

# NOTE ON DEFINITIONS FOR WSMEs



## THE CHALLENGES OF HARMONIZING WSME DEFINITIONS

The most common challenges to collecting sex-disaggregated data are: operational challenges to implementation; the lack of prioritization by private and public sector; and issues with using harmonized definitions for women-led MSMEs. The establishment of a clear definition for WSMEs is crucial in order to collect data systematically, and use it effectively. Yet harmonizing the definitions used to define WSMEs and embedding them in FSPs systems presents a great challenge due to the diverse market dynamics and cultural contexts. At present, a universally recognized global definition for WMSMEs is missing. The lack of such harmonized definitions withholds financial service providers from effectively segmenting, analyzing and understanding WSME customers and catering to their unique needs with tailored products and services.

Deciding on a clear definition of WSMEs is a crucial first step in the journey towards supporting women-led businesses. It would not only enable more accurate data collection and analysis but would also support the design and implementation of initiatives aimed at fostering the growth and sustainability of women-led enterprises.

It is important to note that there are various different terms related to women entrepreneurship that need to be defined, such as the definitions of women-led, women-owned, women-founded, and women-centric businesses. Equally important is the classification of Micro, Small, and Medium Enterprises (MSMEs), a task crucial for the implementation of the WE Finance Code as well. This paper specifically concentrates on how women-led MSMEs (WMSMEs) can be defined, aiming to provide guidance to FSPs and other Financial Institutions about to launch the WE Finance Code in-country.

## INTRODUCING THE WOMEN ENTREPRENEURS FINANCE CODE

The Women Entrepreneurs Finance Code (“WE Finance Code” or “Code”) is a global multi-stakeholder approach that aims to eliminate constraints and financing gaps for women entrepreneurs around the world. The Code was launched in October 2023 at the World Bank Group-IMF Annual Meetings with the leadership of Women Entrepreneurs Finance Initiative (We-Fi), a global partnership housed in the World Bank, and the endorsement of its Implementing Partners (IPs), which include 6 multilateral development banks (Africa Development Bank Group, Asia Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Islamic Development Bank and the World Bank Group).

The core of the Code is a simple, voluntary pledge that FSPs and financial ecosystem players around the world can make to endorse the goal of closing the finance gaps facing women-led MSMEs and to commit to taking action in three areas:



**1 LEADERSHIP:** Designate a senior leader to champion the organization’s efforts to support women-led businesses



**2 ACTIONS:** Expand and introduce additional measures that will support women entrepreneurs



**3 DATA:** a) for FSPs: Track a commonly agreed set of indicators on financing to WMSMEs or b) for other signatories: Work to expand the availability and use of supply-side data on the level of financing provided to WMSMEs.

Sex-disaggregated data is needed to understand what is holding back WSMEs' access to finance and what actions are needed to address them. Collecting sex-disaggregated data on women-led MSMEs could help to understand:

- The size of the WSME finance gap and opportunity on market, segment and FI level
- The risk profile and business case for investing in WSMEs by FIs
- Evidence for gender-lens investors that their funding to financial institutions for on-lending/ investing in WSMEs is effective
- The WSME financing funnel, i.e., the progressively declining proportion of WSMEs needing, applying and then receiving financing, in order to develop targeted policies, regulations and programs to address bottlenecks
- WSME segments and needs to develop need-based products and services
- Effectiveness of various actions (public and private) in increasing access to finance for WSMEs

## GUARDRAILS OF THE WE FINANCE CODE

National Code Coalitions are encouraged to roll out the Code at the country level and will be essential to deepen the impact of the Code on the ground. The Code provides flexibility for national pilots to take into consideration the local environment and customize the Code to local needs within the global framework's guardrails on definitions:

|            | Non-Women Led Enterprises<br>Where men predominantly lead / are active in leadership decision-making, related to the enterprises' ownership, control and operations |   | Balanced Leadership<br>Where men and women jointly lead/ are active  | Women Led Enterprises<br>Where women predominantly lead / are active in leadership decision-making, related to the enterprises' ownership, control and operations |  |
|------------|---|---|--|---|--|
|            |   |   |  |   |  |
| Governance | <ul style="list-style-type: none"> <li>Men fully own a business</li> <li>Men sole-proprietors</li> </ul>  | <ul style="list-style-type: none"> <li>Men who own a majority stake in the business (&gt;50%)</li> </ul>                              | <ul style="list-style-type: none"> <li>Balanced ownership by men and women (&gt;30% female owned)</li> </ul>                       | <ul style="list-style-type: none"> <li>Women own a majority stake in the business (&gt;50%)</li> </ul>  | <ul style="list-style-type: none"> <li>Women fully own a business</li> <li>Women sole-proprietors</li> </ul> |
| Management | <ul style="list-style-type: none"> <li>No women in senior management</li> </ul>   | <ul style="list-style-type: none"> <li>No women in C-Suite / with signing authority</li> <li>Female founder not in C-Suite</li> </ul> | <ul style="list-style-type: none"> <li>C-Suite woman with signatory authority</li> <li>Woman Founder remains in C-Suite</li> </ul> | <ul style="list-style-type: none"> <li>Woman Chief Executive with signatory authority</li> </ul>  | <ul style="list-style-type: none"> <li>All-Female Executive Team</li> </ul>                                  |
| Ownership  | <ul style="list-style-type: none"> <li>No women on Board</li> </ul>   | <ul style="list-style-type: none"> <li>Women below %30 of Board</li> </ul>  | <ul style="list-style-type: none"> <li>Balanced Board of Directors (&gt;30% female representation)</li> </ul>                      | <ul style="list-style-type: none"> <li>Majority women on the Board of Directors (&gt;50%)</li> </ul>  | <ul style="list-style-type: none"> <li>Chair &amp; majority women on the Board of Directors</li> </ul>       |

### CRITERIA TO QUALIFY AS WOMEN-LED:

 Women-Owned based on fulfilling 1 factor  Women-Controlled based on fulfilling 2 or more factors

We-Fi encourages harmonization of WSME definitions to use for the WE Finance Code, our guardrails are in line with the multi-factor approach of other International Organizations working with WMSMEs; who offer different combinations of Ownerships, Leadership and Governance thresholds as possible indicators of women's control in a business. *(For activities outside the WE Finance Code, We-Fi suggests to use IFC's definition of WSMEs – see below in this document.)*

## NATIONAL VS. FSP LEVEL DEFINITIONS

Using Financial Intermediaries' own definitions can suffice if they fall within Code guidelines and are disclosed, but national definitions and definitions harmonized with global standards are preferable:

- In the spirit of data integrity and transparency, signatories must provide a clear definition of Micro, Small and Medium enterprise, generally based on employee, asset, equity and/or loan exposure, sole proprietor or informal enterprises are permissible if the FSP can demonstrate identifiable enterprise characteristics. National or international definitions are recommended for harmonization
- Signatories must disclose the definition they use for WSMEs, national or international definitions are recommended for harmonization, for example IFC's definition of Women-Owned Enterprise or the 2X Criteria definition of Women Entrepreneurship and Women Leadership. Enterprises predominantly serving or employing women, but not being women-led businesses are out of scope women-led enterprise definition.
- Definitions should be established either at the country level by country-level aggregators or by the Financial Service Providers themselves. Currently, many countries lack uniformity in definitions, even if governments have established them. Definitions often vary across different government departments.
- Harmonization at the national level offers numerous advantages, though it is not mandatory. We strongly advocate for consistency in definitions to facilitate data comparability and transparency.
- However, if aggregators are compiling data using multiple definitions, they must be transparent about this practice and ensure data clarity.

The national institutions championing the WE Finance Code play an important role in working with FSPs and other experts to determine definition choices for women-led/owned businesses in the country. The definitions chosen by FSPs to use for the Code should be integrated into wider SME and access to finance activities (e.g., surveys).

## OTHER ORGANIZATIONS APPROACH TO WSME DEFINITIONS

There is a diversity of definitions of women-led MSMEs, reflecting the different aspects that can encapsulate ways of thinking about women as entrepreneurs. These definitions not only differ in the criteria they are measuring but also the thresholds they set to be able to identify as a women-led MSME. While the main focus is on categorizing enterprises with majority female ownership as women-led MSMEs, it becomes apparent that this single metric cannot fully encapsulate women's control within a business.

Acknowledging this complexity, it is crucial to broaden the scope of criteria that allow to identify as a woman entrepreneur. In addition to ownership, the presence of women in influential positions such as senior leadership roles or board memberships emerge as other relevant indicators of women's control within a business. Thus, most existing definitions offer two or three alternative approaches, combining ownership percentages with the representation of women in decision-making positions. This flexible approach allows for a more inclusive and accurate assessment of women's control and impact in the entrepreneurial landscape.

The **International Finance Corporation** was the pioneer in developing a definition for WSMEs, initially basing its definition on ownership only. Their definition was later on extended to offer another definition option, combining women ownership with women leadership and governance thresholds:

- ≥ 51% owned by woman/women; OR
- ≥ 20% owned by woman/women; AND (i) has ≥ 1 woman as CEO/COO/President/Vice President; AND (ii) has ≥ 30% of the board of directors composed of women, where a board exists.

**SME Finance Forum** uses a slightly modified version of IFC's definition, and defines women-owned enterprises based on ownership or as a combination of ownership and leadership, and excludes governance aspects from its definition:

- ≥ 51% female ownership, OR Sole Proprietorships that are female-owned, OR female participation in ownership and management (top manager).
- Sole Proprietorships that are female-owned, OR female participation in ownership and management (top manager).

The **2X Challenge** from 2X Global defined Women Entrepreneurship, Women Leadership, Women Employment, Women Consumption and Investments through Financial Intermediaries within its gender-smart investment and impact assessment framework. They collaborated with other standard-setting bodies and initiatives to develop and disseminate guidance on alignment and harmonization of the Criteria:

#### Women entrepreneurship

- ≥ 51% share of woman ownership; OR
- Business founded by a woman

#### Women leadership

- ≥ 30% share of woman in senior management; OR
- ≥ 30% share of woman on the Board or IC

**The Investing in Women Code in the UK** did not set specific thresholds within its definition guidance, but defined in generic terms what would constitute as an all-female-led, mixed-gender-led and male-led business. Similarly to 2X they keep reevaluating these definitions:

#### All-female-led business

- Sole proprietorships in which the owner identifies

as female, LLC's in which all of the directors identify as female, and partnerships in which all partners identify as female.

- For venture capital firms and angel investors, this includes businesses in which the founders identify as female.

#### Mixed gender-led business

(not compatible with WE Finance Code guardrails).

- LLC's with any combination of female/male directors and partnerships with any combination of female/male partners.
- For venture capital firms and angel investors, this includes teams with any combination of female and male founders

**The Central Bank of Egypt** endorsed the Maya Declaration in 2017, although it lacked a clear definition for WSMEs at the time. Recognizing this gap, IFC proactively engaged with the Deputy Governor of Egypt to extend support in crafting a WSME definition. This collaborative effort culminated in a Knowledge Forum, uniting various local financial institutions, to collaborate on the definition to follow. Under IFC's guidance, a consensus was reached within the forum emphasizing ownership as the primary determinant of women-led MSMEs, complemented by senior leadership roles within enterprises. A senior leadership position was defined as having signing authority within the company. On the other hand, it was decided that Governance is too complex of a metric to look at and is less relevant for MSMEs. WSME definition promoted by the Egyptian Central Bank is the following:

- ≥ 51% share of woman ownership OR
- ≥ 20% share of woman ownership AND at least one woman as CEO or deputy

In comparison with Egypt, **Jordan** defines WSMEs much more loosely, using a combination of ownership and leadership, or ownership and governance, or ownership and signatory power:

- At least 25% shares owned by women AND at least 20% board members are women OR
- At least 25% shares owned by women AND at least 1 woman holds as a top management position within the company OR
- At least 25% shares owned by women AND at least 1 woman holds signatory power within the company.

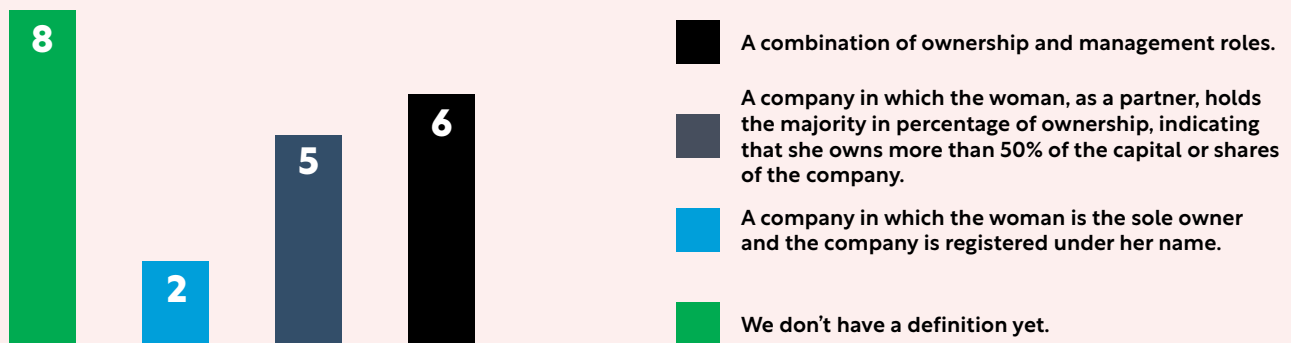




## Dominican Republic

In the DR, Financial institutions use different definitions for WMSME, with the most used definition being: “a combination of ownership and management roles”.

### How does your institution define businesses owned or managed by women?



<https://idbinvest.org/es/publicaciones/mujeres-empresarias-en-ascenso-como-pueden-las-instituciones-financieras-aprovechar>

The Enterprise Database of the World Bank considers the number of companies with above 50% female ownership or sole proprietorship and looks at the number of female directors, without a strict rule of who can be considered a Director

The OECD, through the framework of its SME and entrepreneurship financing Scoreboard, defines business ownership as follows: women-owned SMEs are firms that are primarily owned by women ( $\geq 51\%$  owned by a woman / women) as opposed to firms that are primarily owned by men ( $\geq 51\%$  owned by a man/men). A third category of “dual ownership” (50–50) is also considered.

## The Use of Proxies in Defining Women-Led Enterprises

In defining women-led enterprises, various countries and organizations rely on proxies, particularly when comprehensive data on assets, turnover, or employee numbers is unavailable or difficult to track. One common proxy is loan size, which is frequently used to categorize micro, small, and medium-sized enterprises. This approach simplifies the process of tracking business size by using a more easily measurable criterion - loan amounts - rather than more complex financial or employment metrics. However, while simpler, it is less precise, as loan size may not fully reflect the scope or capacity of the enterprise.

Another proxy often used for assessing management control in women-led businesses is signatory power - the authority to sign legal and financial documents. This indicator can serve as a stand-in for direct managerial control, providing insight into who holds decision-making power within the company. While this method offers a practical alternative to assessing formal ownership or leadership roles, it may not fully capture the depth of involvement of women in the business's strategic operations. Thus, while proxies like loan size and signatory power are practical for tracking purposes, they carry limitations in accurately portraying the true nature of women-led enterprises.