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Draft Policy Briefing Paper

Access to Finance by Women-Owned Small Enterprises

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Access to Finance by Women-Owned Small Enterprises

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1. Background

Gender equality is good for business and there is a compelling and strong business case for supporting women-owned and run enterprises.[1] This includes: i) at a national level, higher rates of gender equality in business is associated with a higher GDP; ii) women-owned businesses increases diversity of goods supplied into the economy; and iii) women have qualities and skills that bring added-value to businesses including knowing their female customers.[2]

A 2018 survey of small business carried out by the World Bank Group (WBG) and the Organisation for Economic Co-operation and Development (OECD), which included South African respondents, provides a snapshot of the entrepreneurial world through women's eyes as follows: Women-owned business are: i) generally newer/younger (mean age 2yrs) as compared to men-owned business (mean age of business is 45 yrs.); ii) they employ fewer staff and: iii) most often women are the single employee of their company. However, women entrepreneurs are more likely to use on-line tools for advertising, showcasing. communication, selling products and accepting payments.

A key issue facing the design and implementation of gender positive programmes is that research reports rarely disaggregate data. It is essential to understand where policy is succeeding or failing so that mitigation measures can be introduced to ensure the impact desired. Seda reports that 72% of micro-enterprises and 40% of small enterprises are owned by women. [3] An IFC report (2018) gives a figure of 5,78m SMMEs in South Africa, of which only 14% are formalised and noted that female ownership of SMMEs declined significantly over the past decade to 38% in 2017 from 48% on 2008. According to the latter report, women-owned business is concentrated in micro and small business and only 27% of medium sized enterprises are owned by women.[4] While data is not consistent across all sources, it is clear that most women-owned businesses are micro-sized and that women are less successful than men at expanding their business to the small and medium size.

A recent report with data on the gendered impacts of COVID-19 on women is the NIDS CRAM study. [5] It shows that women were disproportionately impacted, and the study showed that of the 2,9 million job losses during the strict lockdown period, three quarters of them were women. The same study showed that during the same period, 3.4 million women (versus 1.7 million men) said that *"looking after children in June prevented them from going to work or made work difficult".* [6] These statistics do not disaggregate the impacts on women running their own enterprises, but it is expected the challenges would have been similar. Women's role in the home, particularly more traditional homes, is as the producer, and often provider of food. A woman's ability to earn has an impact on the nutritional status of the home, particularly in traditional communities and cultures.

[1] World Bank, 2018. Employment of Women in Agriculture. Available at: https://data.worldbank.org/indicator/SL.AGR.EMPL.FE.ZS.
[2] ibid
[3] https://www.entrepreneur.com/article/327558
[4] The Unseen Sector: A report on the MSME opportunity in South Africa. IFC, 2018.
[5] National Income Dynamics Study (NIDS) Coronavirus Rapid mobile Survey (CRAM). https://cramsurvey.org/wp-content/uploads/2020/07/Spaull-et-al.-NIDS-CRAM-Wave-1-Synthesis-Report-Overview-and-Findings-1.pdf
[6] https://cramsurvey.org/wp-content/uploads/2020/10/1.-Spaull-et-al.-NIDS-CRAM-Wave-2-Synthesis-Report.pdf

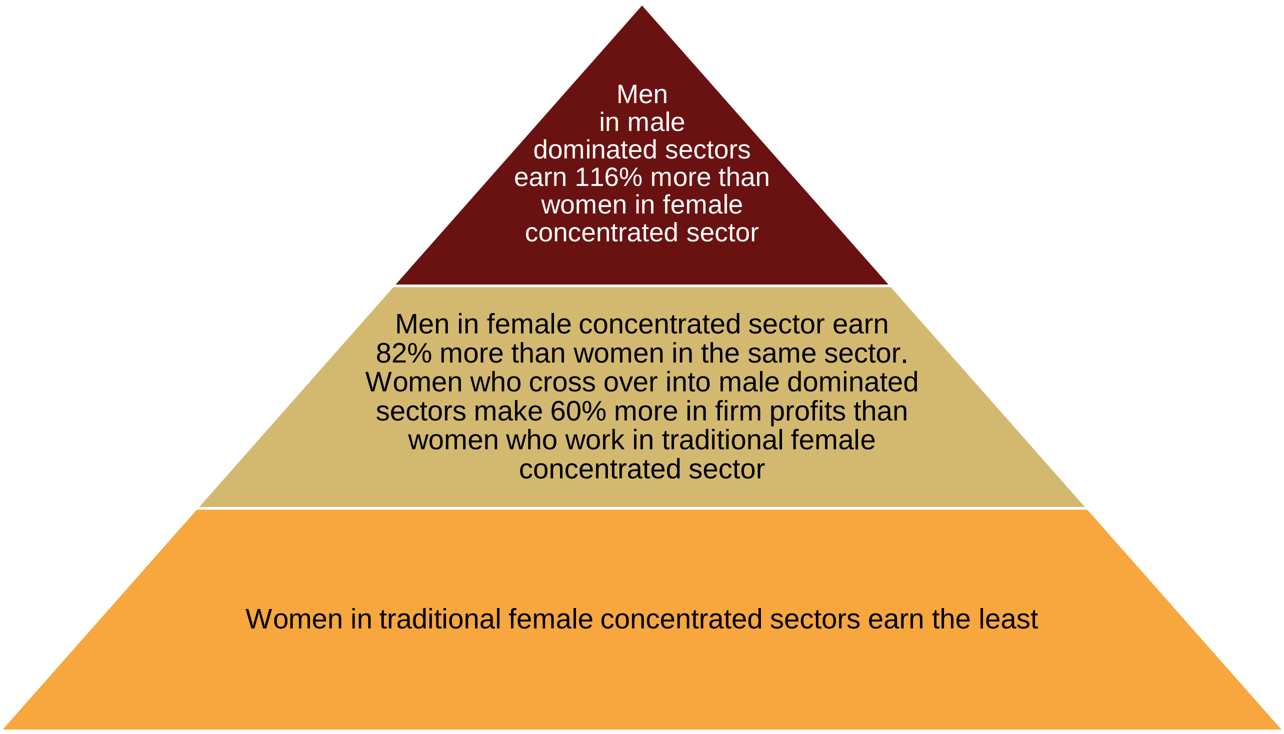
While this paper focuses on access to finance, it should be remembered that there is an intersectionality between access to finance and general business development support (BDS). For instance, if the administration of a business is not efficient and legally compliant, if the supply chain is broken, if the business struggles to access markets, these and other business related issues will impact on a business and its ability to secure access to finance.

1.1 Women's Access to Business Opportunities

A key factor in ensuring that women-owned enterprises can access finance is to target interventions carefully so that you reach women who are active in their own business development. A recent survey carried out by Facebook (FB), together with the WBG and the OECD highlighted some interesting points in relation to the sectors that women usually engage in. [7] The report coined a phrase "Profitarchy" (Diagram 1) where men earn more than women in every conceivable business situation. Men running businesses in male-dominated sectors earn 116% more than women in the female-dominated sectors and men even earn 82% more in sectors that are dominated by women. However, if women cross over into male-dominated sectors they earn 60% more in profits than if they remain in female-dominated sectors. Women operating a business in a female-dominated sector earn the least.

The FB survey show that women only dominate in two sectors, hairdressing & other beaty treatments (83%) and washing/dry cleaning clothes (73%). Arguably men dominate the rest but they are most dominant in the following sectors: automotive repair, warehousing, forestry, agriculture, construction, programming, broadcasting and publishing.

Diagram 1: Profitarchy



[7] https://dataforgood.fb.com/wp-content/uploads/2020/09/Sex-disaggregated-data-to-design-targeted-programs-for-women.pdf

The survey delved deeper to find out how women entrepreneurs secured a place in a male-dominated sector and most female respondents replied that they inherited the business from a family member and did not need capital to continue running it. The respondents also reported receiving mentoring from men, which affirms that when women receive targeted mentoring, they are successful in their business ventures.

There is a class component to the access women have to owning and running a business. Women from middle class backgrounds find it easier to enter the business environment as childcare and domestic help are more easily accessible with a higher household income and generally, they receive family support, including from partners. This group would find it easier to cross over into a male-dominated sector if provided with support including finance and mentoring. If they don't inherit or are given a business or loans from family which is the norm in this group, they may find it difficult to access loans as they mostly don't have collateral in their own name and frequently need a guarantor.

Working class women, on the other hand, have to deal with many domestic issues as the carers of the family for the young and the old. It is also more likely that their partners are unemployed and in traditional communities women are generally not as free, or as supported, to work outside the home. These constraints may also require her to remain close to the home even during business preparation. Generally, these business are micro sized and are unregistered. Women running these businesses would benefit greatly from support in registration and in securing bank accounts and micro loans. It is therefore unlikely, but not impossible, that women who run micro-business would be able to cross over into male-dominated sectors, but if they were, the benefits would be significant.

These findings show that when dealing with gender inclusion an approach is needed that takes into account the varying circumstances of women. Rural women and urban women face different challenges, young and old have their own strengths and weaknesses. Designing interventions needs to take account of these differences and ensure that all women from all parts of society are supported.

1.2 Women's Access to Finance

Small businesses, in general, struggle to access external finance, which means that they rely on internally generated funds, which are frequently not sufficient to finance expansion and growth.[8] Women are: 6% less likely than men to rely on banks loans, 5% less likely to take loans from friends and 3% less likely to access venture capital.[3] The IFC in 2017, noted that women-led SMMEs accounted for only 16% of the overall loans in their sample which is an outsized share of funding gap by women. All of the above points to barriers in access to finance by women entrepreneurs that are exacerbated by cultural norms and lower status in society, as well as a lack of capital assets (especially land) to use as collateral for loans.

The 2018 World Bank survey notes that "*women entrepreneurs are making powerful contributions to their economies*…. and *are joining the labour force more rapidly than men".* It also noted that in South Africa *over 60% of all SMEs surveyed have balanced gender representation on their leadership teams".*

Many issues women entrepreneurs face in accessing finance are the same as all businesses but are exaggerated by issues that impact women entrepreneurs more than male entrepreneurs. For instance, women-owned micro-businesses are less likely to be registered or compliant with small enterprise regulations than small and medium sized enterprises; many women-owned micro businesses also operate on a cash basis and they lack financial records hence lacking the financial readiness to access loans. It is not possible to ignore the interlinkages between access to finance and the need for Business

[8] Financial Access and SME Size in South Africa. FinMark Trust. Makina et al., 2015

Development Services (BDS) that assist SMMEs to become compliant. However, BDS services also need to recognise the constraints faced by women in running their business which often differ to those of men.

A key issue facing the design and implementation of gender positive programmes is that research reports rarely disaggregate data. It is essential to understand where policy is succeeding or failing so that mitigation measures can be introduced to ensure the desired impact. Finfinds' report (2018) states that "*data on SMME access to finance is limited*" and also reported that 21% of businesses are owned by black women, but the same data is lacking in detail. [9] Much can be gained from mining existing data from lending agencies to determine the reasons why women-owned businesses were not granted loans.

While providing equitable access to finance by women is in itself critical to empower women in our society, women are often impacted upon by their traditional role in the family as care givers to the young and elderly. These roles not only take away from the time that women can allocate to their business but can limit their attendance in training or their availability to market their goods. Women might not be able to go far from the home, nor stay out late for a multitude of reasons, some being cultural and/or safety and security. These issues are rarely given sufficient attention in the business world.

SME South Africa notes that women historically face numerous barriers to their engagement in the economy and complacency is high, especially in difficult economic times and with tight deadlines where women's advancement often takes a back seat. [10] Given that women-owned businesses tend to have weaker financial resilience, these issues need to be taken up more vigorously during the COVID-19 pandemic to improve equitable inclusion and avoid the collapse of these important, often locally focused SMMEs. There have been a number of initiatives that support SMMEs during COVID-19, including the increase of the Child Support Grant (CSP) and the introduction of a COVID-19 R350/month special grant for those that are not covered under other grants. 75% of the COVID-19 special grants were accessed by men, which may mean that women without children and hence no access to the CSP are disproportionately likely to access these grants; more research is needed to understand these linkages more clearly.

Some of the important considerations when putting together financial support packages could include: i) providing targeted funding to sectors that are dominated by women (service sectors such as informal traders, small shops, hairdressers, beauty care, hospitality, food and beverages) separate from targeted funding aimed at sectors dominated by men (manufacturing technical, maintenance, automotive); ii) reducing the bureaucratic requirements for small funds aimed at micro-business where women dominate.; iii) supporting micro business to become registered and hence access support; iv) design of financial support instruments that recognise the limitations that start-ups or recently registered business may have in accessing funding; Introducing innovative policy and strategies may introduce an positive gender bias that will favour women and support them in this time of crisis and beyond.

1.3 Funding instruments

This section is meant to provide examples of funds and loans provided by sefa; an agency of the DSBD and it manages the majority of the existing government SMME funding instruments as follows:

- sefa blended finance instrument- available for all SMMES
- sefa debt restructuring fund- available to existing sefa clients struggling to pay their loans

[9] Inaugural South African SMME Access to Finance Report. Finfind. 2018
[10] Reality of being a female entrepreneur in SA. August 2017: https://smesouthafrica.co.za/17480/women-entrepreneurs-report-survey/

The DSBD has/is introducing funding specifically to address certain sectors hardest hit by the COVID -9 lockdown including:

- Spaza Shop Support Programme – cash flow facility (credit guarantee)- R175m
- Clothing and Textile Support Programme – skills and machinery - R105m
- Bakeries & Confectionaries Support Programme- working capital investment –R100m
- Automotive Aftermarket Support Programme:- credit guarantee- R225
- Hairdresser scheme (on hold)

The automotive industry is male-dominated but there are efforts to bring women into this sector in the aftermath of the lockdown.

There are other sectors that have been severely impacted by COVID-19 and where there is a high proportion of women-owned business. This includes the hospitality sector and the related sectors such as food and beverage, including wine. Women also make up a high proportion of smallholder farmers who will have suffered during COVID-19 due to the break in the supply chains. These sectors are being looked at by the Department of Tourism and the Department of Agriculture, Land Reform & rural Development (DALRRD).

The reports from sefa on its loans and grants to women owned business from 2017-2019 are favourable in terms of an increase in the number of women who accessed the grants. The data shows that 46% of the loans were disbursed to black women-owned business in 2017-2018 and that this rose to just over 53% in year 2018-2019 (Table 1). This data could be mined further to provide more detail on the amounts of each loan and the sectors in which the women owned business operate.

Table 1: Amounts disbursed to women owned business versus black owned business

	FY 2017/2018		FY 2018/19	
Type of Business	**Amt disbursed ZAR**	**No. SMMES**	**Amt disbursed ZAR**	**No. SMMES**
Women-Owned Businesses	416 432 000	44 146	481 962 893	72 238
Black Owned Businesses	902 687 000	44 904	897 199 271	72 798

Source: sefa 2017/18 and 2018/19 annual reports

The existence of a fund for spaza shops is encouraging as they serve as an important last mile distributor and supplier and women make most use of these trading agents. Their role in the informal and rural sector has been highlighted during the pandemic as they have provided outlets for food, airtime and household goods. Spaza shops have a gender component as they both supply largely to women and are frequently owned by women. Other potential opportunities exist to support informal businesses run by women such as hairdressers and beauty care practitioners.

This concept paper looks specifically at how financial support to women-owned business might be enhanced. One way to do this is by creating special funds that address the gaps that women-owned businesses face and provide much needed technical support. A number of organisations have recognised this need and have set up small grants, including Seda.[11] The approaches have similarity but also address specialised needs including: i) providing support services that can impact the success of the business; ii) setting aside funds specifically for women-owned business; iii) creating an even footing for women-owned business who are starting their business journey; and iv) advisory services.

There are a number of financial instruments for women owned business, some of which support start-ups and they include:

- The National Empowerment Women Fund is aimed at accelerating the provision of funding to businesses owned by black women. The NEF provides business loans from R250 000 to R75-million across all industry sectors, for start-ups, expansion and equity acquisition purposes.[12]
- Investment opportunities for larger more established business exist from so called angel funders as well as Incubators and impact hubs that provide specific support to women. [13] [14]
- Alitheia Identity Fund- The fund seeks to fill in the gap for opportunities for high growth women-led businesses to scale their businesses through efficiency and regional expansion and for fund managers to back high-growth businesses.[15]
- Old Mutual Masisizane Fund provides support to women-owned business for start-ups and business expansion.[16]
- ABSA Women Empowerment Fund is suitable for new and existing women owned businesses.[17]
- Africa Trust Group are fund managers for a number of funds aimed at women-led businesses with an established track record. [18]

[11] https://www.entrepreneur.com/article/327558

[12] https://smesouthafrica.co.za/where-to-access-funding-for-women-owned-businesses-in-south-africa/#:~:text=National%20Empowerment%20Fund%20(NEF)&text=The%20NEF%20Women%20Empowerment%20Fund,expansion%20and%20equity%20acquisition%20purposes.
[13] https://ventureburn.com/2020/02/female-founders-funding-list/
[14] https://johannesburg.impacthub.net/
[15] https://www.idf.co.za/Other/AIF
[16] https://www.oldmutual.co.za/business/solutions/masisizane
[17] https://www.absa.co.za/business/starting-my-business/access-to-finance/women-empowerment-finance/
[18] http://africatrustgroup.com/

2. Potential Policy Recommendations

Based on desk top research the following recommendations can be summarized:

- Design specific funding programmes for women as they have been disproportionately affected by the COVID-19 pandemic.
- Strategies for access to finance for women entrepreneurs need to recognise that one solution will not work for all women-owned businesses. The challenges women-led businesses face varies based on class, age and geographical location as well as the stage of the business, among others; each may need different solutions.
- As women dominate the micro-finance sector, focusing on this sector should immediately have gender positive impacts.
- Simplified grant making schemes are needed to avoid unnecessary bureaucracy that can be challenging for home based businesses.
- Lending criteria need to be cognisant of the constraints that women may have when applying for loans, including lack of collateral for securing the loan.
- Loan schemes need to provide support beyond the need for finance, as mentorship is a critical factor in the success of women-owned business.
- While support to female dominated micro business within sectors is important, there should also be targeted programmes to support women who want to cross over and enter male dominated sectors to reach large numbers of women, as the benefits from the latter are significant.
- Efforts should be made to design innovative financing mechanisms that build on the strengths of women entrepreneurs such as women's long history of saving and successful pay back of loans. Cooperative banks, for instance, lend funds based on a individuals ability to save. Loans can also be granted based on moveable assets such as stock and equipment.
- Bring gender empowerment programmes closer to international best practice with the recognition that a woman's success is heavily impacted by her ability to secure support for her domestic and childcare responsibilities. An integrated approach to gender inclusion in the busines environment is needed to ensure that women entrepreneurs can succeed in their business activities.
- Ensure that government programmes are adequately promoted and tracked for progress in gender positive impacts through the use of indicators and gender-led budgeting.

Put emphasis on a deeper more nuanced approach to gender data capture that provides more detail on women-owned enterprises, the challenges they face and the successes they have in securing finance.