



EXECUTIVE
SUMMARY

**DOCUMENTING FINANCIAL INCLUSION BEST PRACTICES:
EXPERIENCES OF 60 WOMEN ENTREPRENEURS IN SOUTH
AFRICA AND ZAMBIA**





This report aims to document best practices by taking a micro-level deep dive into why women entrepreneurs applying for 'missing middle' funding ((i.e., in the range of USD 30 000– USD 500 000) more often fail than succeed. This report focuses on the demand and supply issues related to women entrepreneurs access to finance in South Africa and Zambia. The study provides a baseline assessment of a cohort of women who participated in the Graça Machel Trust's Women Creating Wealth (WCW), a Pan African entrepreneurship development programme aiming to grow businesses transform behaviours and skills and build the confidence of women entrepreneurs.

The study further assesses financial institutions' supply and demand challenges to understand better supply-side issues related to accessing finance for women entrepreneurs in South Africa and Zambia. The purpose of the study is to strengthen advocacy and better support women entrepreneurs, establish a baseline for women entrepreneurs, identify key recommendations for inclusive business financing practices for women

“Women entrepreneurs are determined to succeed open to learning and see the process of building a business as a journey and practice that can be refined and perfected daily”

related to the Covid-19 economic response, increase women's access to finance and financial services, strengthen the skills and capacity of women to access finance and determine the nature of investor readiness who have applied for finance.

The study gained insights from sixty-one (61) women entrepreneurs who participated in focus group discussions and an online survey including eight (8) financial institutions based in South Africa and a total of twenty-nine (29) women entrepreneurs including eight (8) financial institutions in Zambia. The overall objective is to conduct an in-depth diagnostic analysis on women entrepreneurs' investor readiness and understand supply and demand-side issues from a financial institution's perspective to develop an advocacy strategy for women's financial inclusion.

ENTREPRENEUR & BUSINESS PROFILE

Women entrepreneurs in this study were typically above the age of 35. Across the two countries, women were found to operate their businesses in various sectors such as agriculture, agro-processing, construction, textile, manufacturing, and trade and services. However, the two most common sectors women tend to operate in.

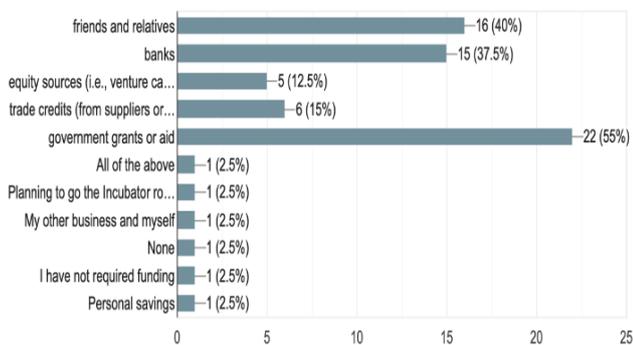


KEY
FINDINGS
SOUTH AFRICA

APPLYING FOR FINANCE

In the review of the data collected for the study in South Africa, women highlighted that government grants and aid were a focal point for most women entrepreneurs. However, their experiences were not always positive. 55% of the 39 women surveyed applied for grants, with 40% seeking finance from their friends and relatives and 37,5% from banks.

16. Please select the funding options that you turn to for financing? (Please select all that apply)
40 responses



The data also shows that women entrepreneurs less frequently seek funding from trade credits (15%) and equity sources (12,5%). In conversation with women entrepreneurs, the majority did not have positive experiences applying for finance. A few women spoke to their experience seeking government grants and frequently described the process as tedious, very tough, a scam because of the red tape, sketchy, putting a lot of constraints on small businesses, and challenging, never been easy. Similarly, women noted the same experiences with banks highlighting that having a history with the bank did not always work in their favour. Banks tend to use their banking history against them, leaving many women feeling discouraged by bank processes.

Further, women noted a lack of understanding of their industries from the government. For example, a government department disregarded agro-processing as part of agriculture and had to spend years to make them recognise that. The process of applying for funding or finance included women investing their own money, partnering with others, receiving funds from friends or an angel investor and starting as the sole owner or proprietor.

CHALLENGES IN ACCESSING FINANCE

“Women are natural nurturers, so when they are in business, they are sort of protective of their businesses, and it makes it difficult for the finances or financial industry to fund our businesses because we do not have partners.”

The study shows four recurring themes related to challenges in accessing finance such a) *the cost required to access finance is too high*, b) *the requirements are inequitable*, c) *the turnaround to process the application is too long*, d) *black tax or the burden of care comes as a high cost*. Women entrepreneurs also highlighted a lack of technical support and the costs involved in applying or accessing finance.

Further challenges that women face in accessing finance included the following: First, women noted several reasons for **declined funding**. Although many women entrepreneurs felt confident enough to apply for finance, the main factors were dynamics related to equity, misalignment, bank history or records, and financial discrepancies. Both women surveyed and those engaged in focus group discussions highlighted that misalignment defined as a mismatch between the funder and grantee as one of the most common reasons their applications for finance were declined. In other instances, women have refused funding because their businesses are out of alignment with the financial institution's interests.

Second, on **equity**, accessing government funding was a challenge as the government does not fund the business at 100%. In the context of the conversation, equity represented the amount of funding required for a funding grant to be released. The government often reflected more on downsides about costs. For example, the government will fund 80%, and the entrepreneur will need to invest the other 20%, and entrepreneurs found that raising the 20% is still a challenge. Therefore, women faced difficulties accessing the grant funding due to their inability to raise the required remaining capital.

Third, women found their **Intellectual property at risk** as some experienced their ideas stolen or

shared with a competitor when applying for funding, thus becoming skeptical about sharing their concepts and applying for funding. Therefore, women highlighted the need to

protect their intellectual properties when applying for funding.

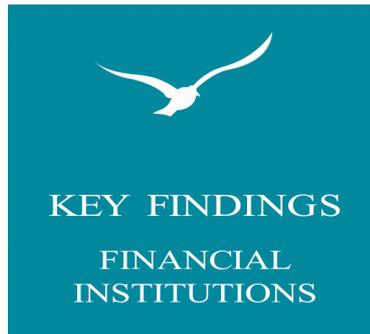
Fourth, **Lead time** has been noted by many women entrepreneurs as an obstacle as processes take too long before receiving feedback in addition to the requirements for applications.

Fifth, **Black tax and burden of care** were of equal importance in conversation, where women highlighted additional responsibilities placed on women as breadwinners for their families, parenting in addition to the existing duties of running a business.

Lastly, data related to challenges in accessing finance, 50% of the 39 women surveyed in South Africa indicated *additional investor readiness strategies and a need for further investment literacy (i.e., supply and demand mapping/matching)*. In addition, about 40% of women suggested *a need for more understanding of investment trends*. In contrast, other women preferred not to take loans for debts they did not know they could comfortably pay back.

Thirty per cent (30%) of the entrepreneurs surveyed revealed the scope of financial services is limited (e.g., I am a non-salaried worker, and financing is limited or restricted).

27.5% of women need additional financial literacy, 22.5% felt the scope of financial services is limited (e.g., I am a low quantile worker and financing is limited or restricted) and 20% felt they lacked mentorship or mentoring.



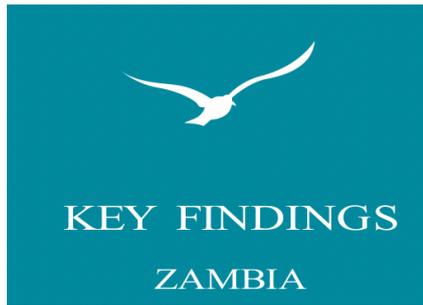
In conversation with Financial Institutions, three (3) themes emerged throughout, such as a) the level of Commitment of women entrepreneurs, b) networks, c) business acumen about financial literacy. While the themes highlighted may not come as new information, the specific tenets that the financial representatives honed in on providing a bit more nuanced regarding the challenges women entrepreneurs encounter when seeking finance. Further, financial institutions highlighted that in terms of **Commitment**, women entrepreneurs often lack Commitment to their product, service, and or concept. More significantly, women entrepreneurs.

Often, multiple businesses or side hustles run simultaneously, making it difficult for them to dedicate their time, focus, and effort to grow one business. In addition, lack of confidence in financial representatives makes it hard to advocate strongly on behalf of some women entrepreneurs that approach them for financial assistance. Financial representatives also highlighted that being part of networks lead to their inability to secure funding due to their socialization and is often not firmly in place among circles where they need to build a reputation. In addition, financial literacy has been noted as critical as women entrepreneurs need to know the language spoken by deal makers and to ensure they are aligned in business and behaviour.

NAVIGATING COVID-19

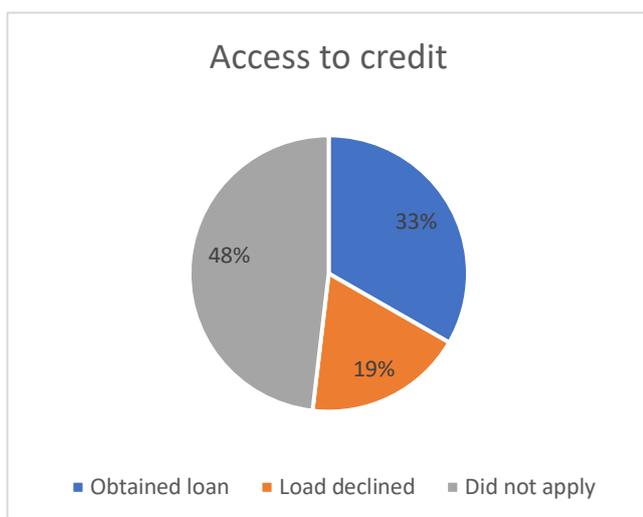
The study explored the experiences of women entrepreneurs about the Covid-19 Pandemic concerning women's knowledge of Covid-19 economic recovery packages and access to those packages. According to the data, 25% of women entrepreneurs were unaware of the Covid-19 economic recovery packages, whereas those who knew the packages described negative experiences in terms of applying for Covid-19 funding when asked to describe their experiences in terms of

obstacles and or benefits in accessing recovery packages. Overall, women were informed on Covid-19 economic recovery packages and funding resources. However, even though many entrepreneurs benefited, the process of applying had a list of challenges, such as women's scepticism on funding sources, corruption, fraud, and big businesses obstructing their engagements in accessing future economic recovery funds



DEMAND SIDE

Out of the 29 women interviewed in Zambia, 21 of these women noted to have been in business for more than 5 years and only 8 been in business for less than that. 25 out of these women noted to have accessed either additional financial literacy training or other trainings related to their business and thus considered themselves to be investor ready. Out of the 29 women, only 9 have been able to access financing from financial institutions and 7 of them have been in business for over 5 years. Although, they managed to access funding, some reported that the main challenge was the length of time it took for the loan to be processed, approved and funds to be disbursed similarly to South Africa.



SUPPLY SIDE

Financial Institutions in Zambia were engaged to find out existing technical gaps related to women accessing finance. Financial Institutions highlighted the following challenges on supply side issues:

Record Keeping

- i) Some women entrepreneurs do not keep proper financial records of daily sales, purchases, and expenses. In some cases, the receipts cannot be validated because they are in someone else's name who the entrepreneur perhaps sends to make purchases on their behalf.
- ii) Lack of audited financial statements or independently professionally prepared financial statements.
- iii) No having a business bank account
- iv) Those that have bank accounts, do not have the discipline of depositing sales receipts in their bank accounts and keeping the deposit slips.

The result is that there is no document trail and financial history, which makes it difficult for financial institutions to assess and establish the cash flow, turnover, revenue and expenditure and profitability of the business. This becomes even more difficult as the application goes through the approval process making it difficult to determine the ability of the client to repay the loan.

Financial Literacy

- i) Applying for a loan with no clear business case and therefore not able to articulate themselves to a level where they gain the banks confidence that the loan will be put to good use and paid back.
- ii) Inadequate understanding of basic financial statements and own projections that are submitted because they have been prepared by a third party.
- iii) Not able to demonstrate a clear understanding of the business end to end and interpret the performance of the business.
- iv) No business acumen, i.e., they can have a great business idea, but not be able to implement it effectively.
- v) Applying for green field projects and/or start-up businesses in which they have no experience or no track record and therefore classified as high credit risk.
- vi) Having no equity in the business and wanting the bank to provide 100% finance.
- vii) Not knowing at which point the business is profitable and therefore able to borrow and end up applying for loans prematurely.
- viii) Having seasonal businesses without any other fallback business to ensure the cash flow for the business is continuous.
- ix) Inability to demonstrate that they understand the industry, the market for the product, the risks and mitigations, and even source of inputs and/or suppliers for the business they are in.
- x) There is evidence of overtrading and applying for loans for in lines of business that are not related to what the core business is.
- xi) Related to this is applying for loans that do not add value to the core business and which will interfere with the current business.
- xii) In some cases, there is a mismatch between the tenure of the loan and what the funding need is. For example, getting a loan instead of an overdraft and vice versa. And when advised what the correct financing product is for the need at hand, they get discouraged.
- xiii) There are instances of having a mismatch between the amount applied for and the financial need. Lack of transparency in stating

what the real purpose of the loan is and therefore diverting funds.

- xiv) Approaching financial institutions for funding when the business is going down and not doing well. There is no demonstration of business continuity in that some only rely on one line of business which if it fails, exposes the entrepreneur to the risk of default.

Collateral

- i) Most women entrepreneurs have no or appropriate collateral to mitigate the risk of default. For example, the age of the car may be too old and/or the type of vehicle is wrong and would be difficult to sell, or the value of the property is below the stipulated loan to value ratio
- ii) Some have property but it is jointly owned with the spouse, who may not be willing to pledge the property as collateral for a loan.
- iii) Some of the businesses and the property pledged as collateral may not be easy to locate and therefore considered too risky

Affordability

- i) Loans to SMEs generally have a history of high risk of default. Because of this, the Credit Risk appetite for Loans to this segment of clients is very low and therefore have a pricing premium. This makes the loans too expensive for SMEs and the business may not be generating sufficient revenue to cover the interest and principle loan repayments.
- ii) Being over ambitious and applying for unrealistic loan amounts which they can't afford and with no assets to back the loan.
- iii) Wanting to pay way beyond the repayment period by paying less than what they can pay thereby being disqualified.

Governance

- i) Some have no formally registered and organized businesses.
- ii) No formal business management structure and rely on the key woman of the business and

therefore no succession in case of illness or death.

- iii) Not being aware of the existence of the Credit Reference Bureau and the purpose it serves and therefore going to apply for financing when they have a record of default.
- iv) Business not being compliant with regulatory requirements such as tax registration, filing of tax returns and PACRA annual returns.

Other observations

- i) Some women just lack confidence and feel intimidated and therefore do not inspire confidence in the lenders.
- ii) History shows that women have pressure on their repayment capacity because of extended family commitments.

FINDINGS AND RECOMMENDATIONS

South Africa: According to the report, in a deeper dive and conversation with the twenty-two (22) focus group participants, the themes gathered through conversation pointed at four recurring challenges in accessing finance. The women in the focus groups pointed out the following: (1) the cost required to access finance is too high, (2) the requirements are inequitable, (3) the turnaround to process the application is too long and (4) the black tax/burden of care comes as a high cost. Specifically, the women spoke to the lack of technical support and the costs involved in applying for and accessing finance. One focus group respondent points out her frustration in accessing funding led to *a loss of appetite* to apply for funding. She explains, "I did not proceed with the application, purely because I didn't see why I had to pay someone for a grant that is supposed to be free and available.

The process was just flawed for me. And I kind of just lost appetite." Similarly, another respondent hones in on the cost related to accessing finance. She points out the estimated cost associated, "I have to pay the middleman 3.5% to 5% if it is approved, and then you are still going to pay again another thing in which is interest-based... It just doesn't make sense to the business."

When the women entrepreneurs surveyed were asked about the most significant obstacle or challenge accessing finance, 50% of women entrepreneurs expressed *a need for additional investor readiness strategies (demand) and additional investment literacy (i.e., supply & demand mapping/matching)*. Another 40% of women indicated *I am financially conservative/risk-averse and prefer not to take loans/debts that I am not comfortable knowing I*

can pay back or a need for more understanding of investment trends (supply).

Zambia: The findings demonstrate that there is still a gap between the expectations on the demand side and the requirements on the supply side. Although the Women have gone through the WCW, which was meant to make them investor-ready and able to pitch and access finance, only a handful have succeeded in accessing financing. It is also evident that the women continue striving to increase their financial skills and literacy levels and have the knowledge required for the businesses they are involved in and should therefore be able to access financing from financial institutions. Considering the number of women who have not applied for funding after attending the training, it is evident that work still needs to be done to improve the women's confidence levels so that they can be able to approach financial institutions. Women must be able to articulate themselves well enough to gain the confidence of the funders. Most women are now resorting to Village Banking as a source of financing that does not require any application or documentation to obtain a loan.

The Banks have a duty of care to safeguard depositors' funds by ensuring they comply with the laid down credit policies and can therefore only lend to customers who meet their criteria and demonstrate the ability to repay the loans. Consequently, it is unlikely that they will change their credit policies, and it is for the women to do what they can to access financing. The findings indicate that one of the significant issues remains that of financial literacy and record keeping, and

this, therefore, needs to be addressed. There are various accounting software and packages used for record keeping that the women can use, such as Manager IO Quick Books ZPOS, to name just a few. In as much as some banks have Currency Verification and Processing System (CVPs) for women entrepreneurs, the women still have to compete for this money and therefore need to meet the laid down credit criteria.

Solutions to some of the challenges

- Find ways to support women with viable businesses but do not have collateral. Approaching institutions that can provide a credit guarantee scheme to guarantee the loans.
- High-interest rates issue raised by the women need to be addressed. The risk profile of women entrepreneurs needs to be changed for them to access loans at a lower premium.
- Provide support on CVPs for women entrepreneurs initiatives.