access to credit for businesswomen, and in addition to looking at the way banks perceive women borrowers, considers the perspectives of women toward the credit application process. Of the 58 businesswomen interviewed, just 20 were clients of commercial banks. While this makes for a limited study population, the experience of businesswomen who do not apply for credit can offer critical information about how the application process is perceived.

The experience of applying for credit described by the women and men in the study refers to several different banks in Surabaya.

Information provided by the national and state banks provides a basis for discussion of credit issues and trends in Indonesia generally, while the study group in Surabaya offers specific discussion about women's perceptions of the credit process.

Chapter One: Businesswomen and Credit Performance in Indonesia

Banks² are less likely to allocate credit to small businesses because of the perceived high risk. While commercial banks do not have policies that imply bias in lending to men or women, the disparity between credit accessed by men compared to women suggests that there is much greater market for lending to businesswomen than is being addressed. This chapter offers a brief look at the general loan application process, then focuses on credit performance of women borrowers compared to male borrowers in Indonesia. It also examines where lending to women is more prevalent and how and in what sectors those funds are channeled.

1.1 Loan Application Process

A bank's approval of loan applications is determined by a Credit Committee. The Committee is made of members who were directly appointed by the bank's Board of Directors. The bank's head, regional and branch offices each have a Credit Committee. Loans are classified as follows:

1. **Corporate Finance Loan:** Loans approved by the Jakarta head office for a minimum amount of Rp 10 billion.
2. **Regional Loan:** Loans approved by regional offices for amounts between Rp 1.5 and Rp 10 billion.
3. **Branch Loan:** Loans approved by authorized branch offices for a maximum amount of Rp 1.5 billion.

Note: Some branch offices still manage loans exceeding Rp 10 billion. These loans were approved before the above classifications were established.

Loan mechanisms work as follows:

1. Submission of credit proposal by prospective borrower.
2. Administration processed by Account Officer.
3. Submission of credit proposal to appropriate Credit Committee, according to classification.
4. Loan approval by at least three Credit Committee members.

In some cases, banks do not strictly follow the above mechanism. Potential women customers may receive help from banks in order to fulfill requirements for loan approval.

To better manage loans according to classifications, one of the banks have established four geographic regions:

1. **Corporate Finance:** Loans disbursed through the Jakarta head office.
2. **Region One:** Loans disbursed throughout West Java.
3. **Region Two:** Loans disbursed throughout the Jabotabek (Jakarta, Bogor, Tangerang and Bekasi) area.
4. **Region Three:** Loans disbursed throughout Central Java, East Java and other areas.

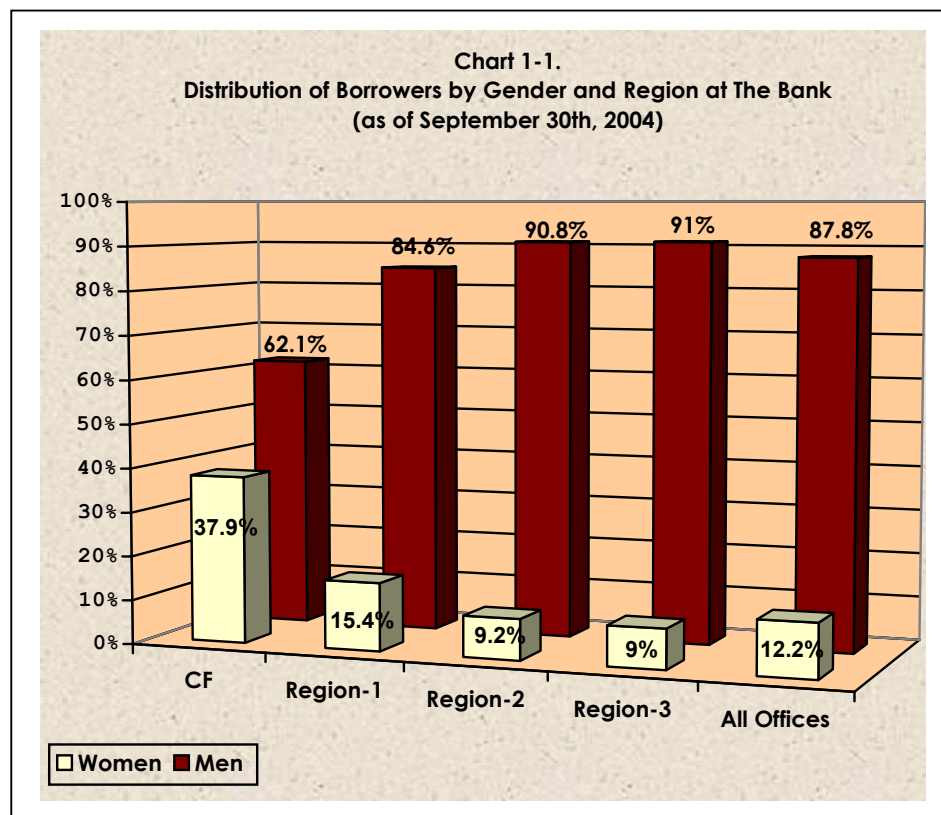
² In this study, collaboration with a private national bank was necessary to obtain information disaggregated by gender and qualitative attributes. Collaboration with two state-owned banks provided additional qualitative data. "Banks" refers to these three institutions.

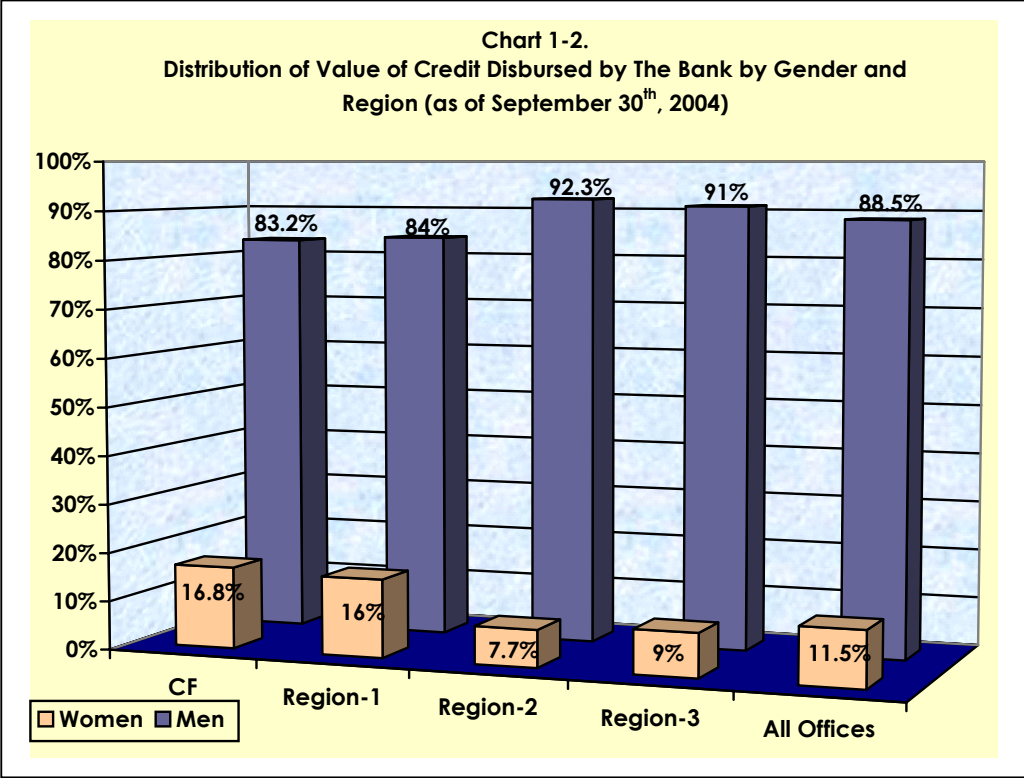
1.2 Credit Coverage

In general, women are not considered primary targets for banks. In 2004, in all four regions, credit disbursed to women only reached 11.5 percent, while men customers accounted for 88.5 percent of total loans (see Charts 1-1 and 1-2). These loans include Working Capital Loans or *Kredit Modal Kerja* (KMK) and Investment Loans or *Kredit Investasi* (KI).

Out of all outstanding loans, Corporate Finance (CF) has the highest credit value disbursed to women. In this region, (16.8 percent) are outstanding loans to women, while (83.2 percent) goes to men. CF handles 44 women customers representing 37.9 percent of total borrowers.

The average amount of loan disbursed to women borrowers is much less than those made to men. Although women make for 37.9 percent of customers in the CF region, the outstanding loan amounts to only 16.8 percent of the total.





For credit up to Rp 10 billion, Region One disbursed the largest amount to women (see Chart 1-1). This region covers West Java, including Bandung, Cimahi, Cirebon, Tasikmalaya and other surrounding areas. Loan allocation for women in this region reached 16 percent, while men stood at 84 percent. Compared to Region Two where women comprise only 9.2 percent of total borrowers, Region One has more women customers who make for 15.4 percent of total borrowers. It is likely that the higher number of women borrowers in Region One results from the area's conducive business environment for women. West Java is known to be the center of several small industries that are traditionally managed by women, such as snacks in Cirebon and women's wear in Tasikmalaya.

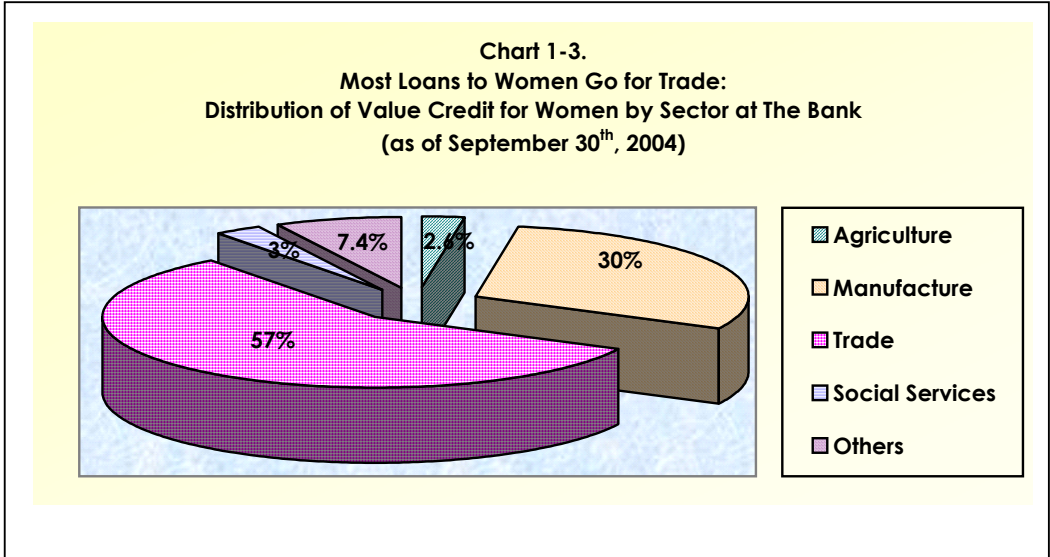
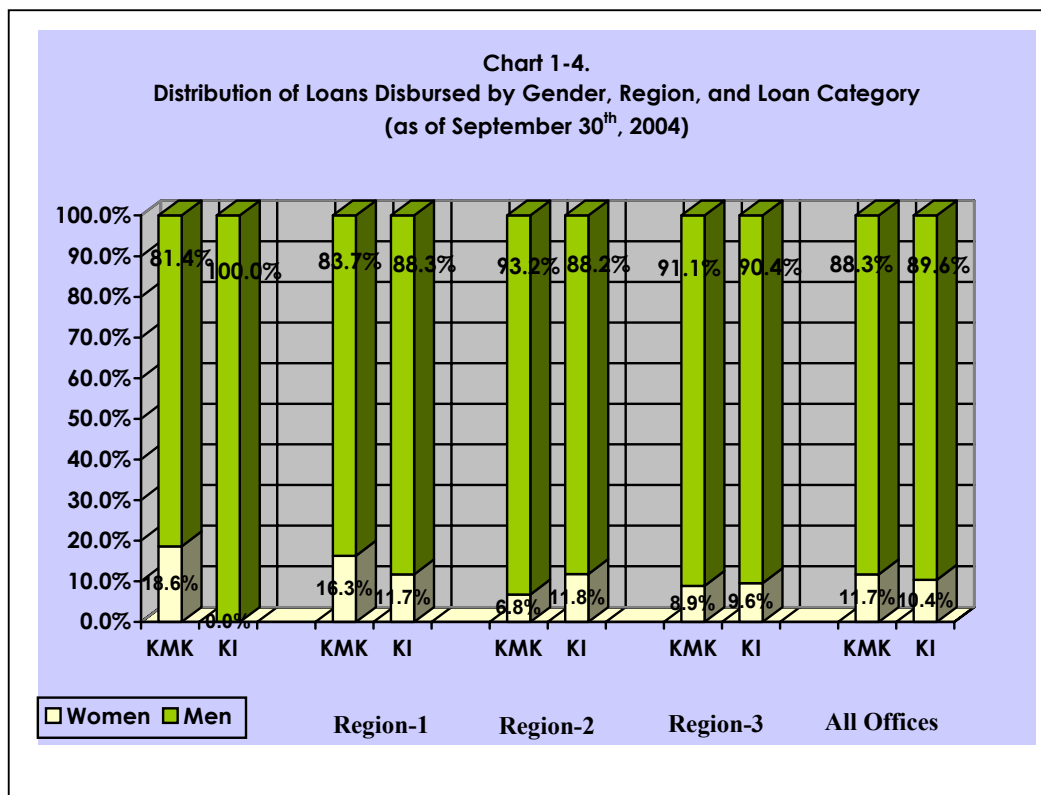


Chart 1-3 shows that the majority of credit is disbursed to women in the trading and manufacturing sectors. Credit to businesswomen in the trading sector totals 57 percent, while 30 percent of loans are made to businesswomen in the manufacturing sector. Other credit is distributed amongst businesswomen in agriculture (2.6 percent), social services (3 percent) and other sectors (7.4 percent). It is likely that preference for businesswomen in the trading sector is based on low capital requirements to entry, quick turnovers and high yields relative to other sectors.

1.3 Use of Credit

Businesswomen borrowers tend to use loans for working capital (KMK) rather than investment (KI). In all four regions, a total of 11.7 percent loans are disbursed for KMK, while 10.4 percent are for KI (see Chart 1-4.)

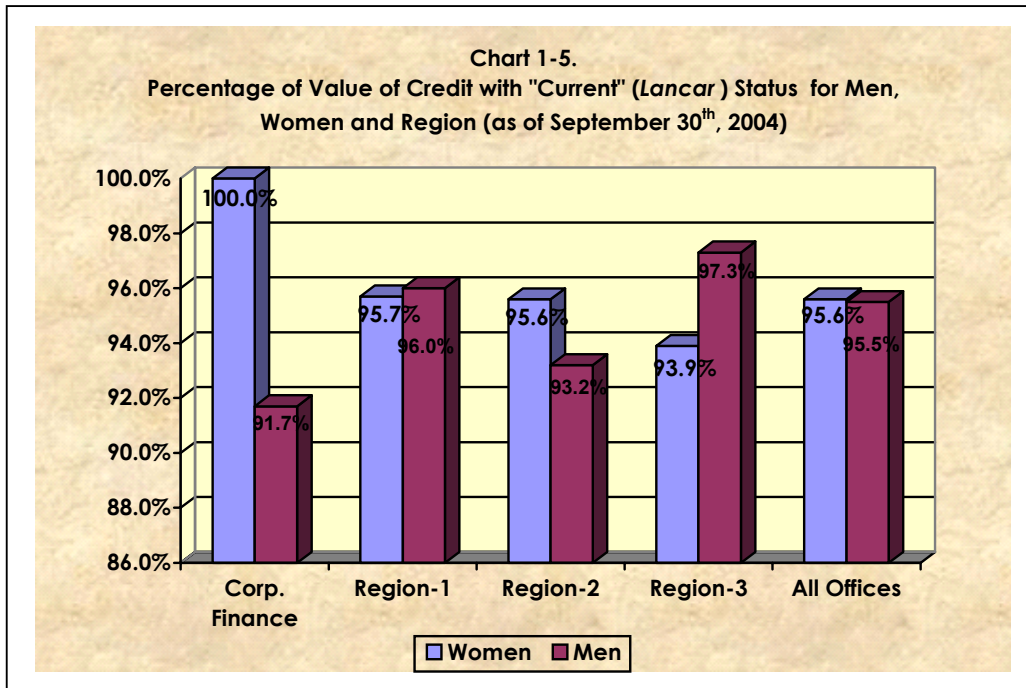


All loans disbursed to businesswomen by CF are used for KMK; the banks show no record of disbursement for KI in the CF region. According to the banks, KI proposals submitted by businesswomen were not feasible.

The Surabaya survey of male and women entrepreneurs provides interesting evidence on the different uses for credit. A total of 7 percent of 20 men respondents stated that they use loans to help manage cash flow, including payment for other loans—a usage apparently unique to male borrowers. Other men and women respondents underscored that most used loans for working capital and purchase of business-related equipment.

1.4 Credit Repayment

Aside from how borrowers use credit, another crucial indicator of credit performance is the ability to repay credit. Here, the study discovered that while in some places women creditworthiness ranked higher than that of men, measured creditworthiness did not differ significantly as a result of gender. Properly analyzed, this indicates that banks should not relate degrees of creditworthiness to gender.



In CF and Region Two, women have a higher percentage of credit with "current" status than men (**See Chart 1-5**). In CF, 8 percent of loans disbursed to men are categorized as "special attention" and 0.3 percent are considered non-performing loans (NPL).³ The survey found no such case for loans made to women. Nevertheless, NPL for male and women borrowers both stood at a coincidental 3.3 percent.

Note that non-performing loans (NPL) consist of three categories: "sub-standard" "doubtful" and "loss/default".

³ Categorization of Credit Performance (Ability to Pay Criteria) Based on Central bank Regulations:

1. **Current:** Always repays on time
2. **Special Attention:** Late in paying principle < 90 days, rare overdraft
3. **Sub-standard:** Late in paying principle and/or interest between 90-180 days, frequent overdraft
4. **Doubtful:** Late in paying principle and/or interest between 189-270 days, permanent overdraft
5. **Loss/Default:** Late in paying principle and/or interest > 270 days

Two other criterias not addressed here : Financial Performance and Prospect of Business

1.5 Conclusion

In conclusion, information from the banks show that:

1. Allocation of credit for businesswomen is lower than that given to businessmen.
2. Credit disbursed to women is mostly distributed to businesswomen in the trading sector, probably due to the sector's quick turnover and high yield.
3. Based on use of credit and credit repayment findings, there is indication that the credit performance of businesswomen is sometimes better than, and at least as good as businessmen's credit performance.

Women are applying for and receiving less credit than men. Banks can do more and better business by appealing to businesswomen, who demonstrate quite good credit performance. The possibility to build better business for banks while helping to bolster local economies should dictate policy that promotes more credit for businesswomen in Indonesia. As a point of entry to enlarge the women client base, banks could target the trade sector where businesswomen appear to perform well.

Chapter Two: Delivering Credit to Businesswomen

Information presented in this chapter and the next is based on survey data collected from a private national bank and two state banks. In this chapter, the focus is on the legal regulations and bank policies and procedures that affect access to credit. As is revealed, there is little gender bias in either the laws or bank regulations. Still, it appears that banks could be more aggressive in lending to SMEs and women.

2.1 Terms and Conditions in Practice

Regulations

At present, loan disbursement to businesswomen is not limited by any overt regulation. Rather, since lending to women-owned businesses is typically, but not always, a loan to an SME, regulations regarding SME lending *Kredit Usaha Kecil* (KUK) are most relevant.

Under the Bank of Indonesia (BI)'s policy No. 6/25/PBI/2004 dated October 22, 2004 on Commercial bank Business Plans, banks are required to submit their business plan at the beginning of every calendar year and provide reports on realization of the business plan on a quarterly basis. Such reports must include realization of loans disbursed to Micro, Small and Medium Enterprises (MSMEs).

While not long ago, banks were required to allocate a percentage of their portfolios to MSME lending, today this is not so. Nonetheless, the Bank of Indonesia does "encourage" lending by commercial banks to SMEs. Unfortunately, not all BI policies enforce this position. For example, loans not fully collateralized with land or buildings, require 100 percent provisioning. This reduces a bank's capital-to-loan ratio and makes it more "costly" for banks to distribute these sorts of loans. Of course, the Bank of Indonesia is working to protect the systemic risk within the banking sector but information collected from a focus group discussion involving bank officials that took place on December 10, 2004 indicated that such policies also discourage lending to SMEs that typically didn't have land or buildings as collateral.

Terms and Conditions

In the loan application process, most banks consider a "5 Cs Principle" before the Credit Committee gives approval. The principle requires examination of the following characteristics of a prospective borrower (the last "C" refers to condition of the economy):

- Character
- Capacity
- Capital
- Collateral
- Condition

Of all principles, character is the most important criterion to consider. A strong commitment to business development, appropriate use of the loan and the ability to fulfill obligations are characteristics highly valued by the bank. Based on observations made by bank officers, successful businessmen and businesswomen share the following characteristics:

- Five years minimum experience in a particular business sector.
- Age 35 to 50.
- Credible character and adequate capacity to run their business.
- Conscientious business sense.

Credit is disbursed only after character has been considered and when the business is deemed financially feasible or having profitable prospects with manageable risks. Based on observations by the banks, automobile, spare part, pharmaceutical and chemical businesses have profitable prospects with manageable risks. The banks state emphatically that gender is not considered an issue in any risk assessment. This is reinforced by a review of bank policies that reveal no mention of gender when it comes to loan assessment.

The banks implement strict procedures in the loan application process. A Credit Committee administers, supervises and decides loan approval. At least three members of the Credit Committee are required to agree on and approve of applications. When assessing applications, formal regulations are strictly followed. Informal factors are not considered and do not affect this decision-making process.

Collateral is a prerequisite when applying for credit. The banks do not disburse collateral-free loans and policy stipulates that collateral be worth 125 percent of the credit value provided. In terms of ownership, banks are not concerned with whether the applicant or spouse owns the asset being pledged so long as the owner is willing to pledge the asset. This opens the door to a broader range of assets that can be used by SME borrowers in that assets owned by relatives or family will be considered.

Most useful collateral include deposits or certificate of deposits, land with certificate of ownership and property with a license to build or *Izin Mendirikan Bangunan* (IMB). Banks also accept personal or corporate guaranteed account receivables and inventories as collateral though it is uncertain and unlikely that this type of collateral would be valued nearly as highly as land or deposits and thus, alone, would not meet the collateral criteria.

For SMEs, the financial reports and not the credit application are the most important documents when applying for a loan. Unfortunately, banks do not expect the application or financial statements from SMEs to be fully indicative of the business' situation. Thus, SME applications are among the most scrutinized.

Besides financial statements and an application, banks require a business license or *Surat Izin Usaha Perdagangan* (SIUP), business registration or *Tanda Daftar Perusahaan* (TDP), tax number or *Nomor Pokok Wajib Pajak* (NPWP), industry license for industry applicants, bank account statements for the last three months, license to build for property collateral and notary documentation.

After a loan is disbursed, the banks require financial reports to be submitted every six months. If account receivables are used as collateral, then a certified list of account receivables must be provided on a quarterly basis to ensure that receivables are performing.

The banks claim they never decline loan applications for gender-specific reasons and no policies exist to warrant such a decision. Generally, applications are declined for the following reasons:

- Unsound character.
- Poor business prospects.
- Lack of capacity.
- Unviable land collateral, such as barren land and swamp.

2.2 Lending Issues

From the banks' point of view, the lack of loan disbursement to businesswomen is a demand side problem—few businesswomen apply for credit compared to men and many business ideas presented by women are not deemed financially feasible.

According to the banks, SMEs' are less well able to prepare and present financial reports and while the bank is willing to provide additional time as well as technical assistance to SMEs to help them over this hurdle, this support is more informal and thus occurs when bank officers make themselves available.

Other major issues affecting credit decisions to SMEs and thus women, are:

- **Marketing:** The bank presumes SMEs lack substantial marketing skills and thus are less sustainable.
- **Efficiency:** Retail price of many SME products seem higher than their larger competition so banks regards SMEs as less cost-effective.
- **Production:** Quality of SME products is considered lower than their competitors'.
- **Productivity:** The bank perceives SMEs to have lower labor output.

Poor performance in any of these areas would work against the competitiveness of SMEs and increase bank risk. It is little wonder why banks make fewer loans to SMEs and, by extension, women-owned businesses.

2.3 Conclusion

Banks are not required from a legal or policy perspective to consider gender when making a loan decision and it appears that the banks follow this practice. When evaluating credit applications, banks are looking for the creditworthy borrower and business. The fact that fewer loans are given to women reveals less about perceived higher risk on the part of banks, and more about the fact that fewer women are attempting to receive business financing from commercial banks than men—a fact that highlights useful information for banks: women are generally far more cautious about applying for credit, preferring to do so only when they are confident that they will be able to repay.

Chapter Three: Businesswomen Accessing Credit

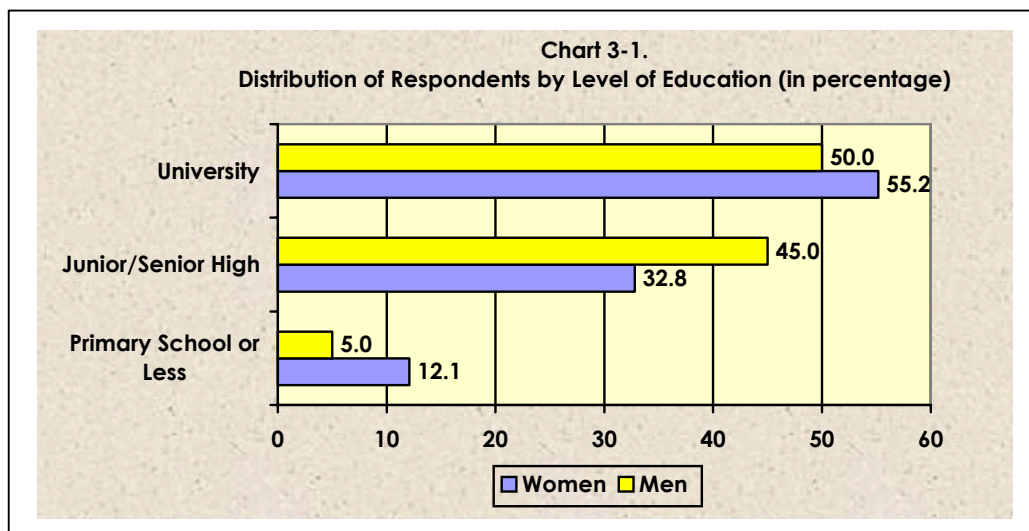
Information presented in this chapter is based on results of a survey of 58 businesswomen and 20 businessmen. From this total of 78 entrepreneurs, 35 were extended bank credit. While the survey sample size is not large, it provides a good foundation for further research. The survey was conducted in Surabaya, East Java using questionnaires and interviews.

Serving as an initial inquiry into the issues businesswomen perceive when applying for credit, this research includes men in the study group to provide an opportunity for valuable comparisons.

The chapter focuses on characteristics of women-owned businesses in Surabaya, compared to those owned by men. Factors of comparison are made at three levels. The first, general characteristics, reveals some of the similarities and differences between male and women borrowers in areas like education, marital status, and experience in business. The second looks at a number of financial and administrative attributes like sources of capital, reasons for not borrowing and business performance. The last section looks some institutional preferences of business women. These comparisons help to paint a more detailed picture of not only what women-owned businesses look like but how they operate and, to some extent, their values.

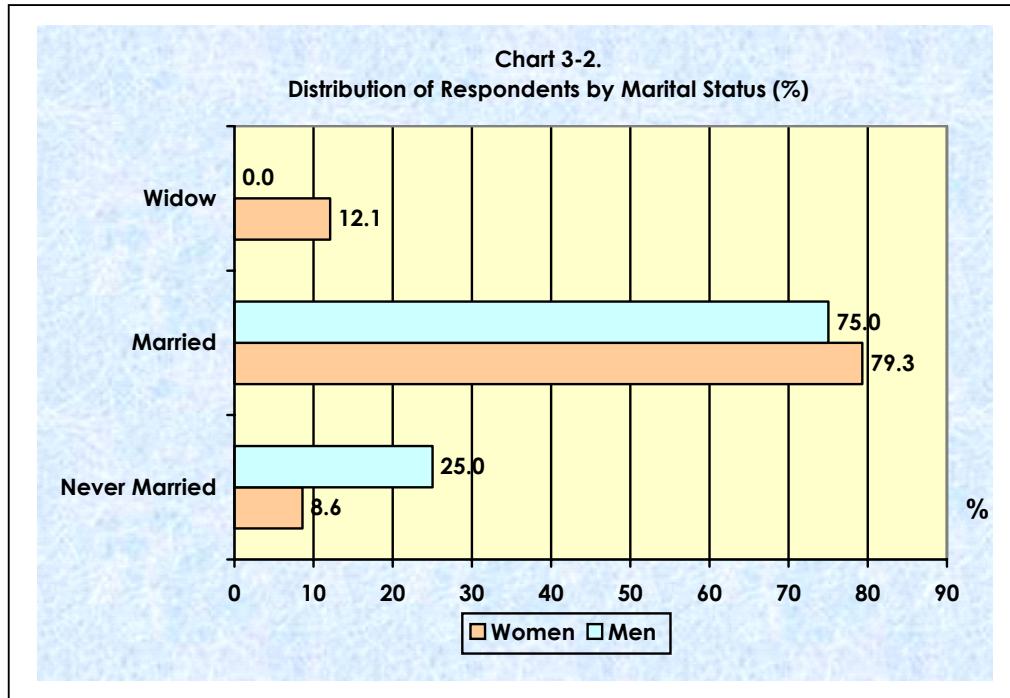
3.1 Characteristics of Businesswomen and Men and Their Businesses

Education



In terms of education background, businesswomen are on par with their male counterparts. About 55 percent of all women respondents have at least a university level education, while only 12 percent have primary school or *Sekolah Dasar* (SD) education or less. Notably, only 50 percent of all men respondents (20 men) reached university level education.

Marital Status

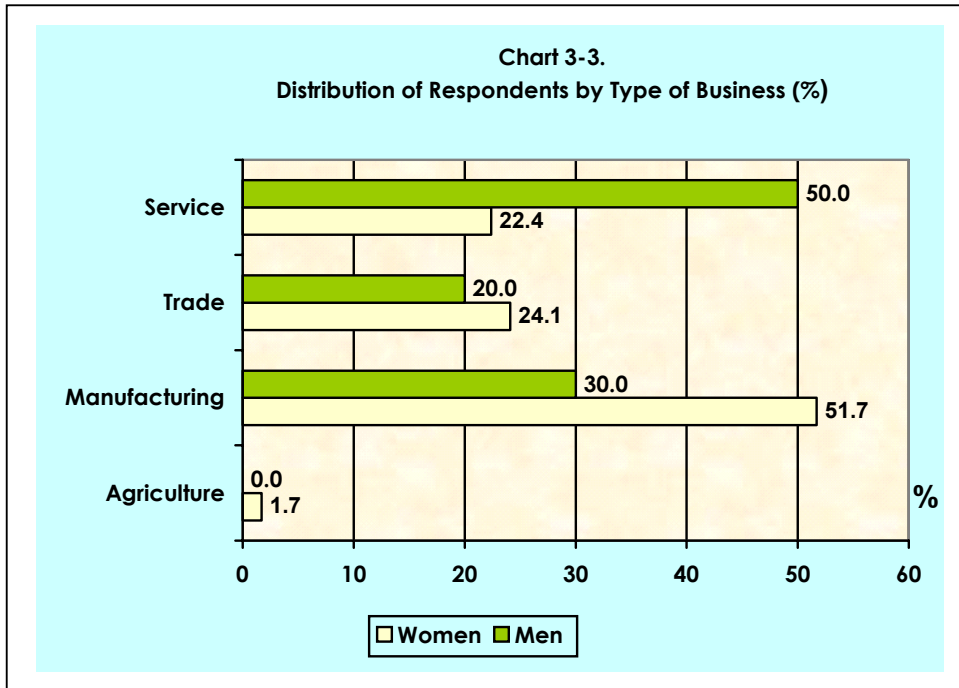


Interestingly, there were no divorced businessmen in the survey, yet one of twelve of the women leading their own businesses was divorced. [Unfortunately], the survey and interviews did not capture information on whether the divorced women were in business before or after their divorce or whether entrepreneurship was a factor in their divorce. It is reasonable to conclude that some women go into business driven by economic survival, more so after their divorces.

Business Experience

In the survey, businesswomen have slightly more experience running their businesses than their male counterparts, at 10.4 years and 8.9 years respectively. In addition, the women had more slightly more years in the workforce than the men, 9.15 years and 7.38 years respectively.

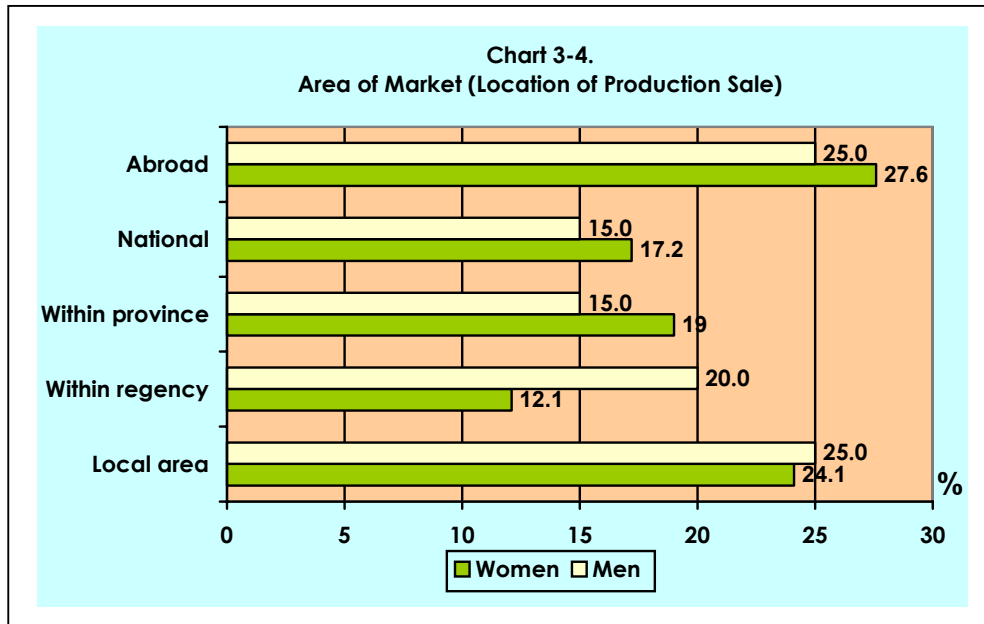
Sector Distribution



The presence of businesswomen is strongest in the manufacturing sector (51.7 percent v 30 percent), while men lead in the service industry (50 percent v 22.4 percent). This result, while not intuitive, is understandable since handicraft businesses are classified as manufacturing and women traditionally dominate this line of business.

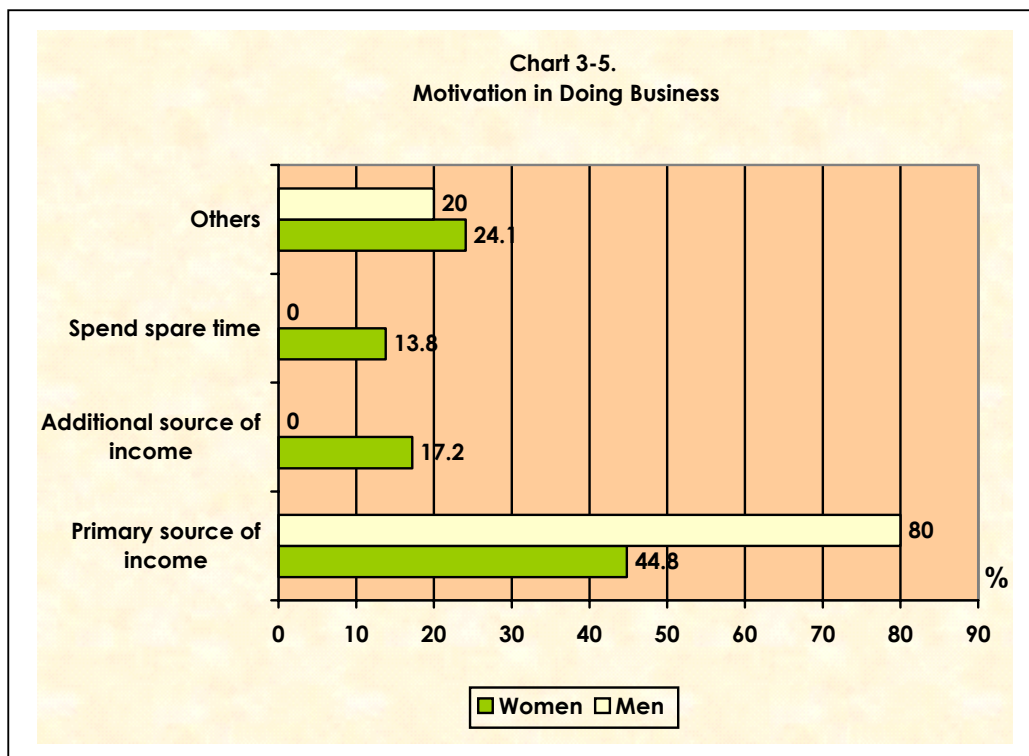
This division of business sectors seems to contradict the bank's portfolio data that shows credit extended mainly to women working in the trade sector. It is possible both findings are true and that the women working in the manufacturing sector tend either not to seek financing from commercial banks or generally decline funding from commercial banks.

Markets



Businesswomen and businessmen have comparable experience in marketing their products for sale at home, regionally and even abroad. This finding would be surprising for those expecting women-owned businesses to be highly localized both in terms of input sourcing and sales.

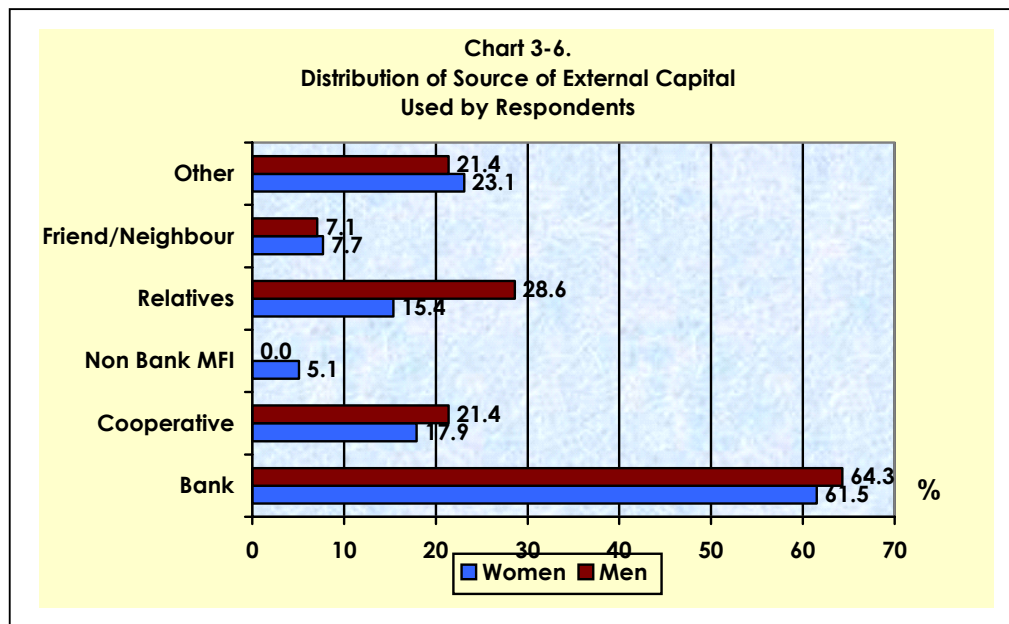
Business Motivation



Unlike those of their male counterparts, women-run businesses are less likely to be a primary source of income for the family. Although 44.8 percent of businesswomen in this study run their businesses as a primary source of income, almost twice the amount or 80 percent of businessmen declared likewise. When examining other reasons for running a business 17.2 percent of the businesswomen surveyed considered the income supplemental to other income earned by the family or, in the case of 13.8 percent, saw the business as a way to spend spare time. This finding supports the common notion that men go into business for economic survival and are recognized as primary 'breadwinners'.

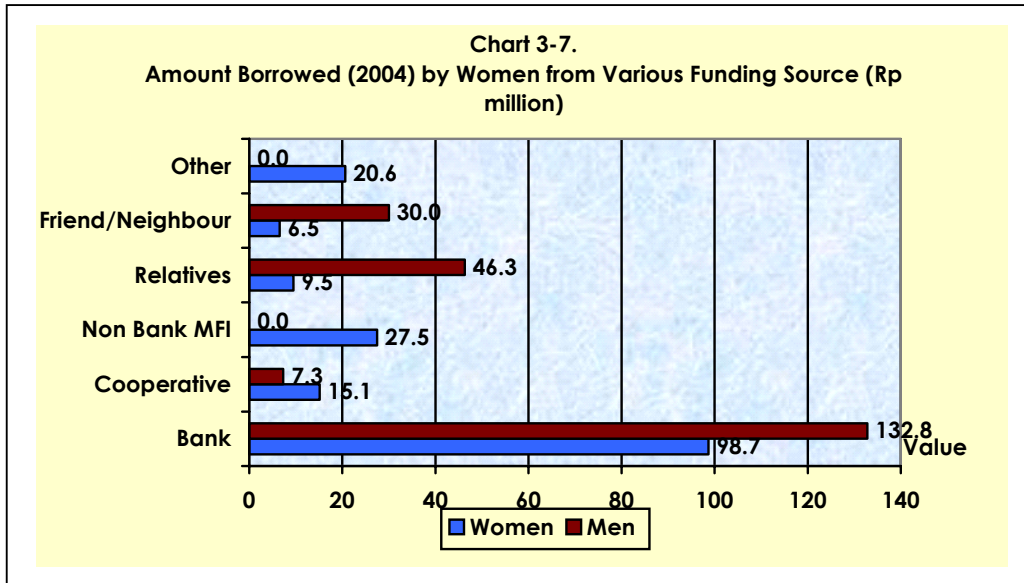
3.2 Financial & Administrative Attributes

Borrowing Attributes



Note: Resulted from Yes/No questions for each category, % indicates the Yes response in certain category.

Commercial banks are by far the preferred financing mechanism for both men and women. And, men and women are about equally successful in securing capital from external sources with the notable exception that women secure far less capital from relatives than men (15.4 percent, v. 28.6 percent) and more from non-traditional sources like microfinance institutions.



Men tend to borrow more funds in absolute terms, which is understandable since businesses owned by men tend to be larger enterprises (see Chart 3-7). Interestingly, while men and women borrowed with comparable frequency from cooperatives, the amount of funds borrowed is disproportionately larger for women, 15.1 percent v. 7.3 percent. This suggests women are viewed as better credit risks than men at cooperatives.

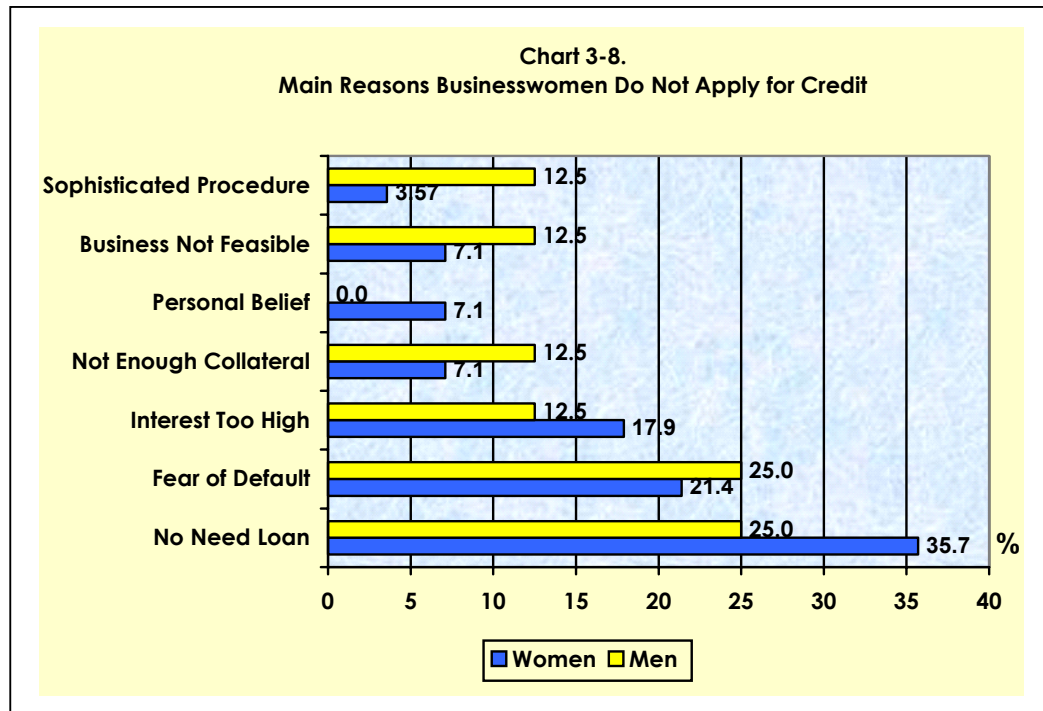


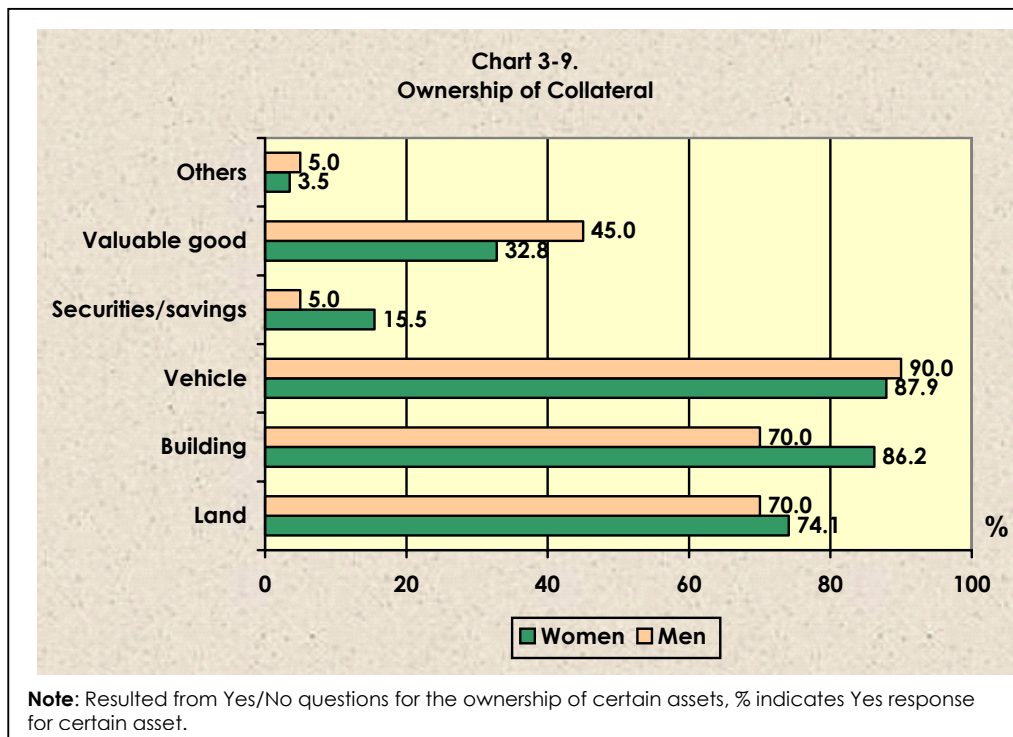
Chart 3-8 shows that businesswomen surveyed are less likely than men to need bank credit, 35.7 percent for women vs. 25 percent for men. Perhaps because male business owners need bank credit more, they fear payment default more than businesswomen do. However, for businesswomen, fear of payment default translates into a lower likelihood of applying for credit. In addition, women business owners generally feel that bank credit is too expensive, which suggests they prefer to access other less expensive sources of credit.

When borrowing from banks, women appear to exercise more caution than men. A banking office with 15 years experience notes that businesswomen tend to be very careful in the following areas of the loan application process:

1. Business projections: Women make more conservative business performance projections, whereas men speculate more liberally.
2. Quality loan applications: Women more carefully consider details of their loan application before submitting it to the bank.

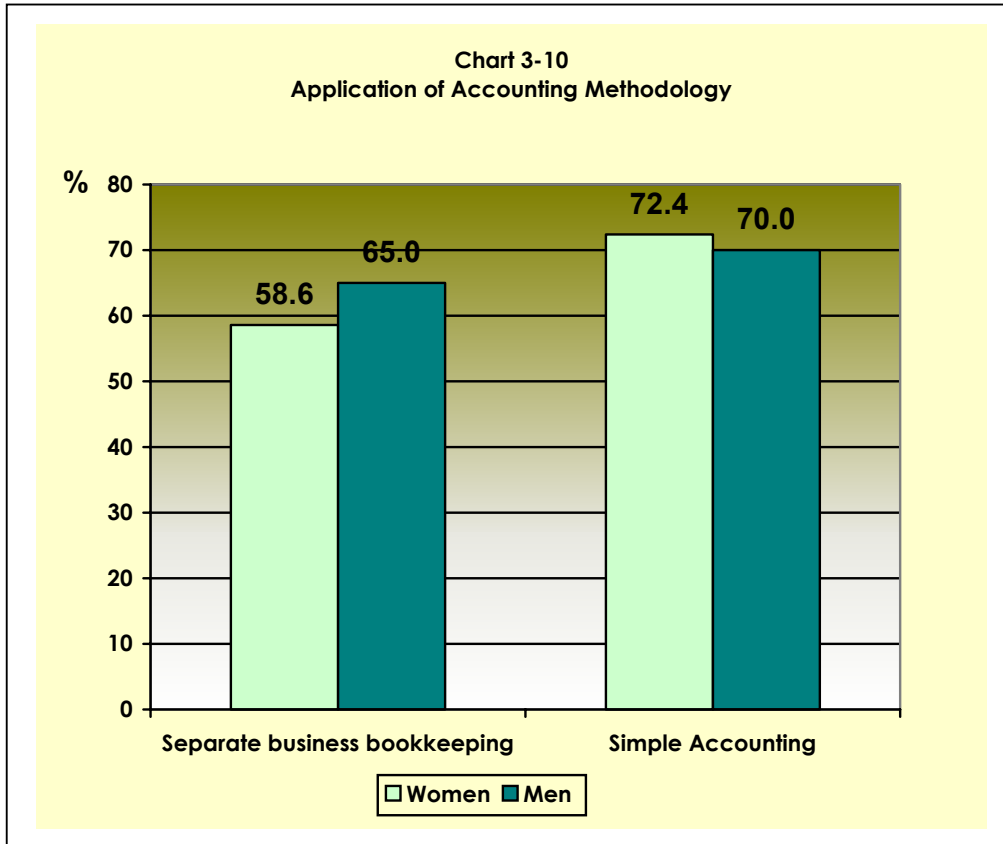
The more prudent manner in which women apply for credit suggests that they may be generally more favorable candidates for loans, presenting less credit risk.

Collateral



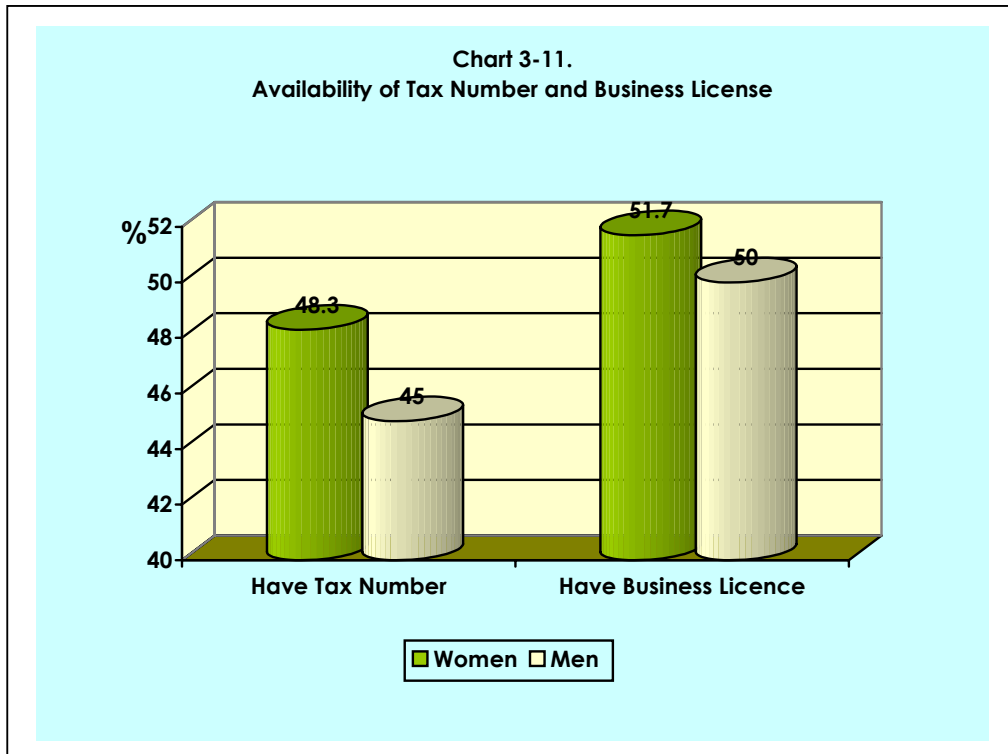
Women business owners possess assets that qualify for loan collateral, comparable to their male counterparts. This could mean that the profiles of business owners surveyed are quite similar or that to be in business, one has to have a basic amount of assets that can be used as collateral.

Accounting



Businesswomen maintain simple financial accounting mechanisms in their business at about the same level as their male counterparts. However, they lag behind on keeping separate bookkeeping records of household and business-related transactions. There, men fared better with 65 percent compliance versus 58.6 percent.

Licensing



Businesswomen are found to be slightly more vigilant in obtaining legal documents for their businesses, a finding that could indicate that more businesswomen are in the formal economy than businessmen. Approximately 48.3 percent of surveyed businesses run by women have a registered tax number or *Nomor Pokok Wajib Pajak* (NPWP), while only 45 percent are businesses truly run by men. Of all businesses run by women surveyed, 51.7 percent claim to have a trading license or *Surat Izin Usaha Perdagangan* (SIUP), and a close 50 percent of businessmen declare likewise. Astonishingly, only about 50 percent of all businesses surveyed had these necessary licenses.

3.3 Performance of Women-Run Businesses

Profit, Sales and Employment Growth Trends

Male and women-owned businesses surveyed show that they are about equally successful in generating profit—36 percent of women-owned firms compared to 35 percent of male-owned firms. Of the 36 percent of these businesses run by women, sales increased by an average of 100 percent over the last 24 month period, from a base level in 2002 of Rp 13.5 million sales per month two years ago to a current average level of Rp 27 million per month. This suggests that successful women-owned businesses experience high growth rates. A study by the Asian Development Bank complements these findings.⁴ Their 2002 survey indicates that enterprises managed by a woman or by a woman and a man together are more successful than male only-led enterprises. While 51 percent of women-led enterprises have grown in the last 2 years, only 45 percent of male-led have grown. 25 percent of male-led enterprises have deteriorated compared to only 13 percent of women-led enterprises.

Another measure of business success is the growth of a sustainable workforce. In the survey, women-run businesses enjoyed a 113 percent increase in employment over the last two years with the average number of regular employees increasing from 15 to 32.

⁴ Asian Development Bank, “*SME Constraints and Needs with Special Focus on Gender Issues*”, June 2001

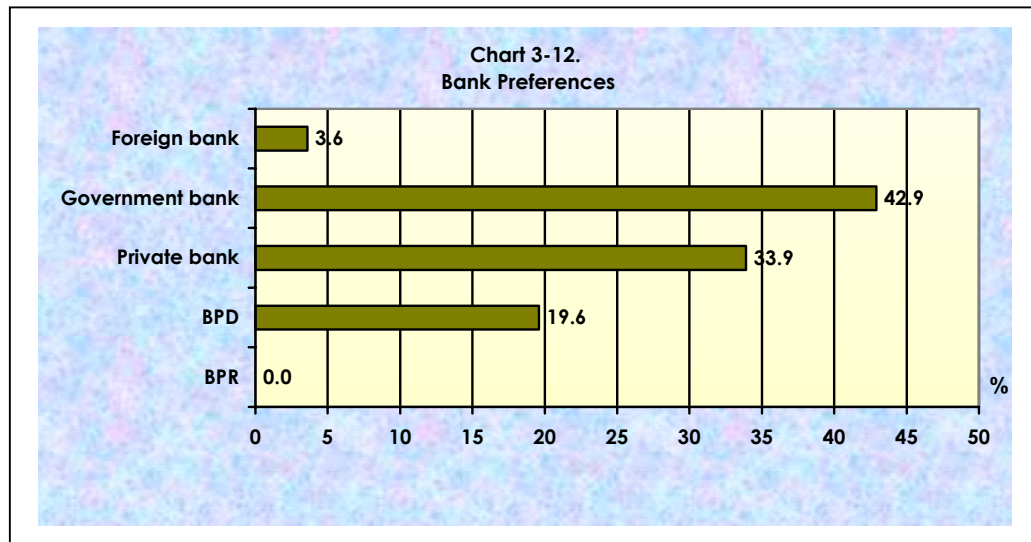
3.4 Institutional Choices

Discrimination

According to bank management, regulations governing the loan application process stipulate that only formal factors such as collateral and business risk be considered when evaluating a loan. In reality, good relationships with bank management are clearly beneficial when working to secure a loan. Of the eight applications in the survey that were declined credit, half the applicants believe that rejection was made merely on the basis that the bank did not know the applicant. This presumption may be a result of the applicant not receiving adequate disclosure as to why the application was rejected. Interestingly, the women who were declined funding did not believe that gender had any impact on the decision.

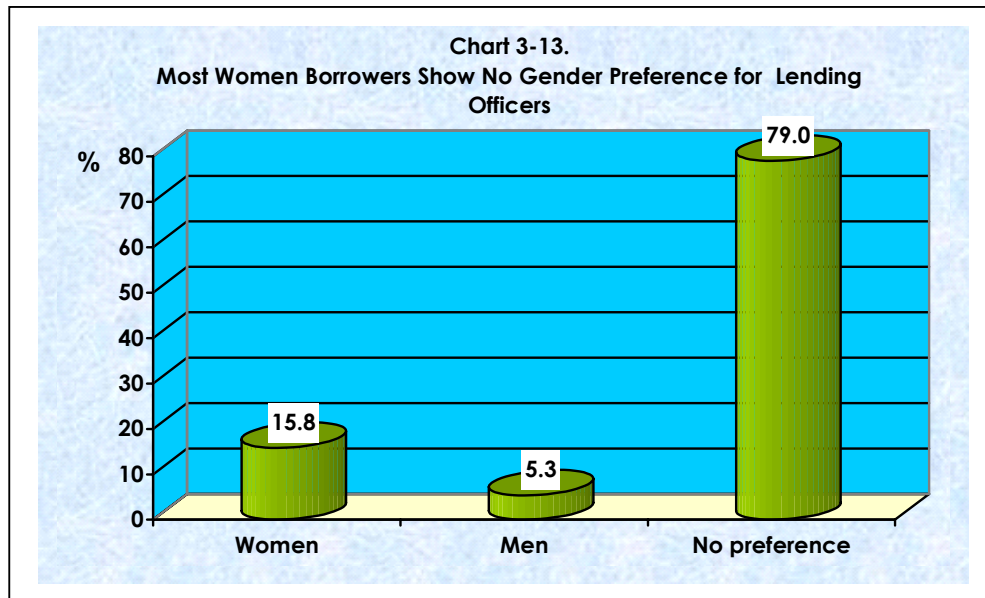
While this presumption is subjective, it does highlight an important issue: without adequate and clear reasons provided for the rejection of a loan application, applicants will create new and perhaps inaccurate reasons to fill the void. This can create a perception that the bank does not treat applications evenly or give customers fair access to credit.

Bank Preferences



Businesswomen are found to prefer government banks to private banks (42.9 percent vs. 33.9 percent) perhaps because government-owned banks can have more SME lending services. The 2001 SME Finance Study by the Asian Development Bank found that procedures deemed easy and uncomplicated are by far the most important reason why SMEs choose a particular bank (62 percent) followed by personal relationships with bank staff (40 percent) and geographic location (37 percent). Lower interest rates ranked only fourth in importance (34 percent).

Gender Preference for Bank Officer



Eight of ten businesswomen have no preference as to the gender of the lending officer. Of those that do indicate a preference, three of four preferred working with a women lending officer, citing that women bank officers are more professional and friendly.

3.5 Conclusion

Male and women borrowers appear to have more similarities than differences. In our small survey, the education levels of businessmen and businesswomen are comparable as are the number of years in the work force levels (about 8) and years running their businesses (about 9.5). Types of collateral used are comparable for male-and-women-owned businesses as are the geographic areas to which they sell.

The critical differences stand out in the types of businesses men and women create. Men tend to work in the service sector and women in the manufacturing sector, an initially counterintuitive conclusion until considering that handicrafts, a key business for women, is technically grouped in the manufacturing sector. Men and women also have different motivations for running businesses. While both men and women mostly run businesses for primary income for themselves and their families, many women, but no men, run a business to utilize their free time as well as to supplement household incomes.

When businesses owners seek funds, men and women draw from similar sources, with commercial banks being the most prevalent. Interestingly, no men surveyed have borrowed from a non-bank microfinance institution and far fewer women than men surveyed have borrowed from relatives. Women are more than twice as likely to borrow from cooperatives as from relatives, suggesting that women may put higher trust in cooperatives, or that women may receive loans from cooperatives more readily than from relatives.

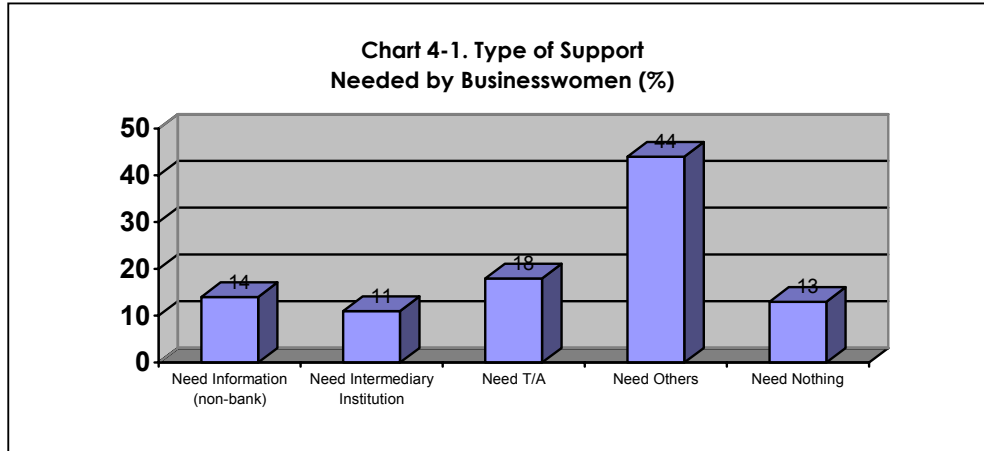
There is little notable difference in how men-and-women-owned businesses do their accounting or meet regulatory licensing requirements. And, while women expressed

a preference to work with a government-owned bank, perhaps because of a real or imagined sense of empathy toward the women business-owner, they did not have a preference for the gender of the bank representative they work with.

Perhaps most significantly, the male-owned and women-owned businesses reported to be equally successful in earning profit, at 36 percent of women-owned firms v. 35 percent of male-owned firms. To the commercial bank, this should reinforce the notion that gender discrimination, if practiced informally, is unproductive and unprofitable behavior.

Chapter Four: How to Improve Access to Credit for Businesswomen

4.1. What Businesswomen Want



The majority of women surveyed (87 percent) seek assistance to accessing finance and running their business. Mostly they seek mentorship and the opportunity to speak with others that have experienced similar problems or issues during the course of running a business (44 percent). Almost 20 percent seek, or would welcome, technical assistance in support of their business. This could take the form of marketing support, bookkeeping and help in writing credit proposals. Others (14 percent) identify a need for greater access to information on bank products, sources of funds, and the loan application process as well as market information.

A minority of women (11 percent) felt that an intermediary institution is needed to promote closer relations between banks and themselves in order to facilitate credit access. They also stated the need for a "special institution", such as a Business Development Service Provider or consultants, to help them prepare for complications in the loan application process, and to refer them to suitable banks and provide a guarantee or recommendations.

Perhaps most telling, almost all businesswomen mentioned that simpler credit procedures and lower interest rates were the most valued kind of "support."

4.2 Commercial Bank Opportunities: Recommendations

While commercial banks are generally aware of the needs of women borrowers and are enthusiastic at the notion of increasing loan volumes to women, their approach to operationalizing these interests can only be described as passive. Typically the view is that banks should provide a service—loans to businesses that are good credit risks—regardless of the business owner's gender. This service is reactive and based on past lending experiences.

If banks really do wish to better exploit the market of women-owned businesses, they'll need to adopt a new mindset. Though women-owned businesses are equal in

credit risk as compared to those owned by men, the needs of women borrowers can be different. Banks need to recognize or seek the women marketplace, investigate more deeply in the form of a market survey what would attract the women customer, and begin a market segmentation program. Currently, the banking sector is one of the most profitable in Indonesia so there is little pressure for banks to aggressively seek new clients. However banks with wherewithal and initiative could enjoy advantageous early access to what may be a large and open market segment.

Initial steps are being taken. The main partner bank for this report offers assistance in financial statement preparation for businesswomen with loan applications if the business is deemed financially feasible. The bank also offers general business counseling once the loan is made. Pre-loan assistance is not a matter of policy but rather based on the judgment of the lending officer, since he/she could not truly say if the business is financially feasible without looking at its financial statements. A more effective approach could be to develop some agreed-upon formal indicators to trip this assistance.

To help improve access to credit for businesswomen, the Bank of Indonesia (BI) should establish clear and definitive policies and guidelines to better regulate loan disbursement with regards to gender⁵. Currently, the Bank of Indonesia does not consider gender an issue in its credit policy. Such gender-blind policies can be most positive. However, if the Bank of Indonesia wished to encourage more lending to women, women-affirmative policies for commercial banks would help. As a first step, reporting on loan portfolios would provide data on lending and gender and help sensitize banks to a potential new market.

In the opinion of the partner bank the following would help increase the amount of credit being accessed by women entrepreneurs:

- Easier access to financial training: Consultancies and Business Development Service (BDS) provider training on specific technical knowledge on SME-related services, such as preparing accounting-based financial statements linked to bank needs, would support improved loan applications and increase the chance for a positive credit committee decision.
- A rating agency or consultancy that would calculate financial feasibility of businesses: While the bank would still need to follow due diligence, such a service would provide the bank with increased comfort about positively-rated businesses. Note that such a service might cost up to 2 percent of the loan—an amount many would balk at when the cost of funds is already considered expensive.
- Seminars, workshops and studies that provide greater insight into how, when and why women seek business financing: This would help banks tailor projects to women's needs—should they wish to exploit this market segment.

Other opportunities to improve increased access to credit for women include:

- **Risk Management Training**
Like other borrowers, women prefer lower interest rates. Even so, interest rate policies are unlikely to be adjusted to support gender based lending. However, since it has been shown that women are reluctant to apply for loans

⁵A recommendation from the primary partner bank for this study.

because of the fear of being unable to afford repayment, a training program on risk and finance management would help alleviate this fear and diminish uncertainty with regard to borrowing.

- **Policy Advocacy on Collateral**

The study indicates that, generally, businesswomen own sufficient assets that could be used as collateral. Although high in value, some assets may not count as appropriate collateral if they have not been certified. An advocacy program involving business associations and NGOs to facilitate legalization and certification of assets owned by businesswomen would help improve access to credit.

- **Financial Reporting Training**

There is indication that most businesswomen do not or are unable to prepare financial reports, the most crucial documents of the loan application. Providing training in preparing financial reports for businesswomen would enable them to more easily fulfill requirements for loan applications. Collaboration with BDS providers would support this initiative.

- **Dialog Between Banks and Businesswomen**

The study uncovered an ironic situation: Banks actively approach businesswomen to apply for credit; concurrently, banks claim to have limited knowledge about the target group. To improve this situation, dialog between banks and businesswomen would help banks better understand the target group and their needs in terms of credit. The dialog can be initiated either by banks, business associations or interested third party organizations.

4.3 Conclusion

Businesswomen account for a great deal of micro, small and medium enterprises in Indonesia and therefore provides a significant contribution to the economic development for Indonesia. Banks would do well to tap into this market. In addition, business development services for women entrepreneurs could offer focused assistance in preparing financial documents and loan applications, as well as in converting assets to viable collateral. Further study may offer more information from the point of view of women borrowers throughout Indonesia. For example, a look at borrowing by women entrepreneurs in Jakarta and Bali where many women run profitable businesses could provide a wider perspective and underpin the recommendations included here with solid survey data.

APPENDIX: SUMMARY OF PROBLEMS AND PROPOSED AGENDA TO SOLVE THEM

Problems	Level of Problem			Solution/Need for Support	Strategy
	Gov't	Bank	Firm		
High interest rate, businesswomen are afraid of being unable to repay	Yes	Yes	Yes	Lower SBI interest rate, higher banks efficiency, better risk management at firm level for better decision on demanding loan or not.	Focus on training on risk management at firm level for businesswomen
Insufficient collateral	Yes	Yes	Yes	Improving legal status of assets owned by businesswomen. Women who have sufficient physical assets should also have sufficient collateral to access credit.	Policy advocacy in collaboration with business association and NGO alliance
Lack of capability to provide financial statement	No	No	Yes	Training on financial reporting.	Collaboration with BDS Providers
Lack of knowledge of banks to women who need credit	No	Yes	Yes	Better dialog between banks and businesswomen.	Initiated by: - Banks - Business association - Third party (including IFC)

Co-financed by



Australia



Canada



Japan



Netherlands



Switzerland



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