

# VANESSA NAEGELS

## Dissecting financial barriers for female entrepreneurs in Tanzania

**In September 2020 Vanessa Naegels defended her doctoral dissertation about financial barriers encountered by female Tanzanian entrepreneurs. Although more than 50 percent of the countries' small businesses are owned by women, only a minority of these entrepreneurs apply for formal loans to finance their activities. For four years Vanessa researched their main problems and how these can be alleviated.**

### **HOW DID YOU COME TO THIS TOPIC WHILE YOU ARE SPECIALISED IN ACCOUNTING?**

After my Master in accounting at KU Leuven, I went to the London School of Economics for a postgraduate study. While I was there, professor Bert D'Espallier contacted me about this topic as he knew that I was interested in a PhD. VLIR-UOS would provide funding for the research through the VLADOC programme and Tanzania is one of their partner countries. Prof. D'Espallier had some contacts there. So the main idea was his, but I did not have to think very long. I am very interested in gender equality and female entrepreneurship and I wanted to have an impact with my PhD. This clearly was an opportunity to do research with practical implications towards a positive change.

### **THE FACT THAT FEMALE ENTREPRENEURS IN EMERGING ECONOMIES ARE UNDERFINANCED CAN NO LONGER ONLY BE EXPLAINED BY LACK OF SUPPLY. BOTH BANKS AND A GROWING NUMBER OF MICROFINANCE INSTITUTIONS (MFIS) OFFER FORMAL LOANS, STILL ONLY A MINORITY OF FEMALE ENTREPRENEURS APPLY. WHAT PUTS TANZANIAN WOMEN OFF?**

There are several reasons but I first need to point out that most of my research did not include male entrepreneurs, so we cannot make any comparative claims. The issues investigated are not strictly 'female', but they do tend to be more problematic for female entrepreneurs, hence my focus. The commercialisation of banks and MFIs brought about a whole set of new problems. Because of the great lack of public information to assess credit risk and distinguish between high- and low-risk borrowers in emerging economies, credit providers try to reduce the hazard. Very high interest rates (e.g. 30 percent or higher for a micro-



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- 2020, KU Leuven - Doctor in Business Economics, 'Alleviating financial barriers for women-owned enterprises in Tanzania'
- 2015-2019, KU Leuven - Doctoral Degree programme in Business Economics
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finance loan with little or no collateral) and high collateral requirements (e.g. more than 100 percent of the borrowed amount) are two reasons why female entrepreneurs do not apply. Also, even if they are willing to provide collateral they may need the approval from their husband or family.

### **DO YOU SEE ANY SIMILARITIES WITH FEMALE ENTREPRENEURSHIP IN BELGIUM OR EUROPE? WE TEND TO LINK IT WITH (HIGH-TECH) INNOVATION, BUT THE CONTEXT IN TANZANIA IS NO DOUBT COMPLETELY DIFFERENT.**



Indeed, there is a big difference. More than half of small businesses in Tanzania are owned by women, which is much more than over here. After all, in Belgium women have plenty of opportunities for paid employment. In emerging countries that is not always the case. For women in Tanzania who want to work, the easiest way is to start a business. As a consequence, their entrepreneurship is often not a conscious choice, they simply are pushed into it. This is what we call subsistence entrepreneurship. They do not start a business because of an innovative idea, but because they want to earn some extra money and a business allows them to combine that with their household. So female entrepreneurs are ubiquitous but plenty of them merely buy goods to sell them elsewhere with a small profit margin, which is not a very sound business plan. Despite the different context, I do think that a number of problems which we see in Tanzania could be relevant in a western context, for instance when we look at female minority or immigrant entrepreneurs over here. They might face similar problems, specifically when you look at our findings with regard to borrower discouragement. We found borrowers to be discouraged by low self-confidence and a negative perception of formal loans and that can be relevant over here as well. I would really like to research that in the future.

### **'BORROWER DISCOURAGEMENT' IS A CENTRAL TOPIC IN YOUR THESIS. WHAT IS IT AND WHY IS IT IMPORTANT?**

Borrower discouragement has become a topic in finance research in the past 3 to 4 years and I have dedicated the final two papers of my thesis to it. To put it very simply, discouraged borrowers are entrepreneurs who need external financing for their business but do not apply because they hold negative perceptions towards loans or towards the business environment. These perceptions are very broad, going from the above-mentioned interest rates and collateral requirements over the related risks up to inappropriate behaviour by loan officers. I was shocked to hear about loan officers asking for bribes and even sexually harassing women. Borrower discouragement amongst female entrepreneurs is a problem because it leads to

underinvestment and forgone economic growth potential in the long run. Previous research has shown that female entrepreneurs actually contribute more to poverty reduction than their male counterparts because they invest more in their family and communities. One important remark though: it is very difficult to distinguish between female entrepreneurs who are discouraged and would actually qualify for a loan if they applied and the ones who would not. Again: information to assess how healthy businesses are is scarce in Tanzania, while the high rate of subsistence entrepreneurship increases the need to clearly distinguish between high-risk and low-risk borrowers. To further complicate matters: a high-risk borrower could still get a loan because they personally know an officer or through a bribe ...

### **CAN WE SAY THAT THE NOVELTIES IN YOUR RESEARCH ARE BOTH ZOOMING IN – BY ANALYSING THE ENTREPRENEURS' PERCEPTION OF FORMAL LOANS AND THE IMPACT OF THEIR NETWORK - AND ZOOMING OUT – BY ANALYSING THE IMPACT OF REGULATORY AND INSTITUTIONAL VOIDS - ON THE FINANCIAL BARRIERS?**

The main contribution of my research is the focus on the demand side. The majority of previous research on female entrepreneurship and its underfinancing, looks at the supply side. Since there are plenty of issues on the demand side, I looked at why female entrepreneurs do not apply for loans. Borrower discouragement is a potential reason and we were one of the first papers to look at the underlying process: how do female entrepreneurs become discouraged? Which perceptions lead to discouragement and how? We also investigated the impact of institutions on financing choices, which is not new, but previous research often looks at the macro-level: it shows that a better developed framework increases the start-up rate. We took it a step further and found that perceptions of institutions also influence individual financing choices which entrepreneurs make. That is where a lack of gender equality, both in regulations and cultural practices, play a part but also the lack of property and contract rights and corruption.

## WHAT WERE THE MOST SURPRISING FINDINGS OF YOUR RESEARCH?

Overall, I was particularly struck by the large influence of perceptions on financing choices, because most economic research is based on the assumption that entrepreneurs and economic actors are rational and decide based on facts. This is very far from what we saw in reality. Our interviewees' reasons for not applying for loans were often based on stories they heard. Also, in our research more educated entrepreneurs proved to be more discouraged than less educated entrepreneurs, while previous research shows the opposite. Finally, we also found that entrepreneurs who network formally perceived more problems with formal loans than the ones who network informally. This surprising opposing effect is the most complex issue of my thesis. I have discussed it with my supervisor and the committee but we did not find a definite explanation. It might be that one does not exchange the same type of information in formal and informal settings, e.g. when you think of stories about bribing your way to a loan. I also think that it is possible that you find different types of entrepreneurs in both settings, depending on their characteristics, such as education and that the opposing effect does not result from the type of network. Previous research also shows that, due to institutional deficiencies, businesses in emerging economies are not prone to using formal loans. These entrepreneurs often revert to informal financing as a substitute, for instance in the form of a trade credit. So it could be that entrepreneurs with a substantial informal network have greater access to trade credit loans and hence less need for formal loans. This is a topic that is definitely still open for further discussion.



## WHAT ARE YOUR MOST IMPORTANT RECOMMENDATIONS?

First of all, female entrepreneurs and credit providers need to connect and discuss the needs to find a better fit between the supply and demand side, since the current design of formal loans is no match for female entrepreneurs. Unfortunately we did not manage to get funding for such an event during my PhD. Secondly, female entrepreneurs need to be educated about how to use loans, how to apply for them but also on how to write a successful business plan. This can be done by universities but credit providers also have a role to play. Low financial literacy and low financial self-efficacy clearly stops women from applying, so we need to work on their belief in their ability to succeed. Thirdly, there is a need for female role models who have successfully used formal loans to grow their business to counter the high impact of negative stories. And finally, there is a need for continuous investment in a good regulatory and institutional framework. That will not only stimulate applications but also ensure a good distribution of loans to entrepreneurs with a good credit risk.

## CAN YOU TELL US A BIT MORE ABOUT HOW YOU TACKLED FIELD RESEARCH IN TANZANIA? WHAT WERE THE MAIN CHALLENGES?

For my first two papers I could work with an existing database collected by my co-supervisor prof. Neema Mori of the University of Dar es Salaam Business School, but to get an in-depth understanding of the entrepreneurs' perceptions for papers 3 and 4, we had to interview female entrepreneurs. As we were looking for women who do not have formal loans, we could not turn to banks or other organisations for client lists. Hence, we used the connections of my co-supervisor and contacted informal loan groups to find women who wanted to be interviewed. To gain their trust we worked with local female university students who helped us to connect and explain the goal of our research. Since most of the entrepreneurs did not speak English and I only know a few words in Swahili, these assistants also translated the questions and did most of the interviews. We educated them for several days and I was present during every interview, which proved to be the right approach. Once the female entrepreneurs had met me and saw that I was a woman doing research and making an effort to welcome them in their language, they quickly felt at ease. Afterwards our team also had to transcribe and/or translate every word of the conversation. We managed to complete 33 interviews in 3 weeks and in the end even had to turn down candidates. Once word got out that we paid interviewees a fee to cover their transport to the university, candidates kept popping up. Apparently we paid well enough to get into business.

You can download the full dissertation at  
<https://bit.ly/bibliographyVanessaNaegels>

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