Empowering Women for Inclusive Development: The Role of Impact Investing

KEY MESSAGES

» Women face lower representation in the MSME space.
» Female-led businesses tend to have more limited access to finance than male-led ones.
» Impact investors must prioritise women-led businesses to achieve social impact and promote inclusive development in Nigeria.
» There is a need to increase the awareness of female entrepreneurs about impact investment products.
» It is the responsibility of investors and financial intermediaries to develop gender-focused financial instruments and approaches for financing women.

WHAT IS THE CONTEXT?

Females are grossly under-represented in the MSME sub-sector in Nigeria. Women are more active in the nano and micro subsector than the SME sector accounting for 32.9 percent of businesses in the former. On the other hand, only 20 percent of SMEs are owned by women. Generally, limited access to finance constitutes a major headwind to MSME business growth. The situation is, however, much more endemic among women-led businesses, further tightening the grip of societal constraints against women.

Impact investing, by nature, stems from the belief that social and environmental impact could be achieved while also targeting financial returns. Given this characteristic, inflows of impact investment can be targeted at MSMEs, especially women-owned businesses, to drive social impact and fill the financing gap.

Nonetheless, impact capital inflows remain primarily focused on high-end investments in ICT and Energy sectors and often evade women-led MSMEs. Survey findings from the collaborative research of the Nigerian Economic Summit Group (NESG) and the National Advisory Board for Impact Investing (NABII) in Nigeria on “Investing for Impact in Nigeria: A Deep Dive into Agriculture, Education and Health Sectors” revealed that only 3 percent of female-led firms are aware of Impact investing products and much less probably benefited from it compared with 21 percent of their male counterparts.

The impact investing market in Nigeria is still at the nascent stage. In order to achieve the anticipated social impact, its evolution must prioritise women-led businesses to promote inclusive development in Nigeria.
The social characteristics of Impact Investing can be targeted at closing the gender financing gap: Impact investment with a gender lens can close the gap in access to capital between male and female-led enterprises, ensuring a level playing field and promoting gender-equal representation of women in the financial environment. Gender lens investing is thus critical to ensuring that all enterprises have access to the finance needed to thrive. This supports business growth and development by allowing businesses to scale, particularly female-led enterprises that tend to be very small-scale.

Gender-focused impact investing fosters inclusion and female empowerment: Promoting access to appropriate and affordable finance for female-led businesses will allow women to grow their businesses and create opportunities to improve their incomes, advancing their participation in all aspects of economic life.

Sustained and inclusive economic growth requires that no one is left behind: Gender exclusion is a widespread phenomenon which hampers inclusive growth. Access to finance is one of many areas where the financing gap and exclusion translate to economic growth outcomes. Without a deliberate strategy to ensure gender inclusion, female-led enterprises will be left out, impacting economic growth outcomes.
RECOMMENDATIONS

1 Increase awareness of impact investment products: There is a need for more engagement with MSMEs, particularly female-led businesses in this sector, to increase awareness about suitable impact investing financial products that will help them scale and meet their business needs.

2 Impact investors need to build the capacity to develop financial products to meet the needs of female entrepreneurs: This is necessary to create more tailor-made financial instruments, to increase the uptake of these products by women and reduce the risk of default.

3 Develop financial products tailored to nano and MSMEs in priority sectors such as Education, Health, and Agriculture: Women are more active in these sectors than their male counterparts. MSMEs in the agriculture, education and health sectors require patient funds with low-interest rates and proper structuring to support their growth, survival, and sustainability. Financial services with risk-sharing features can encourage local financial institutions to invest in nano businesses and MSMEs, improving access to finance for female-led enterprises.

4 Adopt gender-inclusive lending approaches: Deliberate action is required to make funds available to women, such as financial institutions reserving a part of their funds for women and improving affordability. Sterling Bank Nigeria Plc, for example, mandates that women must hold 70 percent of their portfolios targeting women and youth MSMEs. Partnerships between institutions can also make loans more affordable.

2 Based on key informant interviews carried out by the Nigerian Economic Summit Group (NESG).