

# Researchers analyze growth potential in African bank loans

December 2 2013

---



In Africa, small women-owned business owners find it easier to obtain loans than their male counterparts. The reason for this distortion is that politicians and foreign aid organisations with their focus on bank loans for women encourage African banks to base their credit availability on gender. Contrary to intentions, there is thus a risk of inhibiting growth in the private sector, conclude researchers from the University of Copenhagen in the new study.

There is a six percentage point higher probability of small [women](#)-owned small businesses obtaining loans than businesses with male owners.

The share of women-owned companies is lower in Africa than elsewhere in the world. However, African women establishing themselves as small

company entrepreneurs have higher chances of obtaining [bank loans](#) than similar businesses run by men. On the other hand, male African corporate leaders tend to be favoured in terms of obtaining loans for medium-sized companies. These are the findings of researchers from the University of Copenhagen, who have analysed prospects for growth in the lending of African banks. The findings have just been published in the scientific journal *Development Studies*.

The survey specifically shows that there is a six percentage point higher chance of small women-owned small businesses obtaining loans than if the businesses have male owners. The opposite is true for large companies with more than 50 employees, where there is a difference of more than six percentage points higher probability of women owners being denied loans compared to men.

"African women generally have less favourable terms than African men in many aspects of life – also when it comes to the possibility of starting up businesses. However, in relation to obtaining bank loans for running small businesses, men seem to be the ones discriminated against. The reason for this is that African banks receive funding from donor organisations such as Danida to support women [business](#) owners. Therefore, the African banks tend to provide loans to women rather than men, even though men may have better investment projects and business ideas," says Henrik Hansen, professor at the Department of Economics, who together with John Rand, professor at the Department of Food and Resource Economics, has headed the research.

## **Women-owned businesses not more profitable**

The researchers looked at data collected by the World Bank from 4,838 businesses in 16 African countries south of the Sahara. Among other things, the World Bank asked the businesses about the gender of the owner, their annual sales, whether they have a bank loan, etc. From the

figures, the researchers were able to ascertain that small women-owned companies have the same productivity and capacity utilisation as companies owned by men, while their profit rate is actually lower. They can therefore conclude that there is no immediate reason to favour loans to women owners.

"In the hope of stimulating growth in the African [private sector](#), humanitarian aid organisations such as Danida support the banks to enable them to extend loans for investing in and running businesses. However, when the organisations give banks the green light to make it easier for women than for men to borrow instead of focusing on the nature of the business idea, they run the risk of, at worst, inhibiting growth," says John Rand.

"Our analyses of the figures from the World Bank show that women-owned companies do not perform better, which could prompt us to ask whether it would not be better to focus on viable business concepts rather than gender to boost growth in the African private sector – in particular if the funding is to fuel growth. Our research does not conclude anything about the derived effects of better bank loans for women business owners, e.g. whether favouring women pays because then they will make sure that their children get an education and better health as African women are responsible for the children," says Henrik Hansen.

## **Opposite signs for bank loans to medium-sized enterprises**

In the scientific article, the researchers also demonstrate how male African entrepreneurs are favoured when it comes to bank loans for medium-sized companies.

"From a gender perspective it is, of course, just as unfortunate that men are favoured over women in medium-sized businesses. But medium-sized businesses are not the focus of donor organisations and politicians trying to stimulate growth in the African private sector, and it is the growth perspective which we have examined," says John Rand.

The survey has just been published in the scientific journal *Development Studies*.

**More information:** [www.tandfonline.com/doi/abs/10.1080/00220388.2013.849337](http://www.tandfonline.com/doi/abs/10.1080/00220388.2013.849337)

Provided by University of Copenhagen

Citation: Researchers analyze growth potential in African bank loans (2013, December 2) retrieved 10 May 2024 from <https://phys.org/news/2013-12-growth-potential-african-bank-loans.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.
---