

EXECUTIVE  
SUMMARY

SURVEY TO EXPLORE  
GROWTH BARRIERS  
FACED BY FEMALE ENTREPRENEURS  
IN EAST AFRICA



GRAÇA MACHEL TRUST

NEW FACES NEW VOICES

**WOMEN IN FINANCE**

NETWORK



*The decision to focus on women entrepreneurs is because of the significant contribution that they make to their economies. These enterprises, if allowed to achieve their full growth potential, can contribute to employment growth, enhanced regional trade, and spur more activity amongst budding entrepreneurs.*



## EXECUTIVE SUMMARY

The aim of this report is to establish the growth barriers faced by female entrepreneurs that hinder them growing from micro and small enterprises to medium and large-sized businesses. Of particular focus is a determination of what sources of capital they have used to get their business to the current stage and what modes of capital they intend to use to expand their business. The study asks women in business to discuss their two primary financial constraints and identifies what factors, according to the entrepreneurs, will catalyse their business further, as well as future challenges they anticipate and what can assist them to overcome these obstacles. A number of recommendations and their impact have been developed as a result of these findings.

The decision to focus on women entrepreneurs is because of the significant contribution that they make to their economies. These enterprises, if allowed to achieve their full growth potential, can contribute to employment growth, enhanced regional trade, and spur more activity amongst budding entrepreneurs. Women entrepreneurs are recognised for spending more of their income in improving the wellbeing of their households by investing in the health and education of their children, as well as catering for their aging parents. However, women entrepreneurs are also more likely to face setbacks in their earning ability for various reasons – time constraints as a result of dual responsibilities in the household, lack of collateral as a result of their limited ownership of property, or becoming single income households because of separation, death or divorce from

their partners or not being in a union at all. Therefore to address these potential adverse circumstances, the survey explores additional questions on risk mitigation factors such as insurance as well as safety nets through savings and investments.

Research has already shown that women's businesses tend to be smaller in size than those of their male counterparts, have access to less capital and tend to be more concentrated in the service and informal sectors. Although this research was not comparative against male entrepreneurs, it does seek to establish the size of the various businesses and the sectors where the businesses are concentrated, and gives a rough estimate of the funding gap experienced by these businesses. It also aims to establish whether women entrepreneurs actively seek growth capital from external financiers, and tests their appetite for alternative forms of financing.

The study attracted 664 respondents from East Africa and was mainly conducted online. Its purpose is to provide the entrepreneurial ecosystem with more information regarding the challenges facing women in business, to encourage financial institutions to test the business case for investing in women entrepreneurs by actively pursuing female clients, to promote customization of products and services to cater to this segment, and to support capacity building programmes through women's networks that provide linkages to various financial services, thereby improving financial literacy and increasing confidence.



## KEY FINDINGS

### ENTREPRENEUR PROFILE

Female entrepreneurs are young and well educated, with 69% falling between 20 and 40 years of age, and 64% in possession of either a Bachelor's or Master's degree. Of the female entrepreneurs that participated, 48% own over 70% of their enterprise and 79% are formally registered, while 51% conduct their business from home and at least 55% are still working full time alongside their business.

### CURRENT FINANCING

At least 71% of the women surveyed started their business from their own savings. Most female entrepreneurs have invested between US \$1,000 and US\$5,000 to start their business. The research reveals that most female entrepreneurs currently self-finance their business. They do this using their own funds/savings and ploughing the earnings of the business back in to achieve growth. In the case of these sampled female entrepreneurs, the decision to self-finance is based on a belief that they do not have the requirements to access funding and therefore resort to self-financing. There is also the fear element and lack of confidence regarding the use of external finance when business cash flows are irregular or unpredictable.

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### BUSINESS PROFILE

Female entrepreneurs are represented across a variety of sectors, especially the following: retail (17%), agriculture (13%) and consulting (11%). The majority of female entrepreneurs in the education sector (85%) invested between US- \$1,000 and US- \$5,000 to start their business whereas those in the financial services sector (44 %) invested the most in the 'more than US- \$50,000' category. At least 56% of 600 businesses surveyed stated that they trade regionally and hence serve diversified markets.

Women's businesses are small with only 8% having an annual turnover of greater than US-\$100,000. Despite this, 63% of 443 respondents indicated that their business was profitable and it had taken them less than one year to achieve profitability. Almost half (48%) of the businesses have been in operation for less than two years and only 23% have been in operation for more than five years. The staff ratio is low with 86% of 395 enterprises having less than 10 employees. However, 91% of 443 respondents indicated a willingness to grow their business.

### PRODUCT PROFILE

Out of 412 female entrepreneurs, 48 % have products and services that are targeted towards women. Furthermore, 48% serve a client base that is over 50% female. More and more women entrepreneurs, globally, are creating products and services geared towards a female client base that influences 70% of household spending. In terms of staff, we found that out of 396 respondents, 55 % of the businesses had employees which comprised over 50% females.





## KEY FINDINGS

### CHALLENGES

Over 50% of 607 female entrepreneurs cited access to finance (31%) and access to markets (23%) as the two main challenges they face and are still yet to overcome. The two biggest obstacles cited in accessing finance are collateral requirements and prohibitive interest rates. We found that out of the total of 443 respondents that applied for a loan, just over a quarter (121) of them were successful. Therefore, only 27% of the overall data pool applied for a loan successfully. We also asked the entrepreneurs what they considered would realistically propel their business to 'double-digit' growth. Access to finance is rated as the most effective catalyst, followed by more marketing, and then access to trade. The constraints to obtaining financing are on both the supply and demand side.

### FINANCIAL CONSTRAINTS

Supply side financial barriers include slow and complicated bank processes, lack of customized products or services, and inadequate marketing by financial institutions. Demand side financial barriers consist of unpredictable cash flows which create uncertainty to commit to contractual obligations, unsatisfactory business financial records or documentation, and lack of time to source financing.

63 %

do not have a business industry mentor for guidance

### FINANCIAL AWARENESS LEVELS

We set out to establish what different types of financing female entrepreneurs are aware of to determine if their limited knowledge of available finance options affected their decision to seek finance. Bank loans have the highest awareness levels, followed by microfinance then Savings and Credit Cooperative Organization (SACCOs). However this high awareness level does not appear to translate into uptake of their products and services. The financing options that carried the highest awareness, such as bank loans, microfinance and SACCOs, came in fourth, sixth and seventh respectively as preferred financing methods for expansion. Female entrepreneurs stated that they intended to finance their business expansion using their own resources first, followed by working with an angel investor, and thirdly receiving a grant. This is despite admitting that their current mode or level of financing does not meet their short- to mid-term needs (two to five year range). When we checked what type of financing female entrepreneurs were most interested in applying for, the responses differed slightly with grants topping the list, then angel investors and thirdly microfinance.

### FINANCING GAP

We sought to establish how much money the entrepreneurs would need in the next three years to determine the size of the financing gap. Out of 358 respondents, entrepreneurs in Kenya, Uganda and Rwanda mostly need between US\$ 10,000 and US\$ 30,000 to propel their business to catalytic growth. The second most preferred category, which is dominant among Tanzanian entrepreneurs, is between US\$ 30,000 and US\$ 60,000. The money is required for growth initiatives such as purchase of equipment, sales/marketing and product development.



## KEY FINDINGS

### NON-FINANCIAL SUPPORT

Women's businesses appear to be running with little structured support. We established that most of them do not have external financing, nor have they sought it. Aside from limited financial resources, we also found non-financial support to be limited. Out of 598 respondents, 67% do not have a board of directors and advisors and 63% do not have a business industry mentor for guidance. Entrepreneurs expressed interest in getting mentors who were more experienced in their sector – people they could bounce their ideas off and who could introduce them to a wide network. A third of women entrepreneurs have not participated in any training for their business. Those who did get trained favoured courses on brand and marketing strategies. Currently women are filling 70% of their business knowledge gaps through the internet. Women entrepreneurs appear to obtain their support informally and through various female networks. Out of 401 respondents, 54% either belong to a network or are members of organizations. At least half of the female entrepreneurs in Tanzania and Kenya, as well as two-thirds in Uganda (in Rwanda it is 20%) belong to a savings group that they use primarily for investment and loan purposes.

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### CUSHION

More than half (55%) of 425 respondents do not have a financial cushion, such as retained earnings or overdraft facilities for their businesses. We also checked female entrepreneurs' use of other financial services such as insurance, and found that 83% of 597 respondents have not insured their business. The reasons varied from a lack of financial resources, which indicates that they perceive insurance to be expensive, to citing their small size as an impediment or concluding that it was not relevant to their business. Others did not trust insurance companies to pay claims, or complained of lack of customized services. The rest simply lacked information on how the sector works and how it can serve their needs.

These findings demonstrate that unless a different approach is followed, women entrepreneurs will continue to run small businesses that do not fully meet their growth potential. They will continue to be viewed by financial institutions as risky and unviable investment targets. Therefore the following recommendations have been developed to assist with the creation of both financial interventions to address the demand and supply side constraints of obtaining access to finance as well as the non-financial barriers identified that can promote business growth.

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## REPORT ROADMAP

### SECTION 1

is the introduction and background to the challenge facing female entrepreneurs and discusses their tendency to remain micro and small businesses if the access to finance challenge is not addressed.

### SECTION 2

is the research methodology and tools used to obtain the results. It also discusses research limitations.

### SECTION 3

sets out the individual and business profiles of women entrepreneurs.

### SECTION 4

describes the challenges faced by women entrepreneurs (both past and anticipated), provides details on financial constraints, examines awareness levels on different types of financing, checks preferences and interest on financial choices for business expansion, and confirms growth ambitions.



## RECOMMENDATIONS AND CONCLUSIONS

### SUPPLY SIDE

Financial institutions need to create customized debt and equity products and services that appeal to and cater for women entrepreneurs. Encouraging financial institutions to produce gender disaggregated data on their existing client base helps to strengthen the business case for investing in women and the development of more tailored solutions. The incorporation of more gender diversity in the leadership and composition of senior management in financial institutions will result in more inclusive products being developed to cater to a diverse client base, and promotion of an organization culture that appreciates varying attributes.

### DEMAND SIDE

In order to improve trust and confidence between women entrepreneurs and external financiers, capacity building programmes that specifically prepare women to raise and accept funding need to be introduced. These need to have linkages with the financial industry and must help to align expectations from either party as well as create milestones that women can aspire to.

#### SECTION 5

outlines other findings that came out of the report that provide insights on the gender profile of the businesses in question, the support available to these businesses, and attitudes towards insurance.

#### SECTION 6

provides recommendations to address issues identified to achieve the desired impact, and offers a conclusion that promotes gender lens investing.

### To tackle non-financial interventions the following recommendations were made

#### DIGITAL PLATFORMS

Women entrepreneurs utilize various digital mediums to access their clients. This involves driving traffic to their website or using online marketing tools such as Facebook, WhatsApp, and soliciting clients through email. Entrepreneurs also obtain their business training from the internet. Therefore a digital platform that serves as an online marketplace between relevant stakeholders can increase the entrepreneurs' knowledge and confidence, give them the necessary visibility to potential investors, and serve as a means of attracting more clients. The emergence of innovative financing vehicles such as crowd funding platforms can evolve from such initiatives.

#### SHARED SERVICES

Women entrepreneurs lack support from professional service providers owing to insufficient funding. As a result, the supporting documentation for their businesses is inadequate to secure more capital and embed strong governance principles. Therefore creating a pool of talent that encompasses accountants, auditors, legal, tax and brand advisors to assist entrepreneurs on a need basis can change this. The costs of this can be shared amongst entrepreneurs. Other infrastructure that can be shared includes office space and meeting rooms to promote synergies and collaboration between various entrepreneurs.

#### MORE RESEARCH

Additional research is needed in this area to obtain more information on the behavioural attributes of female entrepreneurs as well as to build the investment case for investing in women entrepreneurs through gender disaggregated data provided by financial institutions.



## GOOD

- 64% have completed a Bachelors / Masters degree
- 79% of the businesses are registered
- 54 % belong to either a network or membership organization
- 55% have more than half of staff as female employees
- 63% of the businesses are profitable
- Courses on Business strategy and Entrepreneurship is what most women entrepreneurs want

## PROMISING

- At least 71 % of the women surveyed started their business from their own savings
- 61% this is their first business
- 23% have been in operation for > 5 years
- 91% indicated a willingness to grow their business
- 70% are willing to engage with an equity investor
- Most of women get the information to run their business from the internet
- 20% in Rwanda, 50% in Tanzania, 54% in Kenya and 75% in Tanzania belong to a chama credit group
- 38% expect to create between five and more jobs 2 years from now

## WORRYING

- 63% do not have a business industry mentor for guidance
- 83% have not insured their business
- 62% have never applied for a loan before
- 68% said that their current financing is not adequate to meet their short to mid-term goals (2- 5 years)
- Women entrepreneurs cite they intend to finance their business expansion using their own resources first
- Female entrepreneurs are most interested in applying for grants as a form of financing

## DISAPPOINTING

- Only 8% have an annual turnover of greater than US\$ 100,000
- 67% do not have a board of directors and/or advisors
- Over 50% of female entrepreneurs cited access to finance and access to markets as the two main challenges they are yet to overcome
- Only 27% of the overall data pool applied for a loan successfully
- 69% do not have audited financial statements



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