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Is there discrimination against female entrepreneurs in formal credit markets in Nigeria ?

By Emmanuel O. Nwosu, Anthony Orji, Vivian Nnetu and Chioma Nwangwu

In 2012, with the support of UK Department for international Development (DfID or UK Aid) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities for "Policy Analyses on Growth and Employment" (PAGE) in developing countries.

This brief summarizes the main features and outcomes of one of the projects selected for support under the 1st round of PAGE funding (2013-2014).

Local PEP researchers seek to assess whether female entrepreneurs have more difficulty to access formal credit in Nigeria, relative to their male counterparts, and how such credit may affect firms' performance.

Relative access to credit for female-owned SMEs in Nigeria

Access to finance is often cited as one of the major factors impeding the growth of women-owned businesses in developing countries. However, one critical question that remains in the existing literature is whether this "access problem" is due to actual discrimination against women entrepreneurs in the formal credit market, especially in the developing world, and if so, the extent to which women are discriminated against.

An overview of the existing literature on access to credit suggests that, as of today, there is no clear conclusion on (nor evidence of) gender discrimination in the formal credit markets. In fact, several strands of literature have emerged in recent years, each taking a particular position on the subject.

In order to help inform related policy and program interventions, a team of local researchers in Nigeria has sought PEP support to examine the situation of women entrepreneurs (at the "small and medium enterprise" level) in their country – i.e. to assess whether the latter are marginalised in the formal credit markets, compared to their male counterparts. Their study also investigates the impact of credit access on the performance of enterprises.

Methodology and data

The researchers used data from the 2010 World Bank Investment Climate Survey, conducted among Nigerian enterprises, to built a direct measure of "credit constraint" – i.e. to identify those firms that are considered as credit-constrained, versus non-constrained. After excluding those that do not qualify as SMEs, as well as those with existing lines of credit (from previous periods), the researchers kept a sample of 1590 firms with demand for external finance - 1330 of which are owned by men and 260 by women.

A series of econometric models and methods of statistical analysis were then applied on the data from this sample to complete the analysis – i.e. to determine whether female-owned firms are relatively more constrained than men's in terms of credit access, as well as to assess the impact of such access on the firms' performance.

Key findings

Contrary to the results of recent cross-country studies (that included Nigeria), the researchers did not find evidence of significant discrimination against women in formal credit markets in Nigeria.

However, their results show that micro/small enterprises are significantly more "credit-constrained" relative to medium enterprises. Therefore, the fact that women entrepreneurs are mostly involved in small and micro ventures suggests that access to formal credit is, nonetheless, a big constraint to the growth of women enterprises at that level in Nigeria.

On the other hand, their findings also reveal that access to formal credit has significant impact on enterprise performance indicators.

Firms that are credit-constrained have relatively much lower:

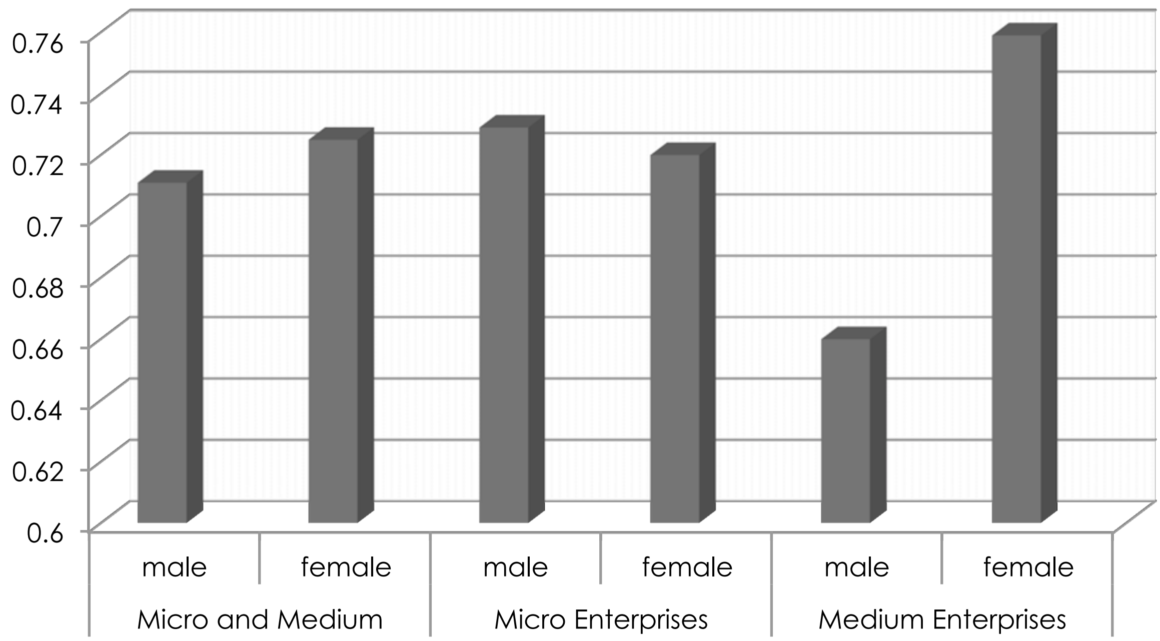
1) output per worker,

2) capital per worker, and

3) investment in fixed assets for expansion,

as compared to firms that are not credit-constrained. And this is even more pronounced for women-owned enterprises.

Percentage of credit-constrained firms, by firm size and gender



Source: Authors' estimations

Policy implications

Although their results show that there is no significant gender discrimination in the formal credit markets, the researchers find that access to formal credit for small and medium enterprises in Nigeria is still very low.

While the rate of female entrepreneurship is higher in Africa than anywhere else, the critical role of SMEs in the development of a national economy has been largely documented. For Nigeria, in particular, several studies[1] argue the potential of SMEs to generate employment; foster technological developments and entrepreneurial skills required for private sector growth; as well as to achieve economic diversification, especially in a context of resource-driven growth.

For these reasons, and because their results show that access to credit contributes to improving the performance of SMEs, the researchers conclude that government policies should aim to expand formal credit access in Nigeria, both by providing the necessary funds and enhancing access to such funds for small firms.

Indeed, as micro/small firms – most of which are owned by women - are found to be more credit- constrained in the formal markets, compared to medium firms, they should be given priority in related government interventions (such as the recent SME intervention funded by the Central Bank of Nigeria) in order to achieve greater impact in terms of poverty alleviation.

1. Ariyo, 2008; Ayozie Latinwo, 2010; Safiriyu and Njogo, 2012; SMEDAN Report, 2010

The researchers also conclude that, although it is difficult for government to instruct formal financial institutions on how to supply credit in a deregulated financial system, direct intervention through the provision of funds targeted to SMEs should have an impact on related practices, and help ease credit constraints for these firms. Government and monetary authorities should also support credit expansion policies for SMEs by creating an enabling environment for financial intermediation in Nigeria.

Finally, complementary policy measures and government interventions may include the education of entrepreneurs on how to access credit - especially for micro enterprises – and/or to keep good financial records of their transactions, since this enhances a firm's ability to access formal credits.

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To find out more about the research methods and findings, read the PEP working paper 2015-01