

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



GRAÇA MACHEL TRUST

NEW FACES NEW VOICES

**WOMEN IN FINANCE**

NETWORK

*"We are driven by passion:  
we have invested our time,  
capital, values and emotions  
in the business. We are patient  
and persistent; when we fail  
we keep trying."*





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## ACKNOWLEDGEMENTS: SPONSOR AND AUTHORS

### II. ABOUT THE SPONSOR:

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The focus of the Trust's work is to accelerate the economic advancement of African women by strengthening existing country-level business women's associations, establishing new networks of women in sectors that are critical for Africa's growth, increasing women's access to finance and financial services and equipping them with the necessary skills to grow.

Scale and consolidation are needed to harness the economic potential of women to improve their lives and effect change in their communities and countries. The Graça Machel Trust works across the continent on three issues: women's rights, children's rights, governance and leadership. We catalyse action, support local initiatives,

lend solidarity and offer support where it is needed. We connect people and groups that should know each other and work together; and engage both publicly and behind the scenes with power brokers to strengthen, multiply, and amplify the voices of African women and children. We work through networks and collaborations, and incubate and create new initiatives where there are gaps.

The Graça Machel Trust has four networks working across the continent to fulfil its objectives. These are New Faces New Voices (women in finance), Women in Media Network, Network of African Business Women, and African Women in Agribusiness.

### III. ABOUT THE AUTHORS:

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*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.*



## GLOSSARY

**Accelerators:** are organizations that provide entrepreneurs with not only funding but also business mentorship. This mentorship may take place at the premises of the accelerator and can last from three to six months. The programme with the entrepreneurs is cohort-based and culminates in a public pitch event or demo day where entrepreneurs pitch their projects to qualified investors in the hopes of securing more financing for their business in exchange for a small amount of equity. Accelerators can be either publicly or privately funded and focus on a wide range of industries. They are open to anyone applying into the programme and they are also competitive to join.

**Angel investors:** angel investors are high net worth individuals who identify and invest in high quality entrepreneurs in exchange for equity. They are individuals or groups of people who have previously run successful business, or are currently leading entrepreneurs and usually have a great deal of wealth from a variety of sources. They may fund an entrepreneur out of personal interest or a sense of social responsibility. Angel investors sometimes fund an entrepreneurial project through its entire growth stage, while others invest just in the early stages as a bridge to formal venture capital at a later stage.

**Chama:** is the Kiswahili word for 'group or body'. A group of individuals with like-minded interests come together to pool resources for various purposes such as investment. The chama structure is used throughout Africa and it originated in Kenya. Chama's

are exclusive to their members and therefore can be difficult to join.

**Crowd funding:** is the pooling of capital funds in small amounts from a large number of people to finance entrepreneurial projects by bringing investors and entrepreneurs together through online platforms. Entrepreneurs are given an opportunity to pitch their projects to investors in these forums and seek funding for their project(s). This model provides flexibility to entrepreneurs by offering alternative repayment like rewards which are tokens of appreciation given to investors by entrepreneurs. Entrepreneurs can also obtain immediate feedback on their products and services offered.

**Debt Finance/Loan:** a sum of money that is lent from one individual, organization or entity to another and is usually paid back with an amount of interest on the principal borrowed. Banks have been the principal providers of loans to individuals and businesses.

**Demand-side financial constraints:** these are factors emanating from the clients own shortcomings that limit or inhibit their access to finance such as inadequate business documentation, insufficient financial records, no track record, etc

**Entrepreneur:** any person who sets up a business or businesses and takes on a financial risk in the hope that they will make a profit in the future. Entrepreneurs exercise strategic and managerial initia-



## GLOSSARY

tive when they take on a venture to benefit from a perceived opportunity while providing risk capital for the venture with the expectation of economic profits.

**Financial constraint:** a limitation on the funds available for spending in attaining certain business objectives like purchase of materials, marketing, repayment of loans etc

**Grants:** refer to a sum of money given by a government or other organization for a particular purpose. Apart from governments other entities that give grants are non-governmental organizations such as endowments and foundations. They give grants to non-profit entities, educational institutions, businesses or individuals for a specific purpose and period. Grants are usually not expected to be paid back however their usage is monitored. They largely fund social causes such education, health, agricultural projects etc.

**Investor:** any person who commits capital into a venture with the expectation of receiving a financial return in the future. Investors use their funds to grow their money or earn income. Investors usually receive a share of the business they are investing in.

**Merry go round:** is a group of individuals that come together to pool resources and evenly distribute the deposits over a regular period amongst each member. This allows the member to achieve a particular goal.

**Microfinance:** is the provision of financial services to entrepreneurs of micro and small enterprises who would otherwise lack access to credit and other banking/financial services like savings, insurance, and funds transfer. For many, microfinance is a way to promote economic development, employment and growth through the support of micro entrepreneurs and small businesses. It enhances financial inclusion.

**Mobile Loans:** a new line of credit that stems from the advent of mobile banking - a service provided by an institution to allow its customers to conduct financial transactions remotely using their mobile phones. They provide a flexible way to borrow emergency cash in a highly convenient manner for most individuals and businesses since they can be applied at any time and from any place using mobile phones.

**Money Lender:** is a person or group of persons that lend small amounts of money for short periods of time informally to individuals at typically high rates of interest. Usually they target the unbanked or the under banked who have very limited access to credit facilities offered by banks and other financial institutions. They can use unscrupulous ways to obtain their money if default occurs.

**Peer to Peer lending:** also referred to as peer to peer lending is a form of short term lending whereby the borrower does not need to go through any intermediary to access funds as would be the case in traditional borrowing through financial institutions.



## GLOSSARY

This process however involves more time and effort on the borrower's part and relies on the borrower's credit profile. The lender is compensated for taking on the higher risk by a higher interest rate charged on the loan while the borrowers get access to financing that otherwise would be unavailable to them through the traditional channels.

**Private equity:** generally means investing in large and more established privately owned companies or in public companies with the intent to take them private. Institutional investors and accredited private equity firms primarily supply these investment funds. Given the often substantially long holding periods required for private equity investments, the investor would need to be willing to dedicate substantial sums of money for extended periods of time.

**Retained earnings:** refers to the percentage of net earnings of any business not paid out as dividends but retained by the business for the purpose of reinvestment into the core business or to be employed in the repayment of debt.

**SACCO:** means savings, credit and cooperative organization. It is therefore owned, managed and run by its members. Their members usually have common interests like occupation. They encourage savings amongst members from which they can borrow from at affordable terms.

**Small and medium enterprises (SME):** are small and medium sized businesses defined by

meeting one or more criteria that vary widely among economies. The more commonly applied criteria include number of employees, annual turnover and total assets with employee numbers being the most frequent characteristic used by national governments and statistical agencies. SMEs play a major role in economic growth in most economies especially the developing economies because they are key contributors to both employment and GDP.

**Social collateral model:** group lending with joint liability allows asset-poor individuals to replace physical collateral with social collateral.

**Supply-side financial constraints:** these are factors emanating from suppliers of capital that limit or inhibit access to finance such as complicated and slow procedures, insufficient information to potential clients, lack of customized products to suit different users, inhibiting collateral requirements, etc.

**Venture capital:** entails investing in or providing financing to private companies with high growth potential. Typically young companies can be provided venture capital at different stages. It can come from financial institutions that pool resources for investment purposes. It is basically a high risk for investors but the potential for above-average returns often acts as a motivator for them to put up funds. Investors usually seek long-term returns and require an equity stake in the businesses they finance. They also get a say in the way the business is run.



MULTIPLYING  
FACES  
AMPLIFYING  
VOICES





## FOREWORD

### FOREWORD BY GRAÇA MACHEL

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Women entrepreneurs make an important and ever-growing contribution to African economies through the various businesses they own and run. This is despite the socio economic challenges that women face as they handle both domestic and socio-economic responsibilities. Even under circumstances where the playing field is not level, their determination, hard work and resourcefulness demonstrate the resilience of the African female entrepreneur. Despite experiencing capital and cultural constraints women continue to pursue entrepreneurship as a path to financial freedom for themselves and their families and in doing so have found innovative ways to keep their businesses running.



*Through our numerous engagements with women across the continent at the Graça Machel Trust, we have witnessed the rise of African women who are not content running businesses for subsistence purposes only.*

Some are venturing into sectors that are traditionally male-dominated where their numbers are still small; some are bent on improving their technical knowledge and capacity to tackle even greater challenges impacting the business landscape; and some are engaging in regional trade to maximize their growth potential. The female segment cannot be generalized as 'niche' or 'predictable.' It is diverse and as this report confirms, has particular needs that require our attention.

Engineering African solutions for the many challenges women face on the continent can only be based on bottom-up data generated from a sound understanding of the local context in which women operate. Traditional narratives have, for the most part, confined women to specific business categories, usually micro-enterprises, with modest room for growth.



FOREWORD BY  
GRAÇA MACHEL

Time and again this does not reflect the complex reality of women-led enterprises, which this study uncovers. Part of the challenge of changing the self-perceptions of women entrepreneurs is their limited access to successful peers and role models in high-growth sectors. Women need greater access to markets, which opens trade and stimulates regional interaction. It is also critical for innovative financial products and targeted capacity building programs to be developed to change the status quo. This will allow women entrepreneurs to share their talent, widen their market reach and improve their quality of service delivery. Embracing the use of technology is also vital, especially to overcome the lack of information that constrains women entrepreneurs on how to scale up their businesses.

This research is unique as it is one of few studies that looks at women entrepreneurs from a regional

perspective, to assess similarities and differences in how women entrepreneurs are coping with financial and non-financial barriers to growth in Kenya, Rwanda, Tanzania and Uganda respectively. The study also establishes how these women currently fund their businesses, explores attitudes to different types of financing to expand their enterprises and reveals the funding gaps and capacity building needs. Through the findings and insights gained, we want to contribute to unlocking a massive opportunity that will see a triple line impact and benefit to society overall. More women entrepreneurs will lead to increased visibility, broader access across sectors and an inspired younger female generation ready to emulate and build on the successes achieved.

*Together we will grow an enterprising inclusive Africa.*



## EXECUTIVE SUMMARY AND KEY FINDINGS

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.



# EXECUTIVE SUMMARY AND KEY FINDINGS

## I. KEY FINDINGS:

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**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 or 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.

**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.



## EXECUTIVE SUMMARY AND 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.

**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.



## EXECUTIVE SUMMARY AND 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.

**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.



## EXECUTIVE SUMMARY AND KEY FINDINGS

## II. RECOMMENDATIONS AND CONCLUSIONS

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**To tackle the financial interventions the following recommendations have been made:**

**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.

**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.



## EXECUTIVE SUMMARY AND KEY FINDINGS

**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.

### 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.

#### 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.



# SECTION 1

## INTRODUCTION AND BACKGROUND

### I. THE BUSINESS CASE

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Women entrepreneurs are receiving a lot of attention around the world as potential catalysts of growth, job creation and economic development. McKinsey has estimated that if full labor force gender parity were reached, global GDP would be US \$ 28 trillion higher in the next 10 years than otherwise.<sup>32</sup> The Peterson Institute has shown that companies who go from absolutely no female leadership to 30% female leadership see a 15% increase in their net revenue margin. Diverse perspective on issues leads to changes in how things are viewed, and solves the hardest problem, which ultimately leads to better results. Combine this with a track record of great performance for such companies, arising from diversity of perspective, and you have a strong investment case.<sup>33</sup>

However, women-led enterprises receive only 3% of venture capital funding. Globally, female ownership is more prevalent for smaller enterprises with women owning approximately 32% to 39% of the very small segment of firms, 30% to 36% of small SMEs and 17%

to 21% of medium sized companies.<sup>34</sup> Women-led businesses suffer from the perception of going against their social and household responsibilities and are perceived to be 'riskier' investments. Women-led enterprises tend to be smaller, have lower profits, and operate in sectors with lower barriers to entry.

According to a report by Value for Women in 2013, a study conducted in 17 countries found that 43% of the men surveyed knew someone who started a business, versus 31% of women.<sup>35</sup> This relatively limited exposure likely reduces women's understanding of and comfort with accessing capital. Younger women face additional discrimination based on their age and marital status. They also find it difficult to penetrate established business networks.

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32 The Power of Parity: How advancing women's equality can add US \$.12trillion to global growth, September 2015, McKinsey Global Institute

33 Laura Kane, Stephen Freedman, On the road to parity, Gender lens investing, CIO World Management Research, First quarter 2016, UBS, page 8

34 Strengthening Access to Finance for Women-Owned SMEs in Developing Countries, October 2011,IFC/GPFI, page 6

35 Hannah Schiff, Rebecca Fries, Tim Chambers, Beyond the threshold: investing in women-led small and growing businesses, 2013, Value for Women, Aspen Network of Development Entrepreneurs (ANDE), page 15



## SECTION 1

### INTRODUCTION AND BACKGROUND

## 2. FINANCIAL INCLUSION OR SELF-EXCLUSION?

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The previous years have seen a scramble in the number of potential investors that have come to Africa, a continent viewed as a ripe and robust market with limitless resources and capabilities. However, despite the increase in the number of investors, a huge number of entrepreneurs still complain about the lack of funding for their businesses. Women in Africa encounter numerous challenges in trying to start a business. Access to finance is one major problem, but having access to economic opportunities is where it starts.

In Africa there is less available research on the benefits of female financial inclusion to encourage more financial institutions to increase uptake of financial instruments by women. There are limited options for businesses seeking financing larger than microfinance loans (a few thousand dollars) but smaller than commercial bank small business loans (starting at US\$ 250,000) or typical equity investments (from half a million dollars).<sup>32</sup> This gap applies to small and growing businesses led by men and women; however, women face particular challenges in accessing financing of this size for reasons related to culture, collateral and capacity.

*While most investors and financial institutions do not intentionally discriminate based on gender, the 'gender-neutral' supply of services and marketing mechanisms used tend to cater more towards men than women.<sup>33</sup>*

In Africa, many women in business lack collateral because land ownership is highly patriarchal. Collateral requirement is the most frequently mentioned disadvantage of banks among both rural and urban dwellers, mainly farming, business and domestic women. For those who own property, collateral requirements are still a constraint because most mentioned that they do not own title deeds.<sup>34</sup>

To obtain financing, therefore, many women have resorted to using their own funding mechanisms. They have organized themselves into informal groups and loan money to one another. They are also heavily reliant on their own network of family and friends. Whilst this has kept their businesses running, it affects their ability to grow.

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<sup>32</sup> Hannah Schiff, Rebecca Fries, Tim Chambers, Beyond the threshold: investing in women-led small and growing businesses, 2013, Value for Women, Aspen Network of Development Entrepreneurs (ANDE), page 2

<sup>33</sup> Ibid, page 16

<sup>34</sup> Report on Women Access to Financial Services in Zambia, September 2014, New Faces New Voices, page 38



## SECTION 1

### INTRODUCTION AND BACKGROUND

According to a research study on Women Access to Financial Services in Zambia, there is still a huge gap between awareness and knowledge of the risks and benefits of informal mechanisms, compared to formal mechanisms. Both men and women are well aware of the terms and conditions of informal mechanisms and the implications of not honoring the established contract; while most men and women, particularly women, are not adequately aware of the important conditions behind the use of formal providers.<sup>35</sup>

There is need to banish women's perception of exclusion regarding financial institutions and for financial institutions to deliberately seek female clients by viewing them as a viable market segment.

There is therefore a case for customized capacity building that would give women more information about financial planning and usage, as well as provide ongoing support to ensure they successfully use these funds on receipt. This level of capacity building cannot be done without the support of financial partners that are willing to try a different and measurable approach to attract more micro and small businesses and women clients in particular. This ensures that the capacity building successfully raises awareness amongst women and also increases their likelihood of obtaining financing in future. It also needs to be followed up for monitoring and evaluation to appreciate the behavior of this segment which is not homogenous.

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<sup>35</sup> Report on Women Access to Financial Services in Zambia, September 2014, New Faces New Voices, page 43-44

## SECTION 2 RESEARCH AIM, ASSUMPTIONS AND METHODOLOGY

### 1. RESEARCH AIM

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The aim of the research is to determine what hinders the growth and development of women-owned businesses from small and medium enterprises into medium and large well capitalized businesses. It will seek to outline what assistance and resources women need to achieve this growth and establish how they engage with different types of capital available. It will also review what factors women entrepreneurs believe can catalyze their growth trajectory.

We will also aim to understand our respondents' comfort level when engaging with external financial partners, as well as the barriers they have overcome to get their business where it is and what future difficulties they anticipate.

The overall aim will be to use the input from women in East Africa to determine what combination of financial and non-financial intervention can be structured to support the growth of these enterprises.

### 2. RESEARCH ASSUMPTIONS

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Women-owned businesses are not transforming to the next stage of their growth (whether from small to medium or medium to large enterprises) as a result of challenges in obtaining financing. These challenges stem from a general ignorance on what is available, prevailing funders' bias towards women entrepreneurs, women's limited ability to trust traditional funders, women's discomfort or de motivation about growing their business further and the responsibilities that accompany such growth, and existing products on the market that are not customized to suit the intricate needs of women entrepreneurs.

The proposed study will seek to confirm this assumption as well as identify new challenges and propose solutions that can be created to cater for this specific pool.



## SECTION 2

### RESEARCH AIM, ASSUMPTIONS AND METHODOLOGY

## 3. RESEARCH METHODOLOGY

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The methodology employed was participatory and consultative. The purpose was to help the consultants develop a deeper understanding of the issues involved and also to solicit and document key inputs from the research participants.

To prepare an independent assessment on the knowledge, attitudes and challenges of the target group for this survey, these methods (detailed literature review, preparation and administration of questionnaires, focus group discussions or (FGDs, key informant interviews, use of online data collection technology and observations where necessary) were used to gather the necessary data and information. Details are outlined under each method in the sections below:

### Desk literature review

A desk literature review was done on the subject of women entrepreneurs, entrepreneur financing and women in leadership. A list of all material read is outlined in the bibliography. Review of documents and data provided context to determine progress made. Key issues were identified as well as factors that facilitate or inhibit women's entrepreneurial progress. Any available project evaluations and monitoring data was assessed to confirm trends and build on recommendations to solve challenge.

### Study population

The research involves women entrepreneurs in East Africa. The regional countries covered are Kenya, Tanzania, Rwanda and Uganda. The research aimed to target a minimum of 400 entrepreneurs and managed to attract a total of 664 respondents. Entrepreneurs from the region were as follows: Kenya 521, Tanzania 52, Rwanda 30, Uganda 11, as well as 11 entrepreneurs that were registered in dual jurisdictions such as South Africa, South Sudan, etc. but are doing business in East Africa, and 39 respondents who did not indicate from which jurisdiction they were responding.<sup>32</sup> Entrepreneurs were sourced from the Graça Machel networks of women in finance, women in business and women in agribusiness in all target countries, with the additional support of a variety of women's networks in the region. The data collection period was from 21 September to 30 November 2016.

### Sampling techniques

The survey was primarily conducted online using Survey Monkey Gold Plan which allowed us to have an unlimited number of respondents. This survey was distributed by email to the key representatives of the women's networks mentioned and was also promoted on the New Faces New Voices Kenya Facebook page. On Facebook it received over 1,700 likes and was

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<sup>32</sup> Data pool for Survey Exploring Growth Barriers Facing Female Entrepreneurs in East Africa



## SECTION 2

### RESEARCH AIM, ASSUMPTIONS AND METHODOLOGY

shared over 119 times. The survey was further translated into Kiswahili and Kinyarwanda for Tanzanian and Rwandese entrepreneurs respectively.

### Data collection tools

Structured and semi-structured online questionnaires were used to collect quantitative and qualitative data on the 'barriers to growth' that small and medium women-owned enterprises face. The questions were designed by the author involving input from supporting consultants and a team of testers. The questionnaire consisted of 90 questions and it took a maximum of 30 minutes to complete. Most of the questions were multiple choice with 15% structured as open ended. The questions covered areas on entrepreneur and business profile, governance structure, and obstacles faced in entrepreneurship. Also queried were business performance, levels of investment to date and required in future, growth ambitions, and the preferred financing methods for expansion. Determining the gender lens of the enterprises and the extent of networks to which the female entrepreneurs are affiliated was the last section.

### Focus Group

A focus group discussion took place in Kenya, with 15 entrepreneurs drawn from a variety of sectors such as retail, media, medical services, beauty, agribusiness, technology and real estate. The feedback from the focus group has been incorporated into the report. The focus group allowed for deeper understanding of responses obtained from the online questionnaire

which had multiple choice options. It also facilitated open sharing.

Key informant interviews were held with selected entrepreneurs in Kenya and Tanzania. The aim of these interviews was to hear personal stories from entrepreneurs on their business in a free style guided format, while looking for trends or interesting outcomes in their entrepreneurial journey. A total of 12 such interviews took place.

### Data analysis

Data analysis was done by exporting data into Excel as well as reviewing correlation into the SPSS statistical software package 21. The following areas were analyzed:

- Female entrepreneurs face a challenge in obtaining finance.
- Female entrepreneurs are ignorant of the different financial facilities/services available to them.
- Female entrepreneurs do not trust traditional funders.
- Female entrepreneurs are comfortable growing their business.
- Female entrepreneurs are willing to engage with equity investors.

### Cross Tabulation:

Cross tabulation is a data analysis method used to quantitatively analyze the relationship between multiple variables. We used this method to analyze the relationship between the various countries (Kenya, Rwanda, Tanzania and Uganda) on various aspects of



## SECTION 2

### RESEARCH AIM, ASSUMPTIONS AND METHODOLOGY

the data collected. We applied this analysis technique by creating row and column percentage tables for categorical variables (countries) in Excel based on the total counts in the respective categories (countries). We also applied this technique while analyzing data on financial constraints where 'Financial Constraint 1' and 'Financial Constraint 2' served as categories.

We then presented the data in form of graphs. This was done for questions that covered own money invested in the business, annual turnover, regional trade, future challenges anticipated by entrepreneurs, two biggest financial constraints, future financing needs, preferred financing methods, reasons for not applying for a loan, belonging to a Chama/savings group, primary activity of savings and credit group, and topics of interest for future learning.

### **SPSS Data Analysis**

Data originally entered in Survey Monkey, an online survey software and questionnaire tool, was exported into Excel and IBM SPSS Statistics 21 for data cleaning and analysis. Data cleaning checks for missing data and any data inconsistency. The clean dataset was used to undertake descriptive analysis and summaries for the socio-demographic characteristics as well as the key variables in this study as per the research methodology. To check on the relationships between the key variables, univariate analysis was conducted using the Pearson's Chi-square test as the majority of the variables are categorical in nature. A p-value less than or equal to 0.05 was considered to indicate a statistically significant relationship between the variables.

For variables that had a significant relationship, a Pearson correlation test was done. Further multivariate analysis was conducted by subjecting the key factors associated with annual turnover to multinomial logistic regression to determine the level of significance of the relationship in the presence of other significant variables.

### **Data results**

The results obtained have been displayed using various graphs and tables. Data presented in percentage form has been rounded off to the nearest whole number in text.

### **Validation**

When the online questions were completed, a test survey was set up and distributed to six entrepreneurs to get their input. It was also shared with executive members of the Graça Machel Trust. Feedback was received and incorporated before this was distributed to the sample pool across East Africa.

Once initial findings were received, a focus group was held with 15 entrepreneurs in Kenya to further tease out the outcomes. This resulted in deeper exploration of areas concerning female attitudes towards using external financing as a growth mechanism and determining level of trust and preference for different financing modes. This helped to define and/or confirm assumptions and trends displayed in the respondent data.



## SECTION 2

### RESEARCH AIM, ASSUMPTIONS AND METHODOLOGY

Once available, a preliminary analysis of the data was also shared with the Graça Machel executive team. Input was provided and has helped to create a refined product. The draft report was shared with a diverse pool of external stakeholders to obtain their feedback before publication.

### Research limitations

#### The research has the following limitations:

- a) It is predominantly an online survey and therefore favours those entrepreneurs with access to the internet and electricity.
- b) The survey did not serve as a comparison to male entrepreneurs, but rather focused purely and solely on female entrepreneurs. More research can be done on male entrepreneurs and the barriers they face, and further comparison can reveal gender-specific attitudes, varying experiences and similar or different challenges faced.
- c) The research was not intended to engage financial service providers and determine the suitability of their current product offering. Instead it is meant to afford them an opportunity to understand the viewpoint of the female entrepreneur, and use the feedback to spur further product development or enhancement.
- d) The survey is predominantly focused on the Kenyan market. Despite the fact that networks were contacted and similar follow-up methods were used by the lead consultant, female entrepreneurs did not open up as much as they did in the home country of the lead consultant. This suggests that face to face interviews and localized focus groups may be more effective methods of obtaining information from a regional data pool.
- e) The survey did not differentiate between rural and urban respondents.
- f) A number of respondents did not answer every question as none of the questions was mandatory. A number of questions were skipped for various reasons ranging from the length of the survey to inadequate information. It was observed that a higher proportion of questions was skipped in the finance section. Hence the results are based on the respondents that answered that particular question and they tend to vary per question.
- g) The data provided is based on what the respondents answered. There were no methods employed to independently verify the answers provided. Hence the accuracy is dependent on the entrepreneur's own willingness to be open and transparent about their business.



## SECTION 3

### GIVING FEMALE ENTREPRENEURS A VOICE

## WHO IS SHE?

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As we set out to determine the growth barriers of female entrepreneurs in East Africa it is important for us to define the female entrepreneur. This profile is based on the people that responded to the survey and the parties with whom we interacted at focus group level. We found the following results:

### **Female entrepreneurs are young and well educated**

The average female entrepreneur is young; 69% are between 20 and 40 years old with the majority (39%) being between 31-40 years old followed by 30% within the 20-30 year range. For at least 61% of the respondents, this was their first business and hence most of the female entrepreneurs are new to entrepreneurship.

The female entrepreneur is well educated; 43% have completed a Bachelor's degree and 21% have completed a Master's degree. Only 5% have completed high school only. Female entrepreneurs are therefore highly skilled and trainable. A critical feature of a start-up with a high growth potential is the entrepreneur's level of education.<sup>32</sup> Entrepreneurs with higher education degrees are more capable and willing to start and manage high growth businesses.<sup>33</sup>

At least 88% have been employed and have therefore benefitted from some form of on-the-job training. Data shows that majority of the female entrepreneurs that were previously employed were working in the corporate services (legal, human resource, administration and marketing) and the banking and financial services sectors.

It is increasingly important in developing economies for educated youth to pursue opportunities in entrepreneurship as the economy might not be able to absorb them all at once into the traditional job market. Opportunity-seeking entrepreneurs are a positive sign of a brighter economic future with minimal social unrest.<sup>34</sup>

At least 77% of 602 respondents have a family and therefore juggle the responsibilities of being a wife, mother and entrepreneur. Roughly half of the female entrepreneurs at 51% do not have office premises outside of their home. This could be the result of a combination of factors such as a deliberate desire to work from where they live so they can handle both household and child care responsibilities, a lack of resources to pay for external premises owing to the early stage and size of business, business performance, or the increasing reliance on the internet to source and meet clients, negating the need for an overhead expense.

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32 Siri Terjesen, Ainsley Lloyd, The 2015 Female Entrepreneurship index, 2015, page 37

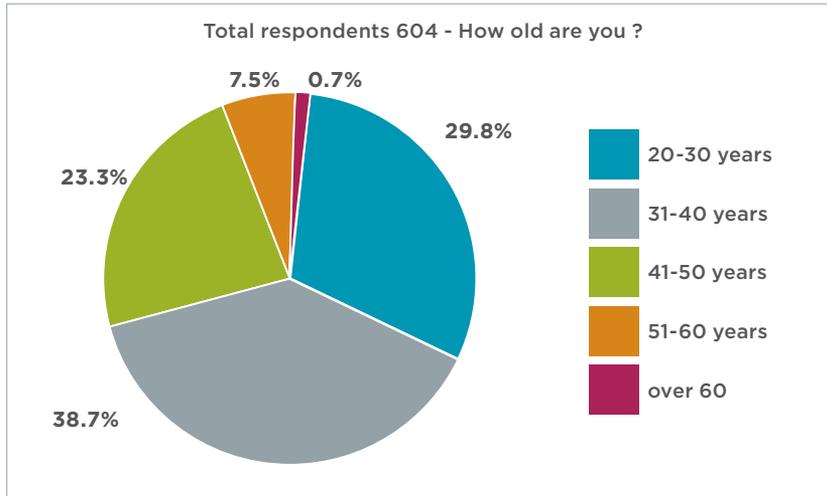
33 Ibid

34 Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 17

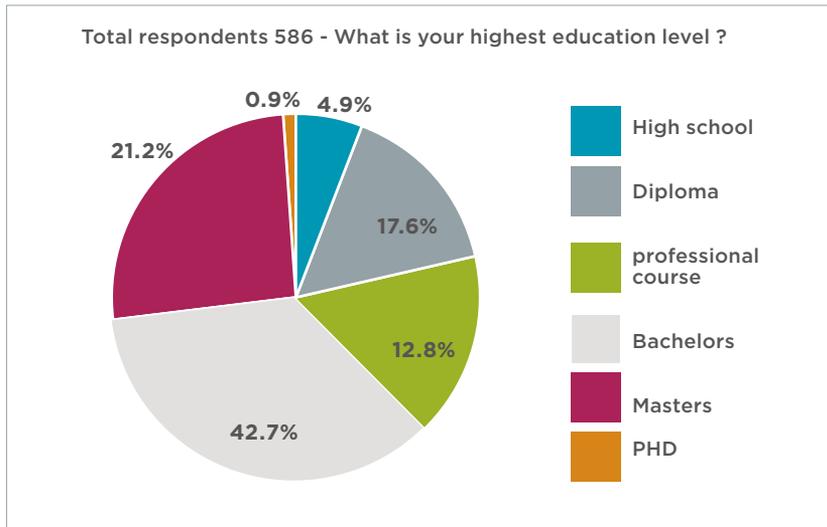


### SECTION 3

#### GIVING FEMALE ENTREPRENEURS A VOICE



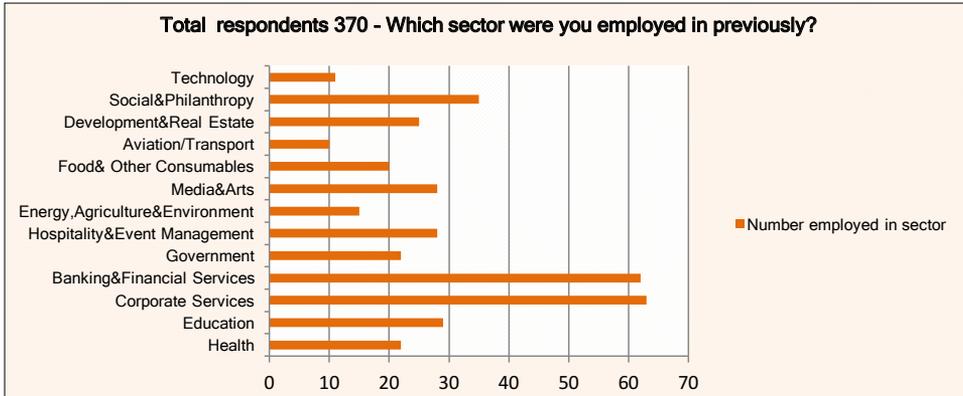
**Figure 1: Age of women entrepreneurs**



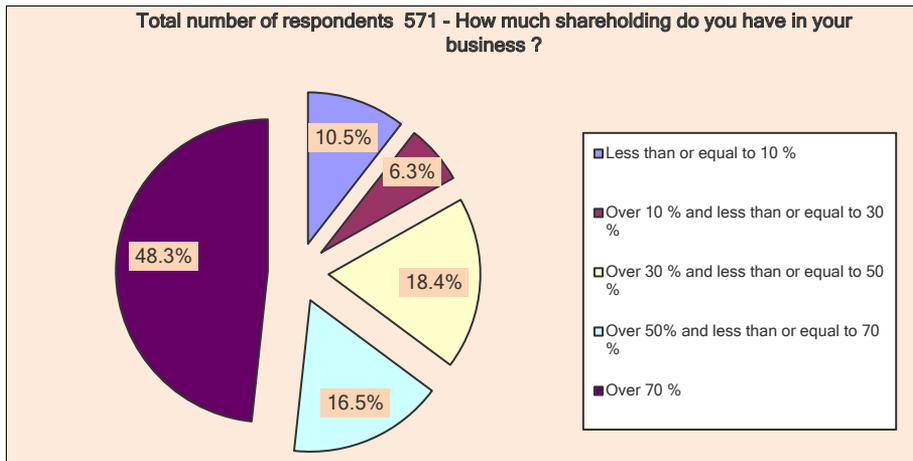
**Figure 2: Education level of women entrepreneurs**



**SECTION 3**  
GIVING FEMALE  
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**Figure 3: Sector of previous employment**



**Figure 4: Shareholding in business**



### SECTION 3

#### GIVING FEMALE ENTREPRENEURS A VOICE

Of the female entrepreneurs that participated, 48% owned over 70% of their enterprise, followed by 18% that fell into the 'over 30% but less than 50%' range. Female entrepreneurs therefore have significant stakes in the businesses they participate in.

#### Female entrepreneurs are owners and thus wealth creators

Young people are embracing entrepreneurship as a source of livelihood and it appears to be a deliberate

choice they have made in search of financial freedom. At least 70% of the women surveyed started their business from their own savings. This is consistent with a global perspective of 95 % of entrepreneurs using personal funds when starting a business.<sup>35</sup>

The amount of money invested is clustered around the 'above US \$1,000 to less than US \$5,000 range' and the second highest category is within the 'US \$10,001 to US \$50,000' range.

35 Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 5

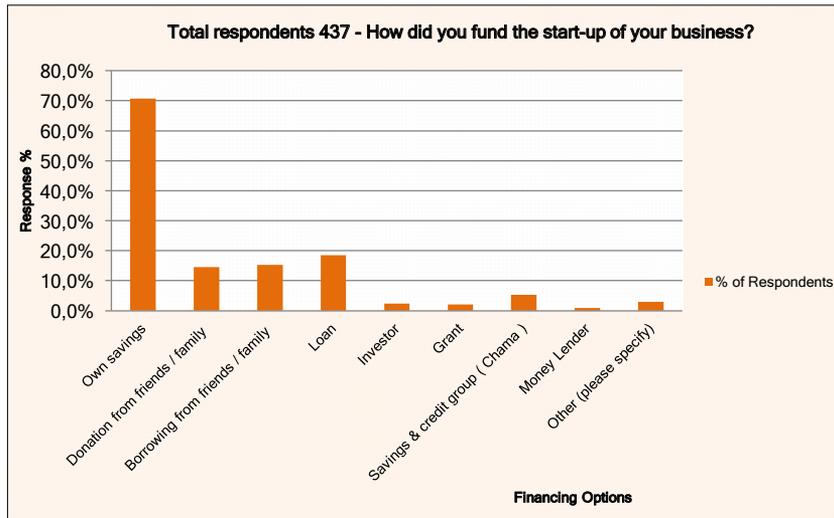


Figure 5: Funding the start-up of the business



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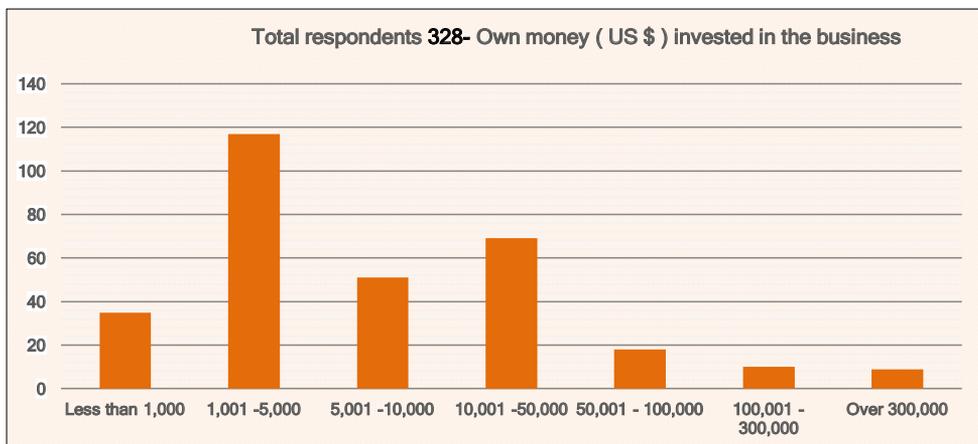
For all Global Entrepreneurship Monitor nations combined, the median average amount needed to start a business was US \$13,000.<sup>36</sup> In Africa (countries featured are Botswana, Burkina Faso, Cameroon, Egypt, Senegal, Tunisia, Morocco and South Africa) the average median was roughly US \$4,886 showing a consistent trend with the results obtained. Globally, with the exception of Malaysia and Luxembourg, men needed at least two times more than women to start a business on average. This is thought to be a result of the type of businesses women start as opposed to men. Women focus more on the business to consumer type

models as opposed to the business to business models favoured by men, irrespective of the type of economy and geographical region.<sup>37</sup>

The most dominant regional comparative category, at 41%, was Tanzanian entrepreneurs who invested US \$1,001 to US \$5,000. The second largest category, at 33%, was Ugandan women who invested US \$10,001 to US \$50,000. Uganda is the only country where 100% of respondents said they invested their own money in their business.

<sup>36</sup> Ibid

<sup>37</sup> Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 29



**Figure 6: Own money (US \$) invested in the business**



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The female representation in all countries becomes lower at amounts over US \$ 50,001, apart from Uganda. Globally, both male and female entrepreneurs provided 66% of the start- up capital for their new ventures in 2004, 62% in 2006 and 72% in 2015, indicating a stronger sense of self-reliance in the present economic climate.<sup>38</sup>

full time alongside their business. They are doing this so they can transition into the business from their current roles while using their savings from employment to finance their business growth. Whilst this is not ideal, most expressed that their businesses are young and had not yet matured to a stage where they could earn adequate compensation from it. However, they were striving to reach this stage and saw it as a possibility in the near future.

Out of 608 respondents at least 55% are still working

<sup>38</sup> Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 8

TOTAL RESPONDENTS 328 - OWN MONEY INVESTED (US \$) EAST AFRICA					
CODE	INVESTED AMOUNT	KENYA	RWANDA	TANZANIA	UGANDA
0	0	4%	6%	5%	0%
1	Less than US \$1,000	12%	6%	5%	0%
2	US \$1,001 to US \$5,000	35%	33%	41%	33%
3	US \$5,001 to US \$10,000	17%	17%	18%	0%
4	US \$10,001 to US \$50,000	22%	28%	23%	33%
5	US \$50,001 to US \$100,000	6%	6%	0%	17%
6	US \$100,001 to US \$300,000	2%	0%	5%	17%
7	Over US \$300,000	2%	6%	5%	0%

**Table 1: Own Money Invested (US \$) East Africa**



**SECTION 3**  
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## BUSINESS PROFILE

### Registration

Of the 599 surveyed businesses run by female entrepreneurs in East Africa, 79% are registered and are therefore formal businesses. Of those formal businesses, most are registered as limited liability companies followed by sole proprietorship. Limited companies are the preferred registration type for attracting capital from both debt and equity investors. The ‘Other’ section involves companies that are not yet registered or in the process of getting registration.

In our respondent data, female entrepreneurs appear to be ahead of industry statistics as at least 45% of them are registered as limited companies which is comparable to the global average as outlined below. This is reflective of the sample pool that appears to be highly educated. According to our study, sole proprietorships are still significant and the few ‘Other’ are not yet registered.

**Despite the formal registration which is positive, 67% of the businesses are operating without any governance oversight.**

### Governance

Most of the businesses do not seem to have a board of directors or advisors. Out of 598 respondents, 67% do not have a board of directors and advisors. Of those that do, 40% have a board of directors or advisors who are completely outside of the family, whereas 21% have boards of directors or advisors that are 100% comprised of family members.

TOTAL RESPONDENTS 554 -HOW IS YOUR BUSINESS REGISTERED?		
ANSWER OPTIONS	RESPONSE PERCENT	RESPONSE COUNT
Limited Company	45.1%	250
Sole Proprietorship	32.1%	178
Partnership	9.6%	53
Other (please specify)	13.2%	73
	answered question	554

**Table 2: Type of business registration**

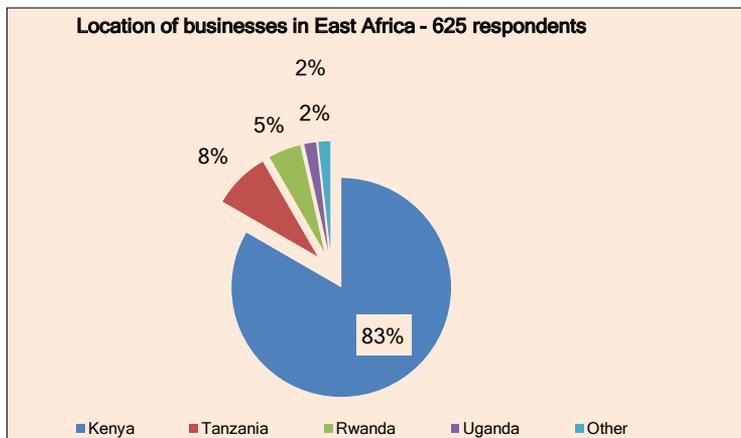


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AGGREGATE DATA ON AVERAGE PERCENTAGE REGISTRATION STATUS OF BUSINESSES						
Economy	Year	Average/ SE/N	Percent of firms with legal status of privately held Limited Liability Company	Percent of firms with legal status of Sole Proprietorship	Percent of firms with legal status of Partnership	Percent of firms with legal status of Limited Partnership
All Countries		Average	40.9	37.1	9.0	<b>7.7</b>
Sub-Saharan Africa		Average	12.9	51.9	11.2	<b>14.5</b>
Kenya	2013	Average	13.5	34.1	11.5	<b>35.0</b>
Rwanda	2011	Average	19.0	42.9	20.7	<b>16.1</b>
Tanzania	2013	Average	5.0	75.2	10.2	<b>1.4</b>
Uganda	2013	Average	4.6	65.5	14.8	<b>8.7</b>

**Table 3: Aggregate data on average percentage registration of businesses**

*Source: World Bank Enterprise Surveys, 2013*



**Figure 7: Location of businesses in East Africa**



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### Location

The businesses are located in the following countries: Kenya, Tanzania, Rwanda and Uganda. At least 56% of 600 businesses surveyed stated that they trade regionally and hence serve diversified markets. Regional trade can therefore be encouraged and enhanced further. In addition, 17% of 590 businesses surveyed stated that they trade internationally.

### Size

#### The businesses are relatively young and small

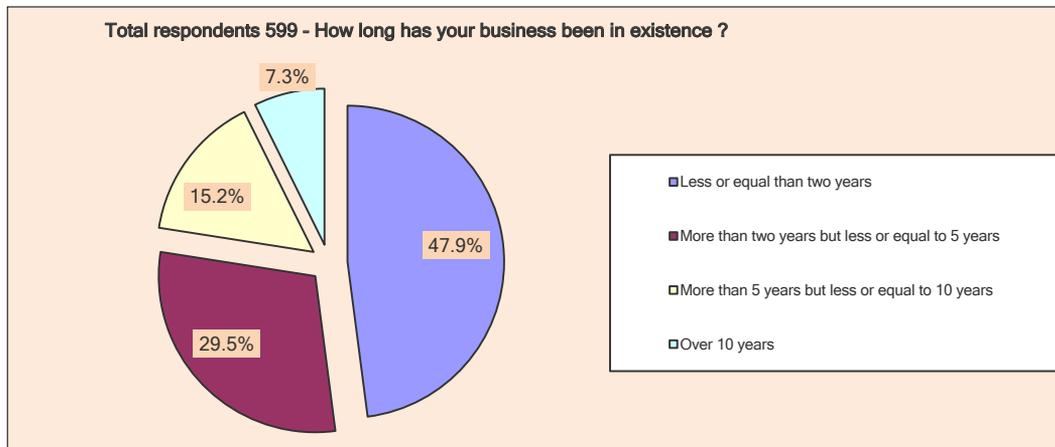
Forty-eight percent (48%) of the businesses have been in operation for less than two years, while 23% have been in operation for more than five years. The

businesses are relatively young and will be experiencing growing pains. They can therefore benefit from structured support to assist their growth trajectory especially in the crucial formative stages of the first two years of existence.

There is no standardized definition of SME. For this survey and after looking at the annual turnover of the female-owned enterprises, we have classified the different bands of turnover to establish size of the enterprise.

Our data shows that 83% are micro enterprises, 9% are very small enterprises, 6% are small enterprises and 2% are medium enterprises.<sup>32</sup>

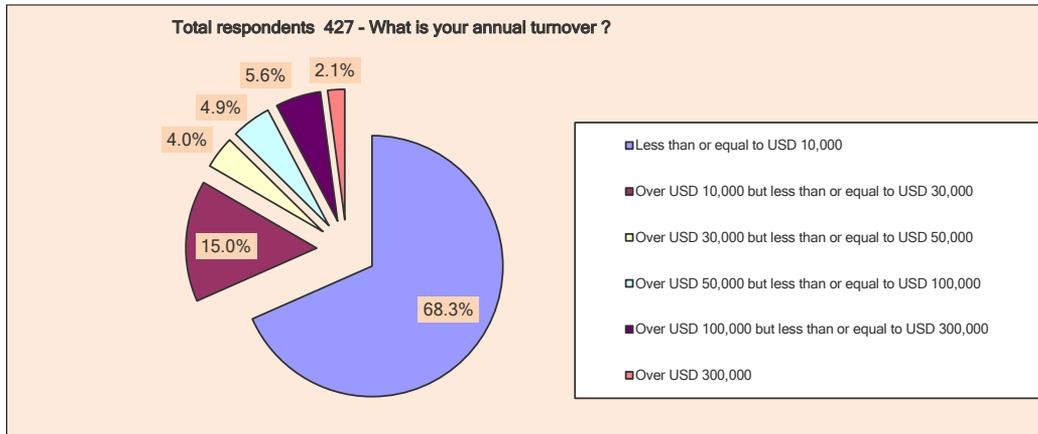
<sup>32</sup> See Table 6: SME definition criteria, Authors own



**Figure 8: Period of time business has been in existence**



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**Figure 9: Annual turnover**

	CRITERIA		CRITERIA		CRITERIA	
	MSE Act, 2012		IFC		Author's Own	
	Employees	Turnover (US \$)	Employees	Turnover (US \$)	Employees	<b>TURNOVER (US \$)</b>
Micro Enterprises	<9	<5000	1-4	(none)	(none)	<b>&lt;=30,000</b>
Very Small Enterprises	(none)	(none)	5-9	(none)	(none)	<b>&gt;30,000 BUT &lt;=100,000</b>
Small Enterprises	10-50	>5,000 but <50,000	10-19	(none)	(none)	<b>&gt;100,000 BUT &lt;=300,000</b>
Medium Enterprise	(none)	(none)	50-250	(none)	(none)	<b>&gt;300,000</b>

**Table 4: SME definition criteria**

Source: Micro and Small Enterprises Act, No. 55 of 2012 (Kenya); IFC McKinsey Study, 2011



### SECTION 3

#### GIVING FEMALE ENTREPRENEURS A VOICE

Kenya dominates the category of 'less than or equal to US \$10,000' annual turnover, and Tanzania dominates the category encompassing 'over US \$10,000 but less than or equal to US \$30,000 annual turnover. Ugandans have the highest representation in the 'over US \$30,000 but less than or equal to US \$50,000' annual turnover category and 'over US \$50,000 but less than or equal to US \$100,000' category. Rwandese are most represented in the 'over US \$100,000 but

less than or equal to US \$300,000 category'. Tanzania and Rwanda are highly represented in the 'over US \$300,000' category.

**On observation, the businesses appear to be small with only 8% of the sample having an annual turnover of greater than US \$100,000. The staff ratio is also low with 87% having fewer than 10 employees.**

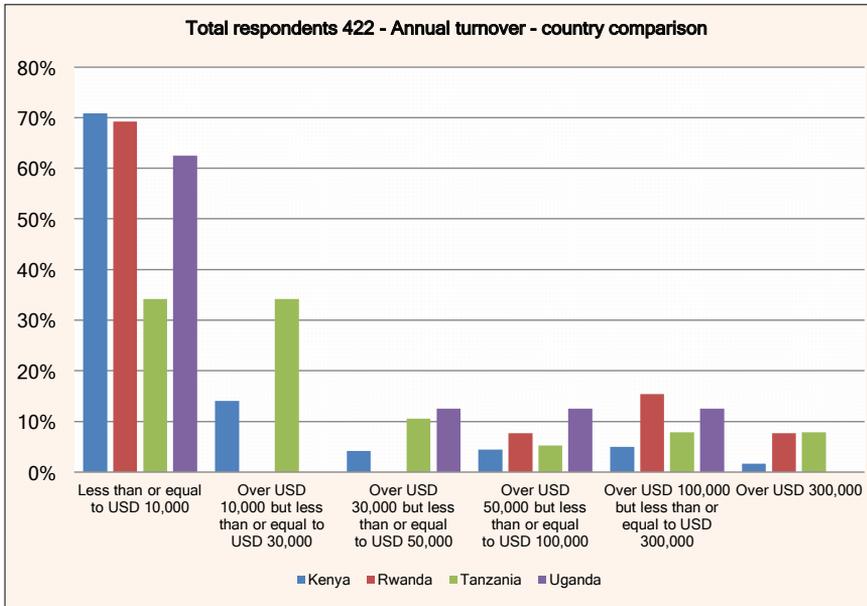


Figure 10: Annual turnover-country comparison



### SECTION 3

#### GIVING FEMALE ENTREPRENEURS A VOICE

## Sectors

The businesses are mainly clustered in the following sectors: retail (17%), agriculture (13%) and consulting (10%). Retail, the trade in goods, is one that female entrepreneurs are most prevalent in globally.

More initiative can be made to propel the growth of agribusinesses into large export-oriented enterprises. Women in male-dominant industries such as manufacturing, technology and financial services are represented at 6%, 3% and 2% respectively. Specific programmes to promote female entrepreneurs in these under-represented sectors should be encouraged and explored.

The most dominant area was demarcated as 'Other' at 29%. After further analysis of the 'Other' sector, we determined that it was mainly comprised of entrepreneurs in the supplies, event management, tourism and hospitality industry. There is also some representation

in male-dominated sectors such as construction and engineering, transport and logistics.

**Targeted efforts will encourage more female entrepreneurs in sectors where their representation is low, barriers to entry are higher and margins more lucrative.**

Table 7 shows a cross-tabulation between sectors and the money required to kick-start a business. The results show that financial services is capital-intensive as 44% of the entrepreneurs required over US \$50,000 to start up, whereas the majority (85%) of the entrepreneurs in the education sector required less than US \$5,000 to start up. The tests further show that there is a statistically significant relationship between the sector and the money required to start the business as the p value is less than 0.05.

INDUSTRY	Top three contributors to GDP Percentage of GDP (2011-2014 Average)			
	Kenya	Rwanda	Tanzania	Uganda
Agriculture, Forestry and Fishing	27%	33%	30%	25%
Manufacturing	11%	n/a	n/a	9%
Wholesale and retail trade	8%	12%	10%	14%
Construction	n/a	7%	10%	n/a

**Table 5: Top three contributors to GDP**

n/a means Industry not part of the top three

Source: Kenya National Bureau of Statistics, National Institute of Statistics of Rwanda, Tanzania National Bureau of Statistics, Uganda Bureau of Statistics



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**Performance**

Sixty-three percent (63%) of 443 respondents indicated that their business was profitable and it had taken them less than one year to achieve profitability. For the 37% that hadn't yet achieved profitability, 50% were confident of attaining it between one and three years. Despite these impressive results it does appear that the businesses are running on 'artificially' low cost bases. This is due to the absence of governance structures, office premises, lean staff and no clarity on whether

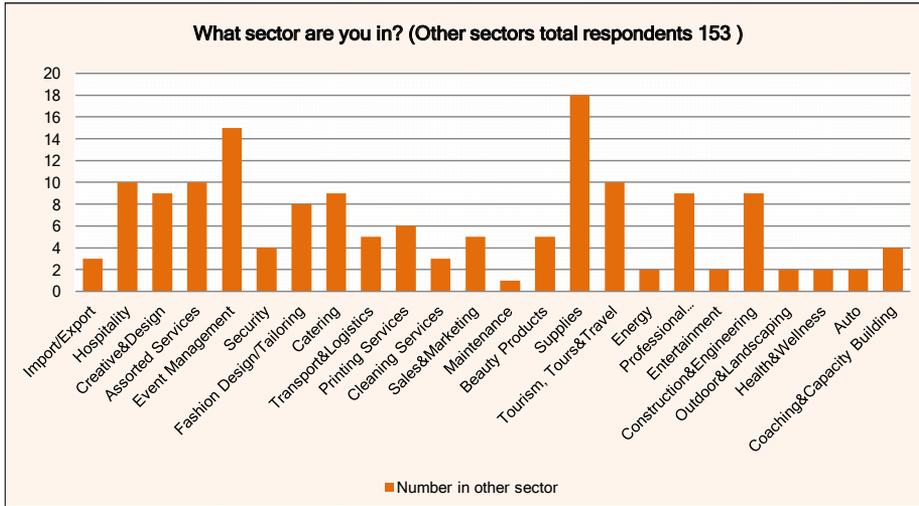
the time contributed and the role played by the female entrepreneur is accounted and compensated for. From our respondents, the female entrepreneur typically runs the overall enterprise with a specific focus on business acquisition combined with quality, cost and people management oversight responsibilities as well. On average, the businesses have described their three highest expenses as systems, followed by financing costs, with marketing and rent expenses tied as third.

TOTAL RESPONDENTS 527 - WHAT SECTOR ARE YOU IN?	
Answer options	Response percent
Retail	17.3%
Agriculture	13.3%
Consulting	10.6%
Manufacturing	6.5%
Wholesale	5.1%
Education	4.4%
Health	3.4%
Real estate	3.2%
Media	2.8%
Technology	2.3%
Financial services	2.1%
Other (please specify):	29.0%

**Table 6: Sector distribution**



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**Figure 11: Sector the business operates in - other sectors analysis**

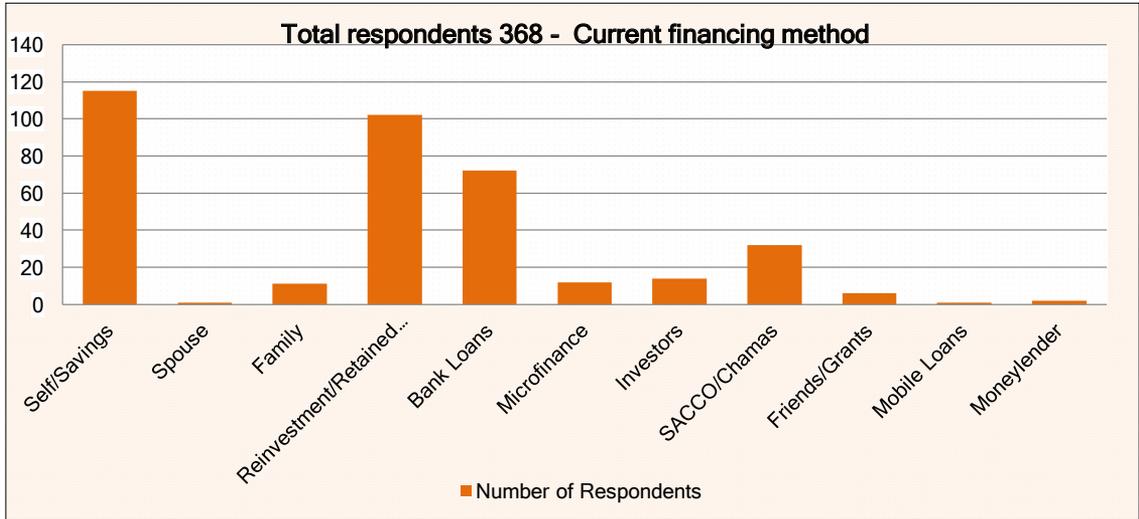
**How much money had been invested by female entrepreneurs for the sectors they represented?**

MONEY NEEDED TO START THE BUSINESS					
Sector	Less than US \$5,000	Over US \$5,000 to US \$10,000	Over US \$10,000 to US \$30,000	Over US \$30,000 to US \$50,000	Over US \$50,000
Financial Services	11.10%	22.20%	11.10%	11.10%	44.40%
Agriculture	69.80%	20.90%	7.00%	2.30%	0.00%
Real Estate	66.70%	33.30%	0.00%	0.00%	0.00%
Health	66.70%	16.70%	0.00%	16.70%	0.00%
Consulting	70.20%	14.90%	10.60%	2.10%	2.10%
Education	84.60%	7.70%	7.70%	0.00%	0.00%
Retail	53.70%	25.40%	13.40%	4.50%	3.00%
Technology	50%	0.00%	20%	0.00%	30%
Manufacturing	55.60%	14.80%	11.10%	11.10%	7.40%
Wholesale	40%	20%	20%	20%	0%
Media	77.80%	22.20%	0.00%	0.00%	0.00%

**Table 7: Cross-tabulation between sector and the money required to kick-start the business**



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**Figure 12: Current financing method**

**COUNTRY DATA ON FINANCING METHODS USED BY BUSINESSES FOR INVESTMENTS**

Economy	Year	Proportion of investments financed internally (%)	Proportion of investments financed by banks (%)	Proportion of investments financed by supplier credit (%)	Proportion of investments financed by equity or stock sales (%)
Kenya	2013	61.4	23.9	5.2	7.7
Rwanda	2011	77.3	13.5	3.2	4.4
Tanzania	2013	79.6	8.8	0.8	5.8
Uganda	2013	80.3	3.1	2.9	12.6

**Table 8: Country data on financing methods used by businesses for investments**

Source: World Bank Enterprise Surveys, 2013



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## Financing

The research reveals that most female entrepreneurs currently self-finance their business. They do this using their own funds or savings as well as ploughing back the earnings of the business for growth. Thereafter they use loans; however it is not clear whether these loans are of a business nature or not. Female entrepreneurs also use savings groups, investors, family, and friends/grants as viable options.

The current financing is mainly going towards marketing (to build awareness and promote product sales), then product development and expansion. Considering the

capital-intensive nature of such initiatives, we wonder if self-financing is the most sustainable form of financing.

Our results are consistent with World Bank data from the enterprise survey 2013 where the majority of firms in the region finance their investments internally, see table 8.<sup>33</sup> Female entrepreneurs are likely to self-finance their investments using their savings and thereafter will use retained earnings from the business. Data reveals that few investments are financed using supplier credit or equity sales. Debt financing is also relatively low.

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<sup>33</sup> Table 8: World Bank regional data on financing methods used by businesses for investments



## SECTION 4

### BARRIERS TO GROWTH

## DETERMINING THE GROWTH BARRIERS

This research aimed primarily to understand the growth barriers that female entrepreneurs face as they run their business. Understanding the growth barriers allows us to understand the underlying reasons why women-owned businesses are predominantly small in size. We can then forge specific recommendations to address this. We first sought to understand which barriers female entrepreneurs felt they had successfully overcome throughout their entrepreneur journey.

### Past barriers overcome

Entrepreneurs cited access to finance (31%) and access to markets (23%) as the two main challenges

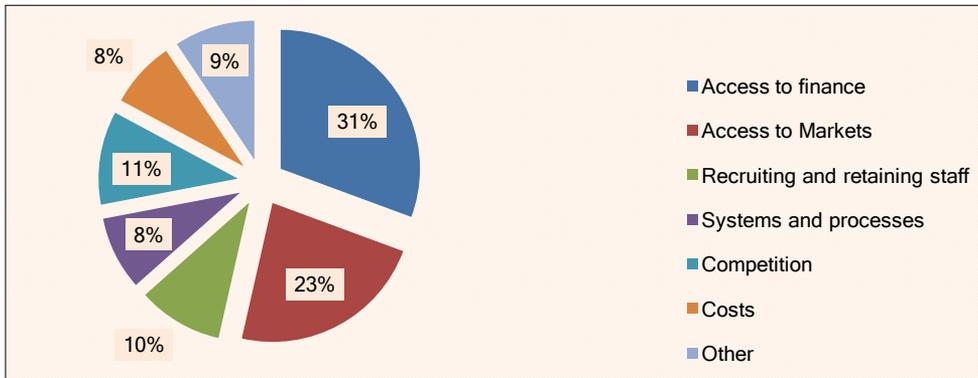
they had managed to overcome since they had been in operation.

### Future barriers anticipated

We then asked entrepreneurs what particular challenges they anticipate in the future.

Access to finance and access to markets continues to be the dominant challenge for Kenya, Tanzania and Rwandese women entrepreneurs. Ugandan entrepreneurs named access to markets and competition as the two foremost challenges they anticipate.

**Total number of respondents 607 -  
What is the biggest challenge you have managed to overcome since you started your business ?**



**Figure 13: Biggest challenge overcome by the entrepreneur since starting business**

*'Other' category is mainly comprised of entrepreneurs who are yet to overcome any of the challenges mentioned above followed by combating low morale.*

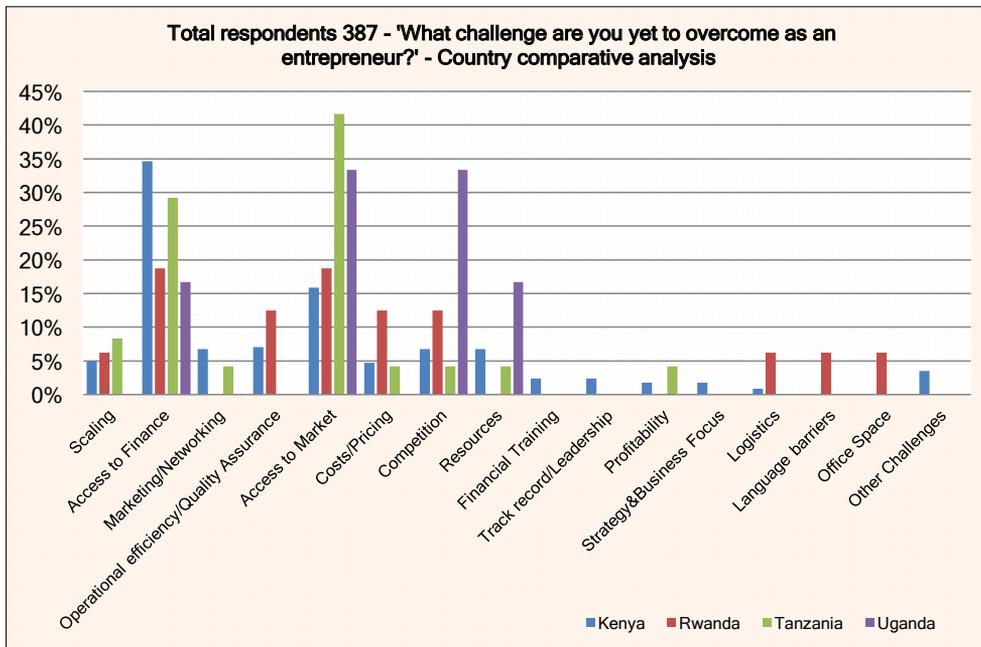


## SECTION 4 BARRIERS TO GROWTH

This result suggests that access to finance and access to markets are closely related challenges that businesses must continually overcome in order to be more successful. According to the World Bank enterprise 2013 survey, access to finance was identified as a major constraint in 44% of Tanzanian enterprises and 35% of Rwandese enterprises.<sup>32</sup>

Further regional observations reveal that operational efficiency, pricing, language barriers and office space are major concerns amongst Rwandese entrepreneurs. Ugandans and Kenyans are more concerned about resources whilst Tanzanians are worried about the challenges associated with scaling.

32 World Bank Enterprise Surveys, 2013



**Figure 14: Challenge the entrepreneur is yet to overcome**



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**The future challenges named by female entrepreneurs can be clustered and summarized as follows, in descending order of significance:**

FUTURE BUSINESS CHALLENGE	AREAS OF CONCERN	SAMPLE QUOTE
1. Finance	<ul style="list-style-type: none"><li>• Obtaining finance for their business to achieve growth objectives.</li><li>• Coping with tight cash flows due to delayed payments from customers.</li><li>• Keeping costs at a manageable level.</li></ul>	<b>“Access to finance to widen our partners and our market coverage.”</b> Ugandan entrepreneur, consulting
2. Trade	<ul style="list-style-type: none"><li>• Finding linkages and opportunities to increase sales and services by having access to markets.</li><li>• Being able to network effectively so that new relationships are formed in search of this.</li></ul>	<b>“Still fighting to get the market.”</b> Rwandese entrepreneur, hospitality & hotel management
3. Human capital	<ul style="list-style-type: none"><li>• Sourcing the right talent and technical skills to help them grow. Engaging in more training on financial management.</li><li>• Being able to remunerate themselves and staff appropriately from the business.</li><li>• Having more confidence in themselves and their vision</li></ul>	<b>“Getting paid what I am worth.”</b> Kenyan entrepreneur, consulting
4. Growth	<ul style="list-style-type: none"><li>• Concerns about navigating scaling.</li><li>• Creating more extensive track record for their business.</li><li>• Generating and growing profitability.</li><li>• Finding suitable office space to service their clients.</li></ul>	<b>“How to enlarge the business.”</b> Rwandese entrepreneur, fashion design/tailoring
5. Brand	<ul style="list-style-type: none"><li>• Implementing effective marketing strategies.</li><li>• Fending off competition as well as competing with more established businesses.</li></ul>	<b>“Product promotion“</b> Kenyan entrepreneur, retail



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FUTURE BUSINESS CHALLENGE	AREAS OF CONCERN	SAMPLE QUOTE
6. Systems	<ul style="list-style-type: none"> <li>• Achieving operational efficiency.</li> <li>• Implementing and utilizing technology.</li> <li>• Improving logistics.</li> </ul>	<p><b>“Systems and processes”</b> Tanzanian entrepreneur, manufacturing</p>
7. Strategy	<ul style="list-style-type: none"> <li>• Maintain a central focus.</li> <li>• Crafting growth strategies.</li> <li>• Overcoming language barriers (for those practicing regional and international trade).</li> <li>• Becoming better leaders.</li> </ul>	<p><b>“Transitioning from employment to run my business full time.”</b> Kenyan entrepreneur, event management</p>
8. Products and services	<ul style="list-style-type: none"> <li>• Determining appropriate pricing.</li> <li>• Maintaining and improving quality assurance.</li> </ul>	<p><b>“Knowing how to quote for services.”</b> Kenyan entrepreneur, cleaning services</p>
9. Governance	<ul style="list-style-type: none"> <li>• Completing legal registration.</li> <li>• Defining and enforcing corporate governance.</li> </ul>	<p><b>Achieving corporate governance.”</b> Kenyan entrepreneur, security</p>

**Table 9: Future business challenge**

**Access to finance and access to trade are the two foremost challenges experienced and overcome by entrepreneurs, which they also anticipate having to deal with in the future.**

Obtaining finance is particularly difficult for small and medium enterprises globally. The global competitiveness report indicates that in 2015, access to finance was the fourth most pressing concern in advanced economies and the number one pressing concern in developing countries.<sup>32</sup>

<sup>32</sup> Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 9



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## UNPACKING THE CONSTRAINTS FACED BY FEMALE ENTREPRENEURS IN OBTAINING FINANCE

When we asked female entrepreneurs whether their current financing was adequate to meet their short to mid-term goals (two to five years), 68% of 421 respondents said it was not the case (NO). We then sought to establish the two biggest financial constraints that hamper female entrepreneurs’ access to finance, and found that the most frequently cited responses were collateral requirements and prohibitive interest rates. A closer analysis shows that the financial access challenge is both on the supply and the demand side and hence a combined approach needs to be adopted to tackle this obstacle.

World Bank data from the 2013 enterprise survey demonstrates that an average of 87% of loans offered in the East Africa region need collateral. It is therefore a significant impediment. The value of collateral demanded is even more worrying with an average of more than double the loan amount required.<sup>33</sup>

### Supply side financial constraints

**“Complicated investor visa process, complicated residential permit dynamics where many bank officials are unclear as to what applies to which candidate. I also faced a lot of ambiguity in the requirements of each bank, as well as an explanation of the entire application process. If it was cumbersome for a well-educated person, I can only wonder at the predicament faced by rural farmers in my Kinangop area.”** ■ *Foreign entrepreneur doing business in Kenya, agriculture*

**Bank processes:** these were criticized as being slow, bureaucratic and complicated. There is a need to simplify this process, reduce the processing and feedback period, and educate interested entrepreneurs on what it entails to access credit and investment opportunities successfully.

<sup>33</sup> World Bank Enterprise Survey, 2013

COUNTRY DATA ON COLLATERAL REQUIREMENT FOR LOANS TAKEN BY BUSINESSES			
Economy	Year	Proportion of loans requiring collateral (%)	Value of collateral needed for a loan (% of the loan amount)
Kenya	2013	74.0	188.4
Rwanda	2011	92.4	272.6
Tanzania	2013	96.2	240.2
Uganda	2013	86.7	161.8

**Table 10: Country data on collateral requirement for loans taken by businesses**



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### BARRIERS TO GROWTH

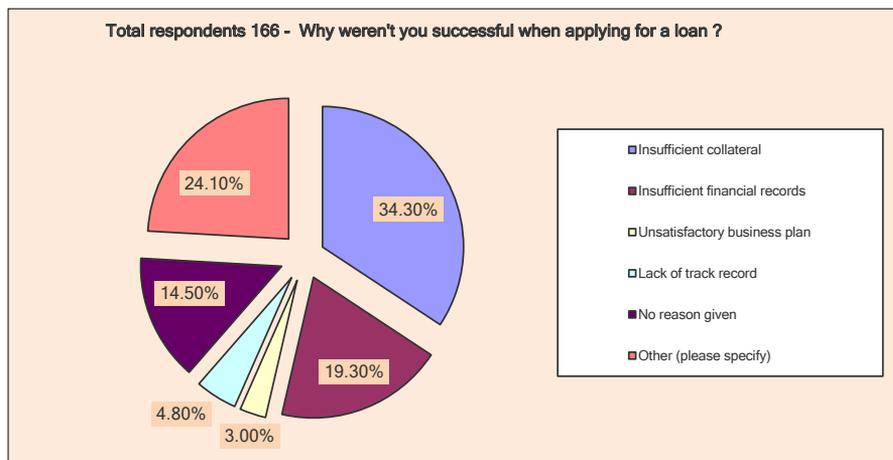
It is also important that financial services providers communicate the reasons why businesses do not qualify for capital. We found that out of 38% of the overall sample (443 respondents) that applied for a loan, 121 of them were successful. Therefore, 27 % of the overall data pool applied for a loan successfully. Non-gender segregated statistics from the World Bank's enterprise survey of 2013 reveal that 36% and 46% of enterprises in Kenya and Rwanda respectively have a bank loan or line of credit.<sup>34</sup> Entrepreneurs also complained of qualifying for lesser amounts than they had requested, and therefore did not feel they could achieve their desired objective.

**The persistent request for collateral was cited as the most significant financial hurdle. This, combined with prohibitive interest rates and the impact of the cost of financing on existing and future cash flows, makes entrepreneurs hesitant to explore this form of financing.**

It must be noted that Kenya has capped its interest rates at 400 basis points above a benchmark central bank rate and also compels financial institutions to pay interest of a minimum of 70% of the same rate on deposits. The law was approved in August 2016 and the effects of this action are yet to be seen and had not yet translated into entrepreneur experiences.<sup>35</sup>

<sup>34</sup> Ibid

<sup>35</sup> Samwel Doe Ouma, Bella Genga, Kenya reintroduces interest rate caps abandoned in 1991, 2 September 2016, Bloomberg L.P



**Figure 15: Reason for non-successful loan application**

*The 'Other' category is comprised of parties that received poor credit ratings or had a business that was seasonal in nature or subject to fluctuating or unpredictable cash flows.*



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**Customized products and services:** entrepreneurs complained that financial institutions do not have products and services that cater for businesses that are in early stages, smaller in size, seasonal in nature and have a limited track record. As a result, several businesses are denied the credit and investment opportunities whilst they are still in formative stages. There were examples of financial institutions that typically relied on a solid track record of three years in business, effectively locking out younger and less established enterprises.

Entrepreneurs also cited inflexible payment terms and cycles which offered no room for negotiation, especially on the grace period before repayment commences, as well as rigid terms such as short repayment periods. Limited understanding of different sector cycles like agriculture which require moratorium considerations as well as catering to different religious beliefs were also mentioned as impediments.

**Targeted marketing:** some entrepreneurs felt that they had inadequate information about the products and services available – this provides an opportunity for financial providers to engage in more aggressive, targeted marketing to female entrepreneurs to encourage uptake. Others complained of the distance to the bank, demonstrating that agent and mobile banking are models that banks can continue to use so that products and services are more accessible.

## Demand side financial constraints

**“To be able to service the loan on a regular basis while the income is irregular.”** ■ *Ugandan entrepreneur, consulting*

**Fluctuating cash-flows:** this is also correlated to an entrepreneur’s ability to access regular markets that give them a steady and predictable cash-flow. This uncertainty makes female entrepreneurs more reluctant to seek contractual external financing. Therefore debt financing is perceived to be a risky cost to the business. There is also a confidence factor that needs to be nurtured in female entrepreneurs to encourage them to seek external financing as a tool that can catalyze their business and improve their access to market through more marketing etc.

**Unsatisfactory financial records:** relates to inadequate bank statements which demonstrate separation of self from the business, not enough consistency in activity, and lack of audited financial statements. Sixty-nine percent (69%) of respondents indicated that their business did not have audited financial statements. According to data obtained from the World Bank’s enterprise 2013 survey, the East African countries of Kenya, Tanzania, Uganda and Rwanda have an average of 51% of small size firms whose annual financial statements are reviewed by external auditors. This average is above 70% for medium and large size firms in the region.



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### BARRIERS TO GROWTH

Kenya leads the regional comparison in the small size category (less than 19 employees) at 74%.<sup>36</sup> This is therefore a cause of concern and weakness amongst female entrepreneurs, but it can be influenced through business coaching and financial management courses.

**Inadequate paperwork:** some businesses are not registered formally and hence lack the necessary legal framework that would make them eligible. Although most of the businesses surveyed (79% of 599 respondents) had fulfilled this, there was still a minority that was yet to comply. It was also noted that for capital raising to be effective, the businesses needed to be registered as limited liability companies. The lack of a business plan that outlined what they intended to achieve was also cited as a constraint, but this, if

it were completed and presented in a satisfactory manner, could ease the access to finance.

**No time:** entrepreneurs mentioned a lack of time to source financing. This may involve researching the best options, then pursuing this information with financial institutions to sample products that may be most suited to their needs. This could also be a factor of perceiving or experiencing a slow, bureaucratic and complicated process. Furthermore female entrepreneurs are pressed for time owing to dual roles. Entrepreneurs also acknowledged limited access to networks within the financial sector that could demystify the bank requirements. This shows that female entrepreneurs value relationships before they commence transacting with financial institutions.

36 World Bank Enterprise Survey, 2013

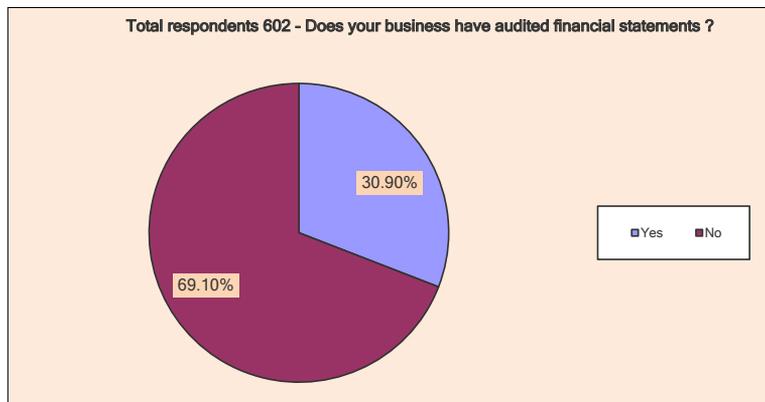


Figure 16: Audited financial statements – do businesses have them?



## SECTION 4 BARRIERS TO GROWTH

**Outstanding loans/ CRB rating:** entrepreneurs confessed that they had outstanding loans, often personal in nature, and hence felt overcommitted. Others had previously received a poor rating from the credit reference bureau.

As a result of a combination of reasons above, some entrepreneurs opted out of seeking financing, terming themselves as 'not ready yet.'

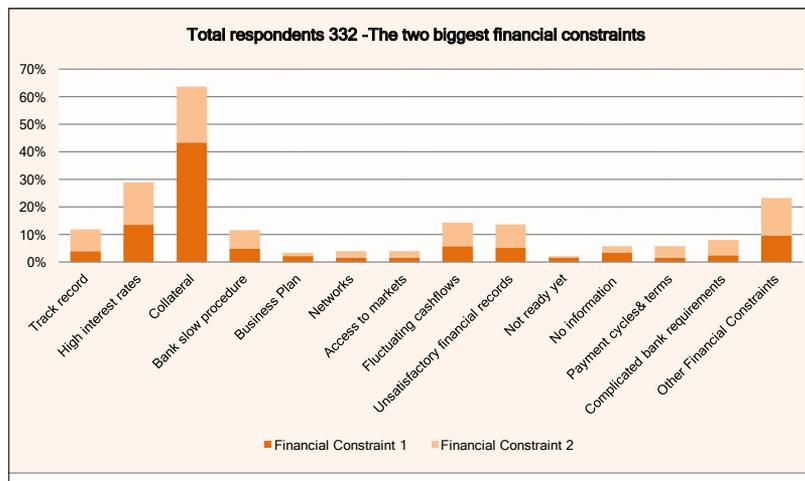
### The knowledge gap and access to finance:

When asked what the two main financial constraints are to access finance, female entrepreneurs mentioned the 'lack of information' or 'no knowledge' as factors. We

set out to establish what different types of financing they are aware of, to determine to what extent the limited knowledge of information on financing available affected their decision to seek finance.

Bank loans have the highest awareness levels, followed by microfinance, and savings and credit co-operative societies (SACCOs). This is not surprising considering their active and more established presence in the East African region. Crowd funding, a relatively new mode of financing worldwide, has the least awareness level. In North America 14% of entrepreneurs are financed through crowd funding and by contrast Asia and Africa lag at 2% in access to this newer financing.<sup>37</sup>

37 Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 5



**Figure 17: The two biggest financial constraints**

'Other Financial Constraints' refers mainly to entrepreneurs who cite fear, business size, lack of formal registration, and no time as impediments to accessing finance.

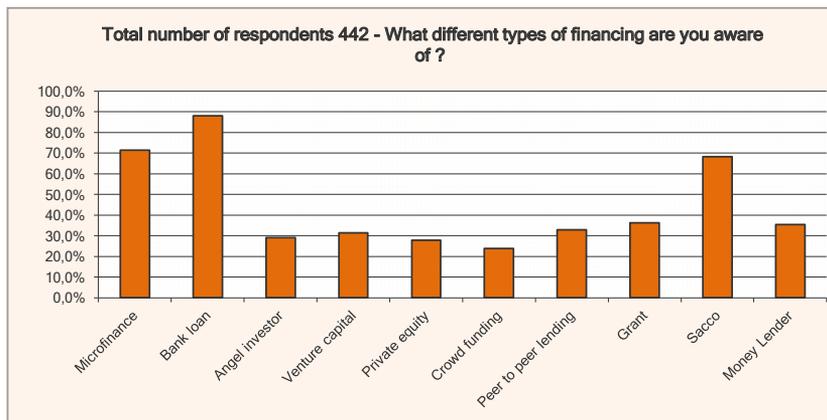


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Respondents were allowed to select more than one category in their knowledge of type of financing and these are the results:

KNOWLEDGE OF TYPE OF FINANCING	RESPONSE COUNT	CATEGORY	TOTAL
Bank loan	389	Pure debt financing	1007
Microfinance	316		
SACCO	302		
Venture capital	139	Equity and hybrid financing	391
Angel investor	129		
Private equity	123		
Peer to peer lending	146		
Crowd funding	105	Alternative forms involving peers and large groups of people	251
Grants	160	Usually offered by non- governmental organizations	160
Money lender (shylock)	157	Informal/ traditional method of seeking finance	157

**Table 11: Knowledge of type of financing**



**Figure 18: Awareness – different types of financing**



## SECTION 4

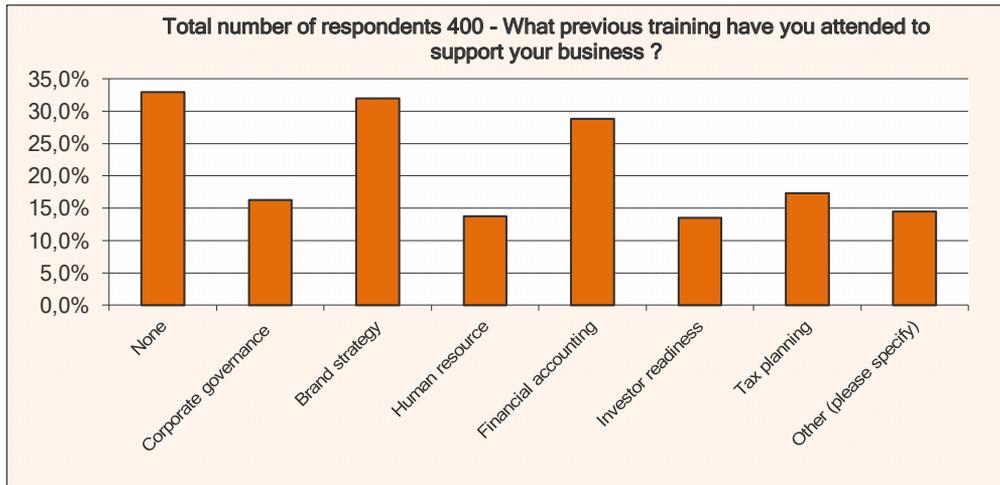
### BARRIERS TO GROWTH

Aside from the female entrepreneurs' own knowledge, we sought to identify other influencers that could deepen the entrepreneurs' knowledge and perception about financing. We inquired who advises them on their finances and 54% of 431 respondents stated 'Self' whilst the second most dominant category at 30% stated 'Professional service provider' such as an accountant. We also queried what previous training female entrepreneurs had attended to support their business. One third had not attended any training at all. For those who attended training, brand strategy led followed by financial accounting. Investor readiness training received the least number of responses.

### Is trust an issue?

Our observations revealed that debt level of financing enjoys a high level of awareness amongst female entrepreneurs. We wanted to establish if this knowledge translated into usage. We have already established that currently most entrepreneurs are self-financing their own businesses, using either their own savings or business earnings.

How did they intend to finance their business expansion in future? Once again female entrepreneurs mentioned that they intended to use their own resources, followed by working with an angel investor, then receiving a grant.



**Figure 19: Previous training attended to support business**

*In the 'Other' category, female entrepreneurs attended training on entrepreneurship and business management and also attended specific industry related courses.*



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This is despite admitting that their current mode or level of financing did not meet their short- to mid-term needs (two to five year range). The financing options with the highest awareness levels, such as bank loans, microfinance and SACCOs, came in fourth, sixth and seventh respectively.<sup>32</sup>

Microfinance has been credited globally for supporting micro businesses and lending to women who are

impoverished, especially in the rural areas. However, female entrepreneurs do not seem to view it as a viable option for growing their business in future. This could be due to the amounts needed to achieve catalytic growth (which may be more than the maximum obtained through microfinance) and a desire to move away from traditional contractual and short-term debt structures whilst seeking growth capital.

<sup>32</sup> See Table 12 on type of financing, awareness levels, preference financing for business, most interested financing option

Type of financing	Awareness levels (1 meaning highest ranking)	Preference Financing for business expansion (1 meaning highest ranking)	Most interested financing option (1 meaning highest ranking)
Self	NA*	1	NA
Bank loan	1	4	4
Microfinance	2	6	3
SACCO	3	7	5
Grant	4	3	1
Money lender	5	12	NA
Peer to peer lending	6	NA	NA
Venture capital	7	9	6
Angel investor	8	2	2
Private equity	9	5	7
Crowd funding	10	11	NA
Chama	NA	8	NA
Accelerator	NA	10	NA

**Table 12: Type of financing, awareness levels, preference financing for business, most interested financing option**

\*NA refers to not applicable and it means respondents were not asked to rank the type of financing



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### BARRIERS TO GROWTH

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. It must be noted that several entrepreneurs had not previously explored the possibility of grants to start or grow their business. They were however interested in pursuing this option, subject to obtaining cost-effective support from professionals experienced in writing proposals.

So whilst banks may enjoy a high level of awareness, this did not necessarily translate into usage. Lower levels of awareness of/exposure to a financing option such as angel investors ranked higher than bank loans as a preferred finance option for business expansion. This highest preference for angel investors is observed across all the age categories from 20 to over 60; however, a correlation analysis demonstrates that there is no statistical significance. Please see appendix II for cross-tabulation of preference of financing with age.<sup>33</sup>

Angel investing is still a relatively new phenomenon in the region. Most high net worth individuals have invested their excess wealth in more established sectors such as real estate or the listed equity market. There is a need to diversify their exposure in other sectors such as financial services, agribusiness, health,

education, manufacturing, hospitality etc. According to a 2015 report by Intellectap titled #Closing the Gap Kenya, angel investors are more concentrated in the ICT sector and are responsible for funding only 2% of Kenyan ICT start-ups. Ticket sizes are also low with only 7% receiving more than US \$120,000 in funding.<sup>34</sup> For angel investing to take root, there needs to be more structured mechanisms of linking interested angel investors with viable investment opportunities. This requires the businesses to have undergone some form of investor readiness and bankability assessment. Angel investing remains an important alternative that can provide early stage businesses with the required seed capital as well as mentoring.

**Female entrepreneurs being most interested in grants as a financing option (aside from self) indicates entrepreneur affinity towards capital that requires investment without the ‘hassle’ of repayment. The openness towards angel investors as a preferred form of financing indicates a desire to be mentored by someone more successful and experienced in their specific industry. The benefit of tapping into the angel investor network is also appealing. However, it appears that female entrepreneurs want the best of both worlds, showing a high interest in grants and a preference for angel investors to expand their business.**

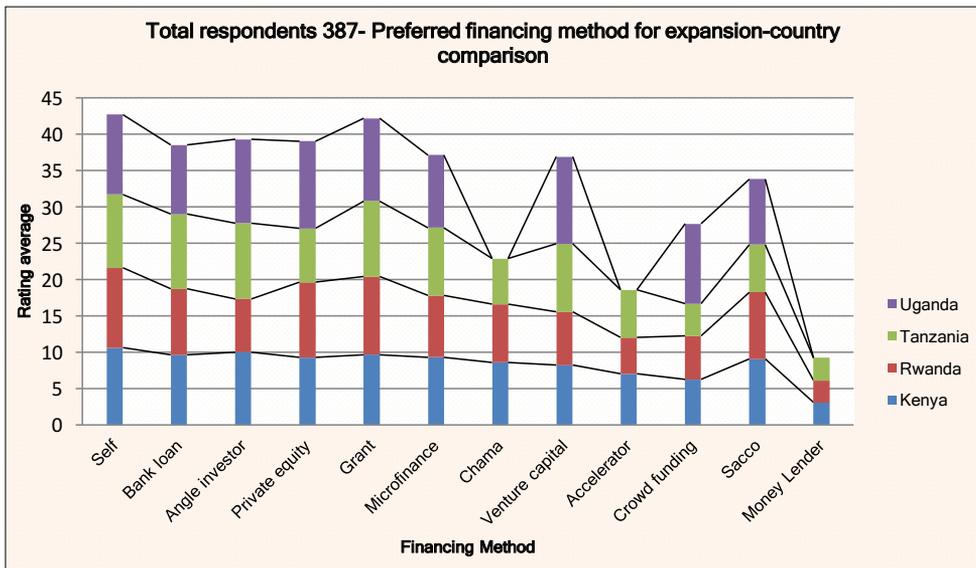
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<sup>33</sup> Table 20: Cross-tabulation between age and highest preference of financing

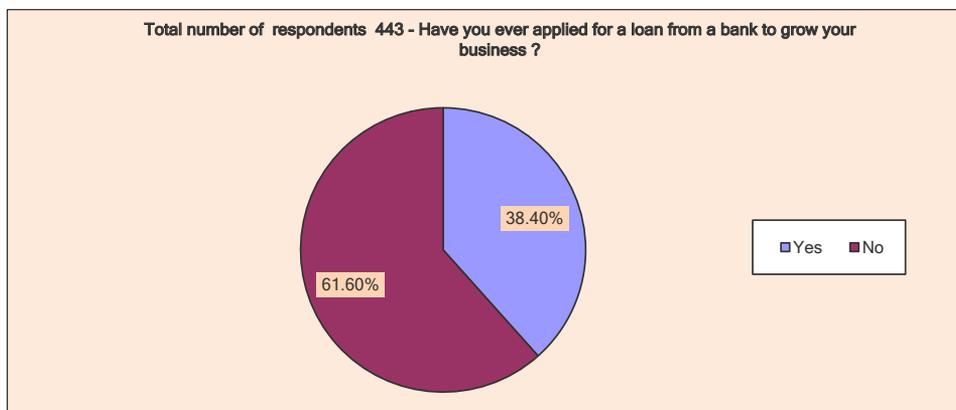
<sup>34</sup> Business Consulting Team, Intellectap, #Closing the Gap Kenya, Update on key challenges for the “missing middle” in Kenya, 2015, Intellectap, page 46



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**Figure 20: Preferred financing method for expansion - country comparison**



**Figure 21: Loan application to grow business**



## SECTION 4

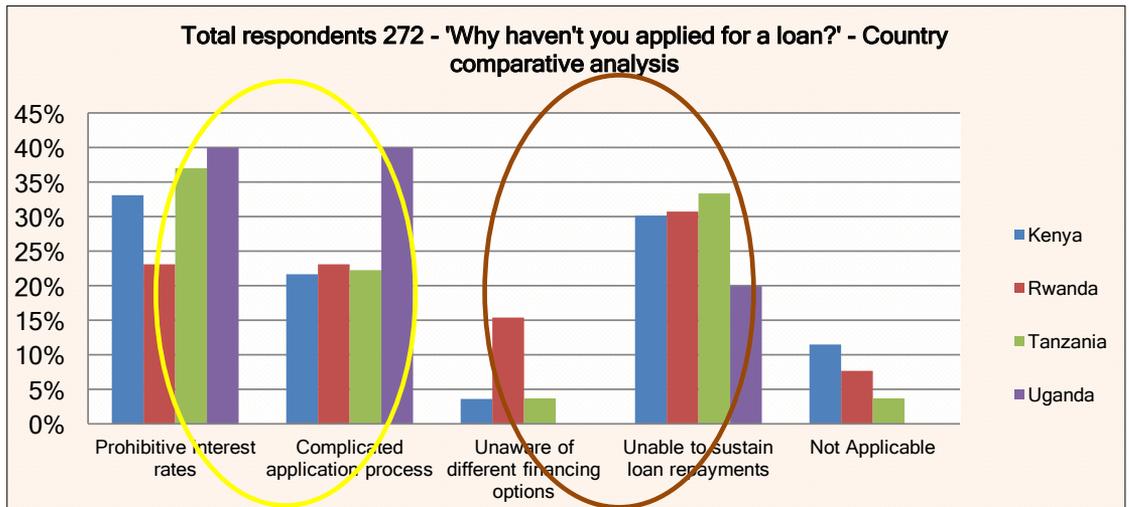
### BARRIERS TO GROWTH

We then isolated two principal forms of financiers: debt providers through bank loans, and equity providers. We found that most entrepreneurs had never applied for a bank loan despite the high awareness levels indicating once again that awareness did not translate into usage.

The reasons provided correspond to those provided as anticipated financial constraints in future business expansion:

The results indicate a combination of both supply and demand side financial constraints, as explained

earlier. The perception or reality of prohibitive interest rates are directly linked to entrepreneurs' confidence regarding loan repayments. In Uganda the supply side constraints of finance (prohibitive interest rates and complicated application process) mostly limit the ability of entrepreneurs to apply for loans. In Rwanda the demand side constraint of uncertainty to sustain loan repayments is the largest deterrent. Rwandans are also the least aware of different financing options available. In Kenya and Tanzania, entrepreneurs are mainly hampered by a combination of supply (prohibitive interest rates) and demand (unable to sustain loan repayments) side constraints.



**Figure 22: Reason for not applying for loan: country comparative statistics**



## SECTION 4

### BARRIERS TO GROWTH

For those who were confident enough to apply for a loan, the results indicate that 60% were successful.

**“Despite five years of positive financial records in the same bank, a solid business plan & reputation, in Kenya you cannot obtain a loan without a title deed!”**

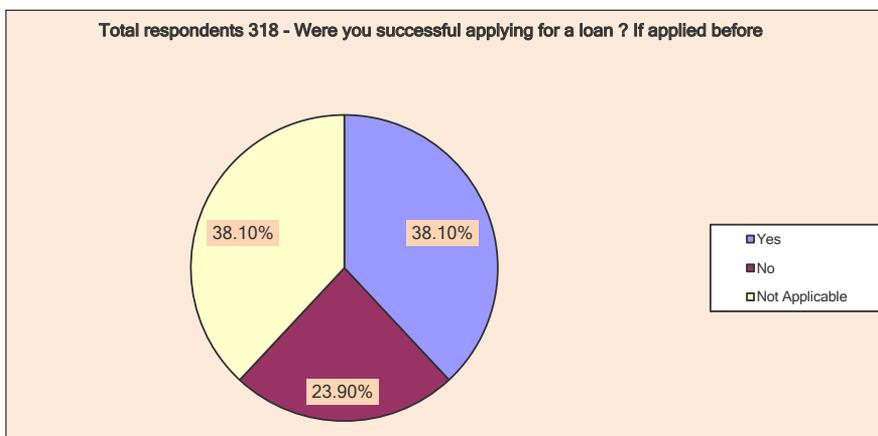
■ *Kenyan health entrepreneur*

The focus group revealed an overall mistrust of banks. This could partly be blamed on the recent financial and governance challenges faced by two second tier banks in Kenya, as well as unconfirmed reports on the health of financial institutions. Another reason for mistrust is an inability to access early stage or growth capital from banks despite regularly depositing their funds. There were also complaints concerning generic customer service that did not make them feel welcome or sought

after, fluctuating interest rates which creates uncertainty in cost planning and low product innovation that failed to excite. The greatest frustration on product innovation came from how to deal with the lack of collateral that several female entrepreneurs were faced with.

To specifically test appetite for another form of financing we asked female entrepreneurs whether they were willing to engage with equity investors.

Although 70% of 431 female entrepreneurs affirmed this, we need to be cognizant that the equity form of financing has one of the lower awareness levels. It appears to be perceived more favorably as a preferred choice for financing in future. However, the knowledge gap also needs consideration since 24% stated they ‘didn’t know’ if they were willing or not to engage with equity investors.



**Figure 23: Success in applying for a loan**

*'Not Applicable' refers to those who never applied for a loan before*



## SECTION 4

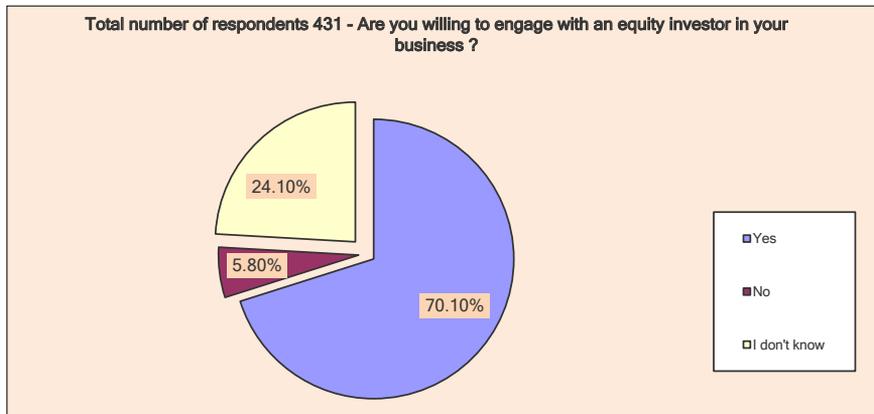
### BARRIERS TO GROWTH

**'Someone offered financing in exchange for 70% of my business which is not fair.' ■ Focus group participant**

Furthermore exits may be considered an issue, depending on the structure and intention of the equity investment, as 82% of 611 female entrepreneurs stated that they have never considered selling their business. In the focus group we explored the scenario of equity investing in greater depth. There was consensus that having capital was not enough. Entrepreneurs were more concerned with alignment of values and the overall objective of the investor - was it impact or return and which one took priority? They also expressed reservations that expectations may be mismatched. In short they are looking for investors who are willing to also act as strategic partners who will help them build

networks, access distribution channels and provide market linkages. Many entrepreneurs expressed fears of being treated as an employee in their own business, losing strategic discretion especially if the investor draws their power dynamics solely from the amount of capital they invest.

**Despite the high awareness levels enjoyed by debt financing such as bank loans and microfinance, entrepreneurs increasingly gravitated towards 'self-financing' for their businesses' future growth. There appears to be a trust issue created by the difficulty, whether real, self-inflicted or perceived, to access finance.**



**Figure 24: Willingness to engage with an equity investor in the business**



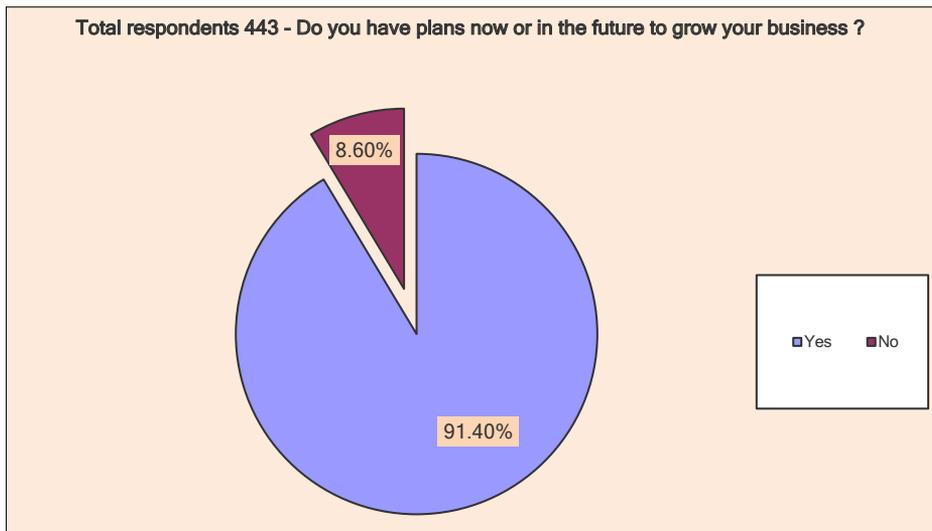
**SECTION 4**  
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In other economies self-financing, otherwise known as 'bootstrapping', may be a deliberate choice by entrepreneurs to own and control more of their business and avoid entering into long-term contractual obligations that may eat into business cash-flows. However in the case of these sampled female entrepreneurs, the decision to self-finance is based on a necessity where they do not believe they have the requirements to access funding and therefore resort to self-financing. There is also the fear element which is related to overall confidence levels concerning the use of external finance when business cash flows are irregular or unpredictable.

### Is there growth ambition?

Women-owned businesses are small and mostly profitable. Was there a desire, however, to grow into larger, more formal and structured businesses rather than providing subsistence/complementary and time fulfilment needs? Could the growth trigger more entrepreneurs to focus full time on their businesses as at least half are employed on a full time basis? (See Appendix II for cross-tabulation results of working full time and running another business)<sup>35</sup>

35 Table 19, cross-tabulation results of working full time and running another business, Appendix II



**Figure 25: Plans to grow business**



## SECTION 4

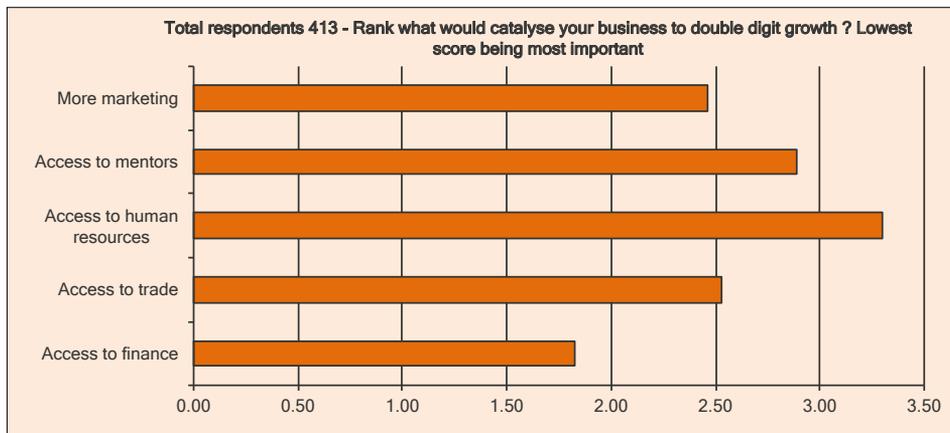
### BARRIERS TO GROWTH

Demonstrating and communicating this willingness and focus growth ambition may challenge pre-existing biases of funders towards women owned or led enterprises. Ninety-one percent (91%) of 443 respondents indicated a willingness to grow their business.

Those who said NO mostly stated that they didn't know how and where to obtain funding for business growth, followed by those who did not believe they met the minimum requirements to obtain funding. These two groups made up 77% of the few female entrepreneurs who did not have current or future plans to grow their business.

We also asked the entrepreneurs what they considered would most propel their business to 'double-digit' growth. Access to finance is rated as the most effective catalyst, and then more marketing and access to trade closely follow one another.

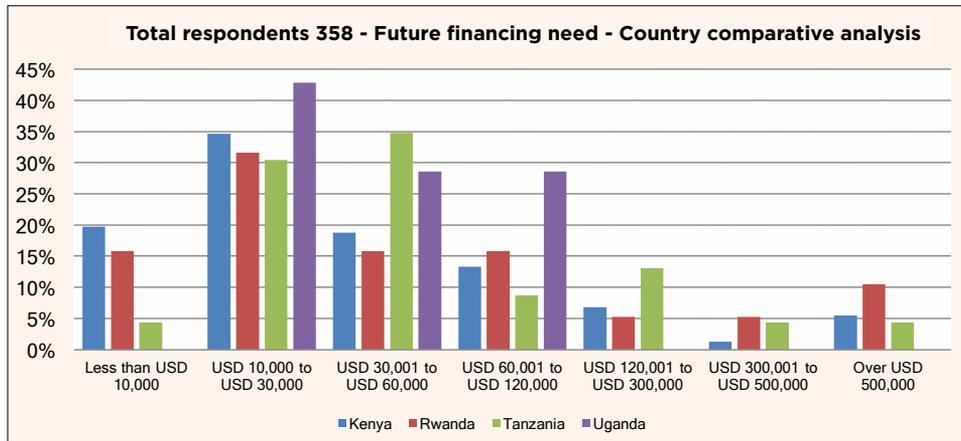
We sought to establish how much money the entrepreneurs would need in the next three years for their business, to determine the size of the financing gap. Out of 358 respondents, the majority of entrepreneurs in the region need between US \$10,000 and US \$30,000 to propel their business to catalytic growth - this is the dominant category for Kenyans, Rwandese and Ugandans.



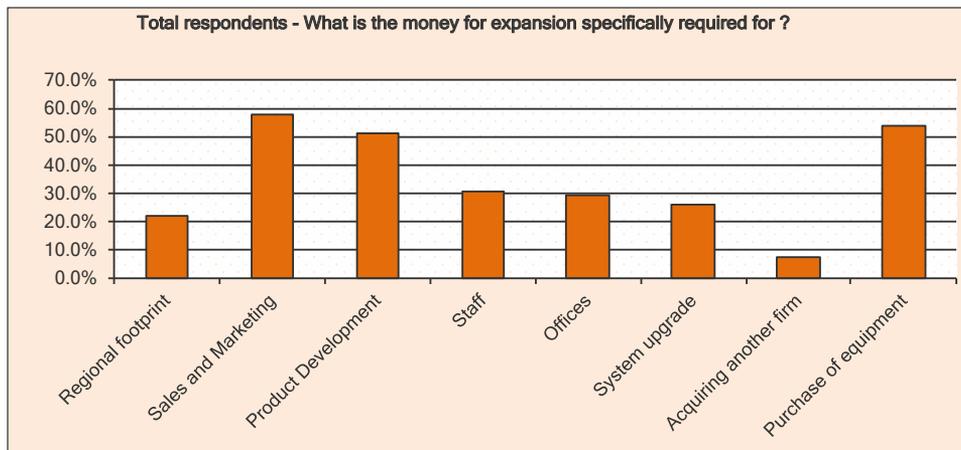
**Figure 26: Rank of factor that would catalyze business to double digit growth**



**SECTION 4**  
BARRIERS TO  
GROWTH



**Figure 27: Future financing need - country comparative analysis**



**Figure 28: Specific use of money required for expansion**



## SECTION 4

### BARRIERS TO GROWTH

The second most preferred category, involving Tanzanian entrepreneurs, is over US \$30,001 to US \$60,000. There is still demand, albeit lower, for entrepreneurs seeking amounts above US \$300,000.

Although the businesses are small and are in their early stage, the stipulated amounts required over a three year period appear inadequate. This demonstrates that businesses need to be more enlightened in this area, which will allow the establishment of a more accurate picture

of the amount of financing needed, relative to business absorption capacity. This need is more apparent when we review the various uses of expansion money as displayed below. The uses of money are greater around capital intensive investment in sales and marketing, purchase of equipment and product development, rather than recurring expenditure such as staff, offices and system upgrades. The least popular reason for expansion money involved regional footprint and acquiring another firm.



## SECTION 5

### OTHER FINDINGS

#### GENDER FACTOR:

Although this research was targeted at female entrepreneurs, we also sought to establish if these businesses ran products and services that are targeted at women, the gender profile of their staff complement and client base, and scoured open ended questions during key informant interviews and focus groups to establish any aspects of gender bias. Overall, 48% of 412 respondents have products and services that are tailored to women. Furthermore 48% of 413 respondents 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.<sup>32</sup>

We were not able to establish the gender composition of suppliers, but it is also another area that can increase women's economic empowerment. On the staff complement, we found that out of 396 respondents, 55% of the businesses had employees comprising over 50% females. This further demonstrates that businesses hire a workforce that is a reflection of the owners or leaders – so another indirect way of promoting

32 Julia Dawson, Richard Kersley, Stefano Natella, The CS Gender 3000: The Reward for Change, September 2016, Credit Suisse Research Institute, page 50

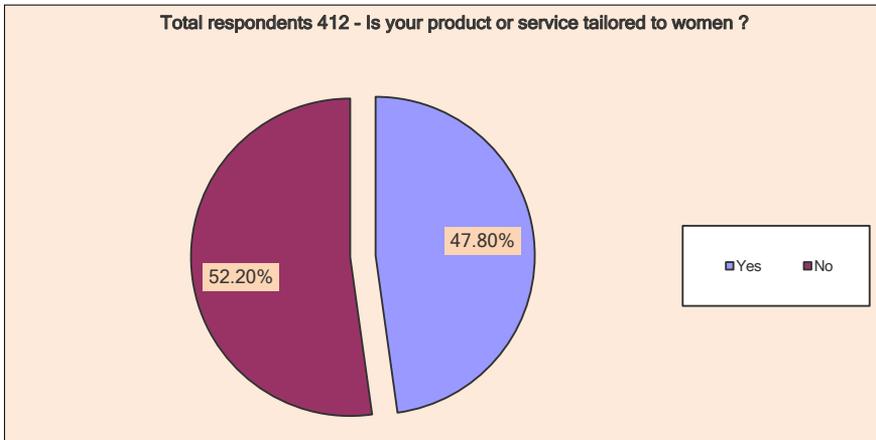


Figure 29: Product tailored to women?



**SECTION 5**  
OTHER  
FINDINGS

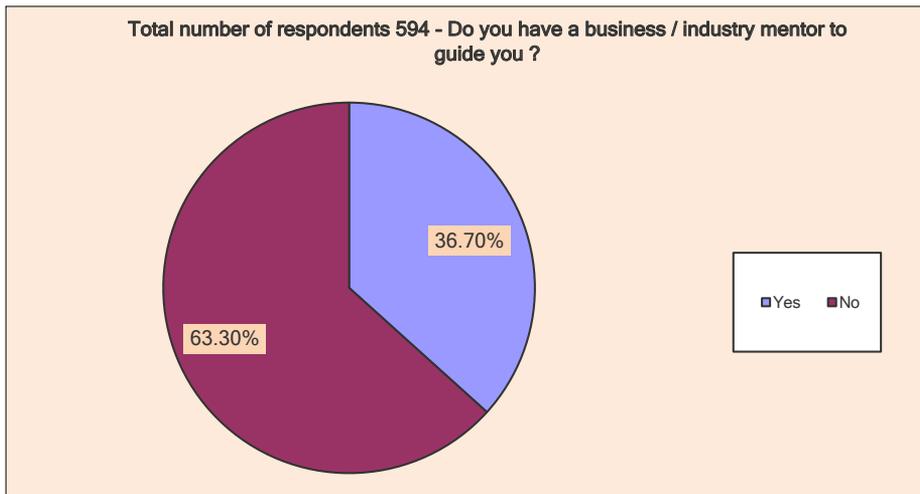
women's participation in the work force is by increasing the number of women leaders or owners, which will in turn promote wider diversity.

**Support:**

Women-owned businesses appear to be running with little support. Our research revealed that most of them do not have or have not sought external financing. Aside from limited financial resources, we also found non-financial support to be limited.

**Mentors:**

Sixty-seven percent (67%) of 598 female entrepreneurs stated that they had neither a board of directors nor advisors. Whilst having an external board of directors can be thought of as being expensive for the early stages of business, one would expect that that they had some industry mentors on whom they could rely for guidance, advice and motivation. However this also appears elusive, which demonstrates that access to relevant networks could be an issue.



**Figure 30: Business/Industry mentor to guide entrepreneur**



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***We asked female entrepreneurs what benefits they expect mentors to provide, in descending order of preference:***

MENTOR BENEFIT DESIRED	BENEFIT	SAMPLE QUOTE
1. Guidance	Someone they can bounce off ideas with and consult with on various day-to-day challenges or obstacles experienced.	<b>“Opportunity to develop new skills and knowledge. Guidance on development and advancement. Exposure and mature advice on how to develop strengths and overcome weakness.”</b> Kenyan entrepreneur, retail
2. Business coaching	Assisting with understanding the principles of running a business, financial and accounting skills.	<b>“The benefits on how to use social media. How to prepare a business plan.”</b> Tanzanian entrepreneur, manufacturing
3. Industry experience	Sharing earlier experiences and how they overcome obstacles	<b>“Share and learn from experiences in order to strategize for the future.”</b> Ugandan entrepreneur, assorted services
4. Networks	Introductions to people who can provide funding as well as open more access to markets	<b>“Open doors to our desired client base.”</b> Kenyan entrepreneur, construction
5. Motivation	Keeping entrepreneurs focused, confident and inspired.	<b>“Moral support and encouragement.”</b> Kenyan entrepreneur, financial services
6. Apprenticeship	Learning by working alongside them within their enterprise to pick up successful traits	<b>“Know-how and learning by doing!! We are very young in export business 3 years only and we need experience from others exporters.”</b> Rwandese entrepreneur, export

**Table 13: Mentor Benefit Desired**



**SECTION 5**  
OTHER  
FINDINGS

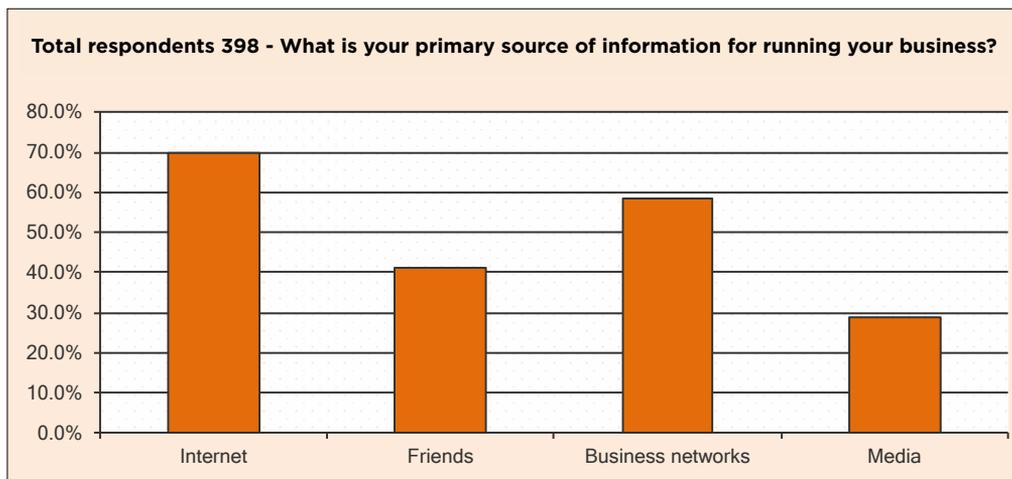
This list makes it clear that all qualities cannot be held by one person. Although entrepreneurs preferred mentors who could offer day-to-day guidance as well as business coaching, we are of the opinion that guidance can be provided on a structured basis by a board of advisors whilst business coaching can be sought through relevant formal training courses. Mentors who are thought leaders in specific industries can provide specialized guidance as well as access to relevant networks.

**Training:**

We already established that a third of the women have not attended any training course to support the running of their business. When we queried what information they relied on primarily to run their business, these were the responses:

It therefore appears women are using the internet to fill their knowledge gaps, followed by use of the business networks within their circle. We also inquired which training topics the women were most interested in receiving.

Business strategy and courses on effective entrepreneurship attracted the highest interest, followed by courses on marketing and branding. The third most dominant category was on business finance/accounting and investor readiness/access to finance. Courses on tax and governance ranked the lowest. The focus group also expressed interest in courses that sharpened their leadership skills, and also considered a reading list of books they could refer to for sustained inspiration.



**Figure 31: Primary source of information for running business**



**SECTION 5**  
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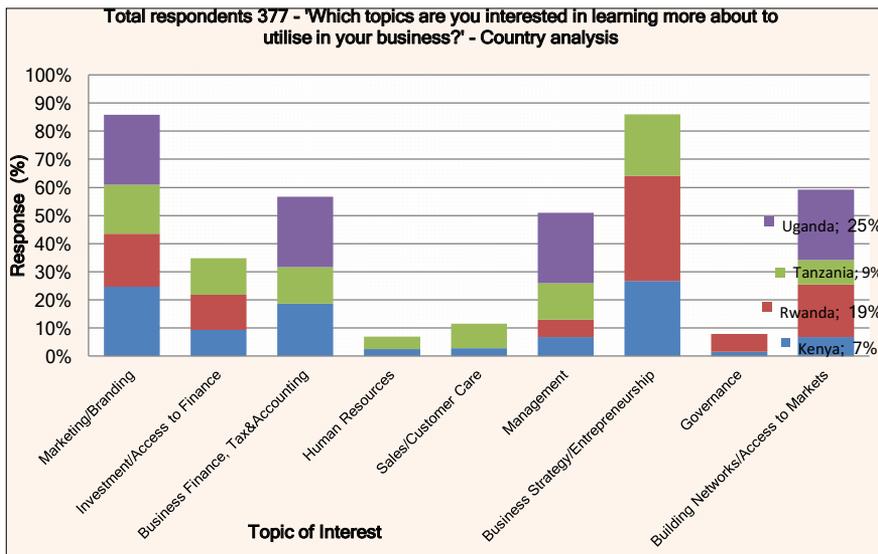
Therefore a combined programme that involves business management, governance, marketing and access to finance principles can effectively support female entrepreneurs and boost their confidence accordingly.

**Marketing and branding:**

Of all the challenges faced by female entrepreneurs, access to finance has always been closely followed by access to markets or trade opportunities. We also acknowledge that brand strategy seems to be the most popular course for those who obtained training and it is the second most sought-after learning topic for female

entrepreneurs. It appears that female entrepreneurs will be looking for various ways to improve their presence, networks and linkages which will increase their trade activity. When we asked them for their principle mode of sourcing clients, the results were as follows:

With the increased use of social media to source clients, female entrepreneurs can benefit from digital marketing strategies. When we asked further the social media tool they found to be most effective, they named Facebook, followed by WhatsApp. YouTube was considered least effective.



**Figure 32: Topics of interest (learning more to utilize in business) - country analysis**



**SECTION 5**  
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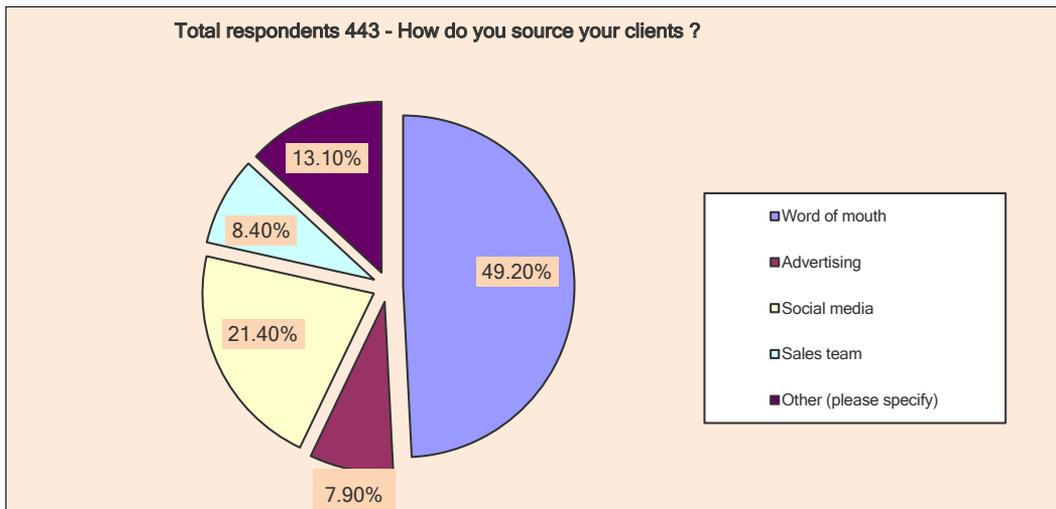
**Insurance:**

We wanted to establish the extent to which businesses use other financial services such as insurance.

This was to ensure that while businesses are growing, female entrepreneurs are aware of the various risks and are making plans to mitigate against this. The study shows that an overwhelming majority (83%) of the 597 respondents have not insured their businesses.

We sought to understand the reasons behind the low uptake of insurance products and services. A further analysis showed a variety of reasons, from financial challenges to a lack of information or interest in the issue, for not pursuing the insurance option.

**Financial issues:** respondents having financial reasons for non-pursuit of the insurance option stated either 'financial constraint', 'perception: insurance is expensive' or 'inconsistent cash-flows' as their reason for not insuring their businesses. Twenty-one percent (21%) of respondents quoted financial constraint as their reason, and they explained that they did not have the financial capacity to incorporate insurance in their expenses. Those who perceived insurance as expensive made up 8% of respondents. They had the notion that insurance is an expensive venture and indicated that even though they may be able to accommodate it in their expenses they would rather redirect the funds to something else. Another 2% of respondents



**Figure 33: Sourcing of clients**

*The 'Other' category is made up of door to door personal selling, networking and tenders. Entrepreneurs also mentioned use of websites and emails to obtain clients.*



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quoted 'inconsistent cash-flows'. They indicated that irregular cash-flows to their businesses would prevent them from keeping up with the payment of insurance premiums when they fall due.

**“I have not had enough finances to do this”**

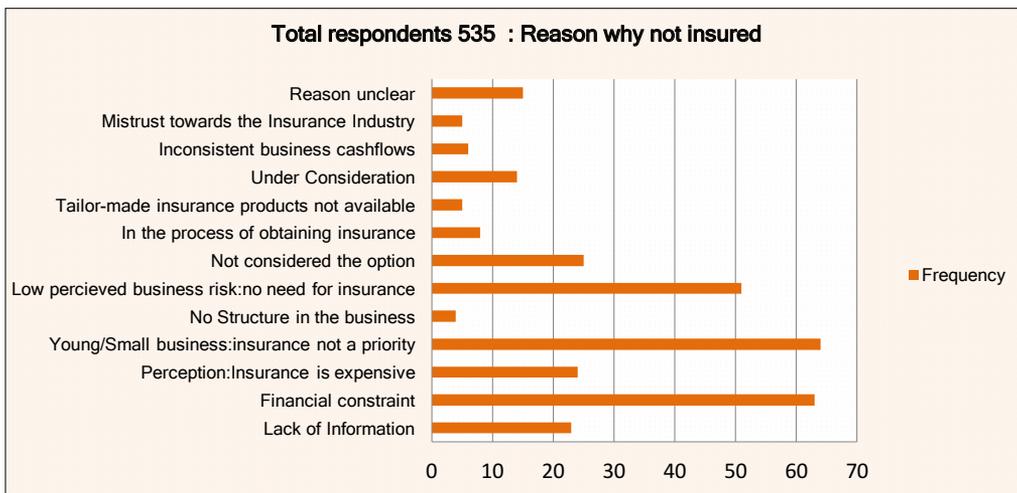
■ *Kenyan entrepreneur, beauty*

**“Insurance is expensive for my business”**

■ *Tanzanian entrepreneur, technology*

**Business-related issues:** Respondents quoted business-specific issues like 'early stage/small business', 'low business risk', 'lack of structure in the business' - 21% felt that their businesses were either

too young or too small to have insurance as a priority at that point in time. Most of these were start-ups or businesses who would consider the insurance option later when they experience growth or are able to predict their business cycle. Another 17% of respondents felt that their businesses did not need insurance because they perceived their businesses as low-risk and that the chances of incurring loss were slim to none, owing to either location or nature of business operations. A further 1% stated that their business lacked the structure needed to accommodate insurance, either because they co-own businesses with other parties that are not interested in insurance, or they have not registered the businesses, or they do not have the paperwork necessary to pursue insurance.



**Figure 34: Reason for not taking up insurance**



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**“It is still a new business and am in a rented premises.”**

■ *Ugandan entrepreneur, education*

**“Because it is just a small business.”**

■ *Kenyan entrepreneur, agriculture*

**“The Business is not insured as I was still setting up proper systems and reinvesting due to growth but I am supposed to insure.”**

■ *Tanzanian entrepreneur, education*

**Insurance related issues:** a number of respondents linked their lack of insurance to the industry itself. Reasons given included; ‘mistrust towards the insurance industry, ‘lack of tailor-made insurance solutions to businesses’ and ‘lack of information about insurance’. Seven percent (7%) of respondents quoted lack of information about insurance in general, or relating to their business in particular, as their main reason for not taking this option. Another 2% indicated that they did not trust the insurance companies when it comes to processing claims, with some quoting disappointment in prior claims. Still 2% stated that they could not find tailor-made insurance products for their businesses.

**“I don’t know much about insurance of business.”**

■ *Rwandese entrepreneur, education*

**“No company that offers that service for livestock.”**

■ *Tanzanian entrepreneur, agriculture*

**“Don’t trust insurance companies to keep their word.”**

■ *Kenyan entrepreneur, agriculture*

**Other issues:** some 8% of respondents had not thought about insurance at all. Some of these were open to the idea while 5% were in the process of considering the option for first uptake. They were either weighing up their finances or gathering information about insurance for their businesses. Another 3% of respondents were in the process of obtaining insurance either for the first time or for renewal purposes. Lastly, 5% of respondents were not clear as to exactly why they had not pursued the insurance option, indicating that it is not top of mind.

**“I haven’t thought about it.”**

■ *Tanzanian entrepreneur, technology*

**“In process of insuring.”**

■ *Rwandese entrepreneur, event management*

**“No proper reason for now.”**

■ *Kenyan entrepreneur, consulting*

The uptake of insurance services is very low for a variety of reasons, ranging from lack of knowledge to low finances and mistrust of the insurance industry itself. Programmes can be set up to educate women entrepreneurs on risk management strategies – including insurance – for their businesses. This also demonstrates that limited business finance affects the uptake of other important financial services for mitigating risk. By exploring female entrepreneurs’ attitudes to insurance, we enable them to think holistically of growth as well as risk mitigation strategies.



## SECTION 6

# RECOMMENDATIONS, IMPACT AND CONCLUSIONS

## RECOMMENDATIONS:

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### Customized debt products and services:

There is a need for more financial products that cater for early stage financing, customized features that cater towards the cyclical nature of a sector such as agriculture, and tailored products that speak to the intricate needs of the female segment. This segment requires better knowledge in order to feel confident of using products effectively. We have been able to establish that most female entrepreneurs intend to use growth capital for purchase of equipment as well as sales and marketing.<sup>32</sup> This demonstrates that more innovative financial solutions that incorporate asset financing can increase female entrepreneurs' access to capital. Asset financing solves the collateral constraint since the asset itself can be used as the collateral for the financial services provider. According to data from World Bank's enterprise 2013 survey, on average about 40% of small and medium enterprises in Kenya, Tanzania and Rwanda are buying fixed assets. Other features that need review are: offering grace periods on debt financing, requesting partial guarantees for trade and asset financing, reviewing alternatives to traditional collateral which preclude female participation and simplifying and communicating effectively the application procedures.

### Gender disaggregated data:

Financial service providers can start to disaggregate data from their existing client base to understand its gender profile. This can help to address any bias that exists towards their ability to offer growth capital, as well as share successful repayment habits. In order to develop the business case for investing in women entrepreneurs, it is crucial that these findings are shared. This will help to determine the number of women who are using financial products and services, how many of them have asked or been considered for a loan, the proportion that is able to meet the requirements etc. It would also be helpful to assess the reasons for rejections and whether there are interventions that the financial institutions can adopt to increase women's participation. Once there is product uptake the behavior of these clients can be assessed – for example in the banking sector: Do they repay their loans consistently? What is the value of their loan? How do they behave when they are in distress? How many of the loans gradually increase? Do their businesses perform? This can help to shed more light on the viability of the segment, and show that women entrepreneurs are taken as a significant segment within the institution's strategy. The nature of products and services sought can create room for more development, customization and targeted sourcing.

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32 Figure 29: specific use of money required for expansion



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This disaggregated data can pave the way for more research on this segment.

### **More Research:**

There is a need for more data analyzing females' attitude to external financiers and the contractual terms that give them a better chance at product uptake. This is in addition to documenting female entrepreneurs' experiences in seeking capital, the reasons for rejection, and their ways of sourcing alternative funding. We also need data that assesses the repayment and growth rates of businesses once capital has been provided. This research can help to provide more information about the behavioral attributes of female entrepreneurs and also serve to give external financiers more confidence in the business case to invest in women.

### **Capacity building programmes:**

This should include courses that help women to understand what it takes to be a successful entrepreneur. Also crucial are investor readiness programmes that advise businesses on when to approach financial services providers and what financing is best suited for which stage and type of business. They allow entrepreneurs to understand the contractual expectations of different financial service providers and prepare for them according to their business needs. More knowledge will tackle perceptions around the use of external financing to scale business. The training should offer linkages to financial service providers to track and monitor

whether it improves uptake, increases entrepreneur confidence, and results in changes being implemented within their respective enterprises. The programme needs to incorporate and tailor advice on obstacles such as cultural attitudes and perceptions that limit women entrepreneurs. Female entrepreneurs have also expressed a willingness to receive more sector-specific training from specialists so they can tackle challenges that are industry-specific. These programmes need to be cognizant of the time constraints faced by female entrepreneurs owing to their multiple responsibilities. Capacity building programmes will be influential if they can be offered across women's networks.

**Excerpts of participant feedback from *the Women Creating Wealth enterprise development initiative (focus countries Malawi, Zambia and Tanzania)*.**<sup>33</sup>

**“The interaction with other women has also really helped me. We plan together as we are grouped by sector and we give each other advice on how to address issues. We have a WhatsApp group where we communicate with each other.”**

**“I am able to persevere. Without the training fear would have taken over. The personal entrepreneurial competencies are everyday things but putting those in practice makes a big difference... Empretec has helped me to improve my financial skills and to be more organised.”**

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33 Women Creating Wealth Program Pilot Report , 2016, Graca Machel Trust



## SECTION 6

### RECOMMENDATIONS IMPACT AND CONCLUSIONS

**“In 1987 I started working as a bank clerk and I retired as a manager in April 2016. That is when I attended the Empretec training. After attending the Empretec training was when I got the courage to retire. I have a restaurant that I started in 2013 but I only worked full time in it from this year.”**

#### **Strengthening networks:**

Female entrepreneurs tend to cluster through networks and savings groups. Out of 401 respondents, 54 % belong to either a network or membership organization. Most tend to belong to more than one network as they serve different purposes. This includes improving networking amongst members, arranging capacity building, gaining industry insight, mentoring and supporting one another. Financial institutions should do their best to create relationships with existing networks to understand the female segment better within their safe environment. Not all female entrepreneurs are part of a network and can be motivated to join if they see the value addition – therefore linkages to financial services providers, industry mentors or access to specific training programmes that can benefit their business should be promoted.

**“My network is an outlet where I can share challenges in a safe environment and obtain peer advice and solutions.”** ■ *Focus group participant*

#### **Patient capital – equity financing:**

Due to the early stage of the businesses and the fact

that most entrepreneurs are engaging in their business venture for the first time, patient capital is preferred to propel these businesses to scale. The nature of this capital needs to be structured in such a manner that it can be repaid after longer periods. It can also take equity stakes into the respective businesses and it is catalytic enough to create growth. The deal sizes need to be much smaller than traditional equity vehicles and there should be linkages to mentors and advisors to help the businesses grow. It is therefore a more hands-on approach for those businesses that seek a form of guidance and business coaching to navigate their growth. Angel investing can also be harnessed to identify suitable investors with the relevant experience and entrepreneurial success in their fields, and who will invest in female enterprises that have already undergone a capital readiness assessment. This ensures that both stakeholders are fully aware and committed to the initiative. Financial incentives can also be structured to support female entrepreneurs running enterprises in the male dominated STEM (science, technology, engineering and mathematics) sectors.

#### **Funding accelerators:**

Specific accelerators which support female entrepreneurs should be introduced. This allows businesses to receive greater oversight from programmes which will eventually lead to funding. The enterprises can receive relevant coaching and funding depending on their needs. This can prepare them for interaction with other future funders and develops a culture of being open to and adhering to funding milestones. This can then



## SECTION 6

### RECOMMENDATIONS IMPACT AND CONCLUSIONS

enable them to graduate to receive funding from other external financiers, once a track record of steady business growth and efficient capital utilization is established. In the focus group most entrepreneurs were leaning towards accelerators after one member shared her experience.

**“I have been a participant at an accelerator. We were trained and given skills on our business and after the six month period, entrepreneurs were shortlisted for funding. Although I was not selected for the shortlist, I learned lots and the experience sharpened my skills.”**

■ ***Focus group participant***

### **Leadership and staff composition in financial services:**

Financial providers can ensure that they have adequate female staff representation at all levels of the organization. Their input can assist in the development of customized products and services. In addition, they can play a part in mobilizing participation amongst female entrepreneurs to build and nurture their trust. A case in point is the microfinance industry which tends to have a staff complement of at least 50% female. Female loan officers are credited for having lower default rates, handling both male and female borrowers, than their male counterparts. The Credit Suisse 2016 report CS Gender 3000 – The Reward for Change reviews a number of

case studies on microfinance institutions across the globe. It notes that female officers’ lower default rates is not the result of the loan approval process which is roughly equal to male loan officers, but is attributed to their superior relationship skills when soliciting and convincing clients to pay. Female loan officers also exert less threatening methods when dealing with problematic borrowers, a tactic that contributes to low default rates in the industry.<sup>34</sup> Therefore a diverse workforce promotes an organizational culture that is tolerant of different gender attributes, which reduces unconscious bias and prejudice. This saliently influences more equitable decision-making.

### **Digital platforms:**

Since female entrepreneurs mainly rely on the internet for information, partners can take advantage of this affinity to create webinars and presentations on selected topics. Online platforms can also encourage women to trade amongst one another, promote synergies to engage in joint bidding for projects, become a marketplace where clients can be sourced, provide access to local, regional and international markets, offer peer advice and interaction amongst one another, create linkages with potential funders to provide visibility, showcase track records, and offer mentoring from industry experts.

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<sup>34</sup> Julia Dawson, Richard Kersley, Stefano Natella, The CS Gender 3000: The Reward for Change, September 2016, Credit Suisse Research Institute, page 37-38

  
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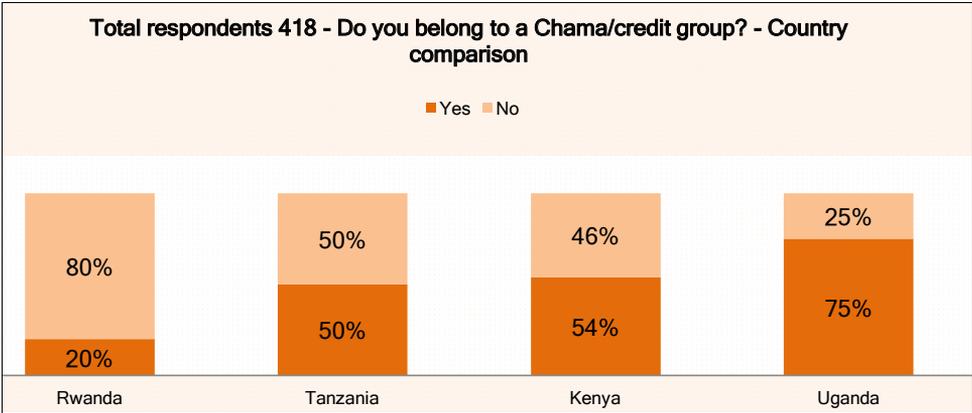
Creating a virtual community or database of entrepreneurs will increase their confidence to not only grow their business but access various forms of financing that best suit their needs. Digital platforms can also foster closer interaction with women entrepreneurs and investors through the establishment of crowd funding platforms.

**Crowd funding platforms:**

At least half of the female entrepreneurs in Tanzania and Kenya and two thirds in Uganda (apart from Rwanda where it is 20%) belong to a savings group that they use primarily for investment and loan purposes. The women can model these groups to invest in each other’s businesses especially where they see the potential. That way there is flexibility in how they set their terms, to make it attractive to those who provide the capital, and incen-

timize beneficiaries to use it well so they can continue to accumulate more funds in future. This takes advantage of the social and mentoring interaction that female entrepreneurs prefer and are accustomed to. It can also encourage other external financiers to increase the group’s resources. Collateral requirements can be shared and structured around a social collateral model. Crowd funding is the newest viable form of entrepreneurial finance globally and offers interaction with a potential client base during the capital raising process. Crowd funding may also be the future for addressing gender bias as experienced in traditional finance. Kickstarter, a major on-line platform in the United States, has 35% of its founders as women and has an investor base of 44% women.<sup>35</sup> Diversity in the ownership and investor pool stimulates diversity in entrepreneurial financing.

35 Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 14



**Figure 35: Participation in Chama/credit group**

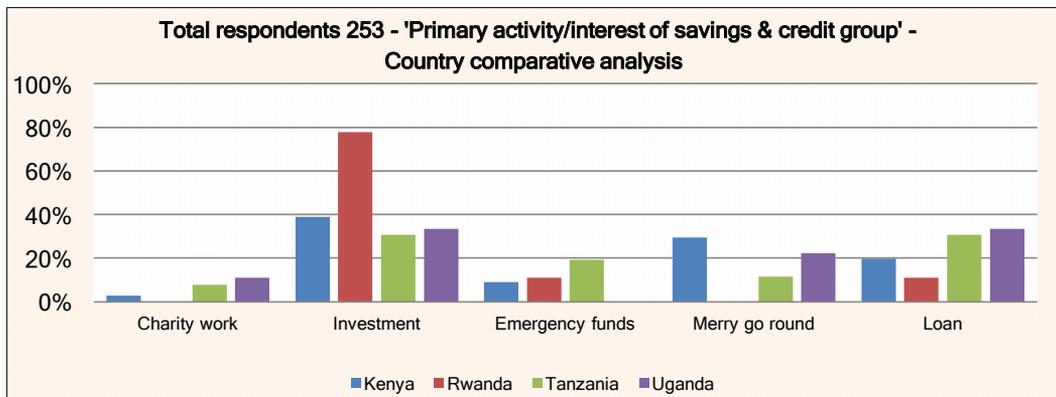


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**Comfort providers:**

**Insurance:** Uptake of insurance products is overwhelmingly low amongst female entrepreneurs. There is an opportunity for insurance providers to educate this segment on the type of products available for their businesses, regardless of size and tailored to sector. This can create demand amongst this segment which does not perceive the value of having insurance - more so if their businesses are small. The process of obtaining insurance and pursuing claims, and flexible payment schedules for premiums offered by insurance companies, also needs clarification. Insurance companies need to increase their efforts in promoting insurance

benefits, and should offer a variety of tailor-made products for different circumstances. Knowledge of the terms and conditions of insurance packages as well as ability to process claims in a timely and reliable way can also increase interest and encourage uptake. As women entrepreneurs obtain finance to expand their business, they should be encouraged to invest some of these funds in risk mitigation options like insurance to ensure they are not vulnerable as they continue to grow their businesses.



**Figure 36: Primary activity of savings & credit group**



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**Investment:** We have established that female entrepreneurs use their own savings to start a business. They also intend to finance part of their expansion through retained earnings. Almost half belong to a savings group whose primary interest is investing. So although more capacity-building will increase uptake for financial services, it is important to introduce and provide wealth management advice to women entrepreneurs so they can preserve and grow their funds accordingly. As women's businesses begin to thrive, they will also experience additional earnings through dividends as they are also owners and can learn how to invest their money wisely and save for 'hard times.' Teaching women how to be prudent and invest wisely can offer them more leeway as they search for more clients, enter new markets, develop products, and source capital. An investing culture will also make their business more resilient against external shocks. A study done by Old Mutual demonstrates that women's risk aversion is more about their precarious financial situation than their tolerance of risk. Women are likely to suffer a gender pay gap in the workplace. Women are also likely to be single mothers. When you include the age group that is looking after parents, it becomes clearer that there are several competing resources. However these circumstances serve to emphasize how important it is for women to use structured investment vehicles to grow and channel their savings.<sup>36</sup>

### Shared services:

It takes more sophistication and wider skills to grow and scale a business than it does to start one. Female entrepreneurs admitted that they play the role of 'jack of all trades' within their business, having neither the dedicated time nor skill to concentrate on one task. They also tend to outsource the accounting, legal and marketing functions. Female entrepreneurs can benefit from sharing access to a pool of mentors that have previously succeeded in their respective industries. This allows for sharing of sector-specific advice and provision of relevant guidance on an ad hoc basis. In addition to that, a pooled team of professionals can support the businesses with specialized skills such as financial accounting, legal, audit, governance, tax, leadership, technology, business management, and brand and marketing strategies. These professionals can be offered to businesses at subsidized costs and help to not only boost the confidence of the entrepreneurs, but provide the necessary support with scaling and addressing investor readiness concerns. The pooled service allows costs to be shared amongst interested entrepreneurs and becomes a more cost-effective way of accessing professional services. This initiative should assist in giving financial institutions more confidence in the bankability of the business prior to funding. Another concept of sharing costs can also be designed for office space.

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36 Women vs Men: Savings and investment habits, September 2016, Old Mutual

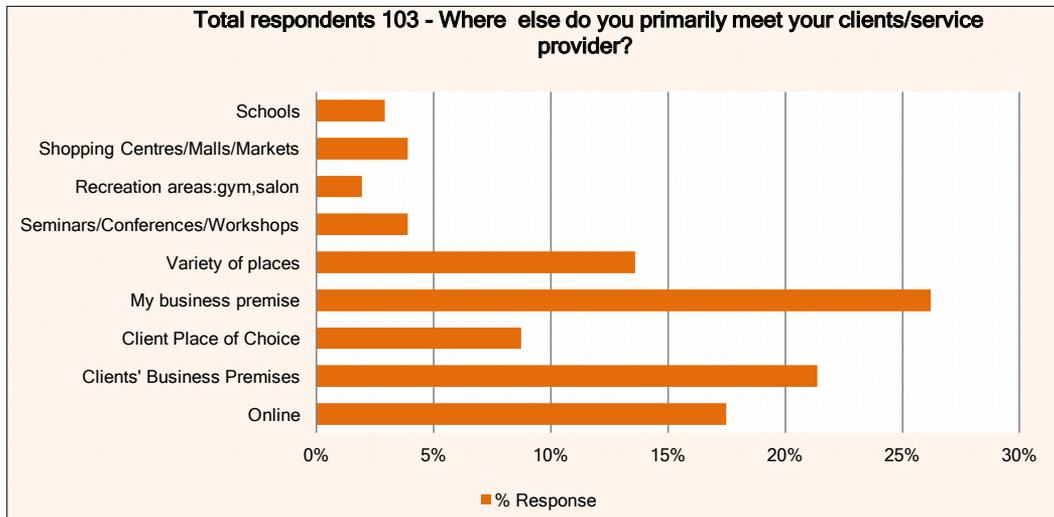


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**Co-working areas:**

Female entrepreneurs can be offered co-working space or hot desking for meetings, or access to offices for short lets which provides an alternative work location to their home environment. This can allow for joint brainstorming sessions, and provide an environment to inspire more innovation as well as a venue to host periodical funding pitches to prospective investors. Meeting other entrepreneurs can make the entrepreneurial journey more motivating as they will learn from one another

and can promote synergies as well as stimulate both regional and local trade. They can also provide access to meeting rooms to host existing and potential clients at affordable rates, and offer quality and affordable child care services, acknowledging that female entrepreneurs also have the dual roles of parenting. Currently entrepreneurs are meeting their clients in a variety of places.



**Figure 37: Place of meeting clients/service provider**

*This is in addition to 281 entrepreneurs who meet their clients in offices (though it is not clear whether these are the clients' of entrepreneurs' offices), 78 in cafes, 51 at their homes and 44 in hotels.*

## IMPACT

Should women businesses grow using various forms of capital, we can expect to see the following benefits:

### Job creation:

Forty percent (40%) will create between two and four more jobs two years from now, while 38% will create five and more jobs. Globally, 22% of entrepreneurs predicted that they would increase employment by more than five jobs within the next five years.<sup>37</sup> Estimates state that small and medium enterprises provide jobs to close to 80% of the workforce and they contribute

20% to the gross domestic product.<sup>38</sup> Data extracted from the World Bank’s enterprise 2013 survey shows Rwanda and Tanzania have cited a 10% annual job employment growth rate for their enterprises.<sup>39</sup>

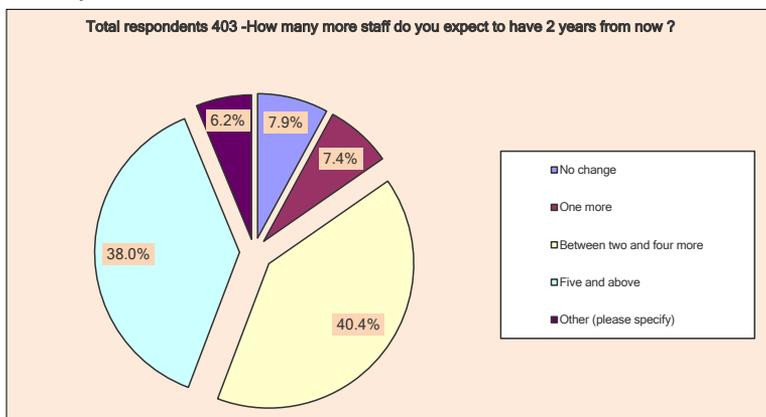
### More women leaders:

As female entrepreneurs nurture and grow their business, we can expect to see more women as leaders in the organizations they run, more women as owners of profitable medium and large scale businesses, more women as influencers in society, and more women

37 Caroline Daniels, Mike Herrington, Penny Kew, Special Topic Report 2016-2016 Entrepreneurial Finance, 2016, Global Entrepreneurship Monitor, page 8

38 Business Consulting Team, Intelcap, #Closing the Gap Kenya, Update on key challenges for the “missing middle” in Kenya, 2015, Intelcap, page 12

39 World bank enterprise survey, 2013



**Figure 38: Number of staff entrepreneur expects to have in two years**

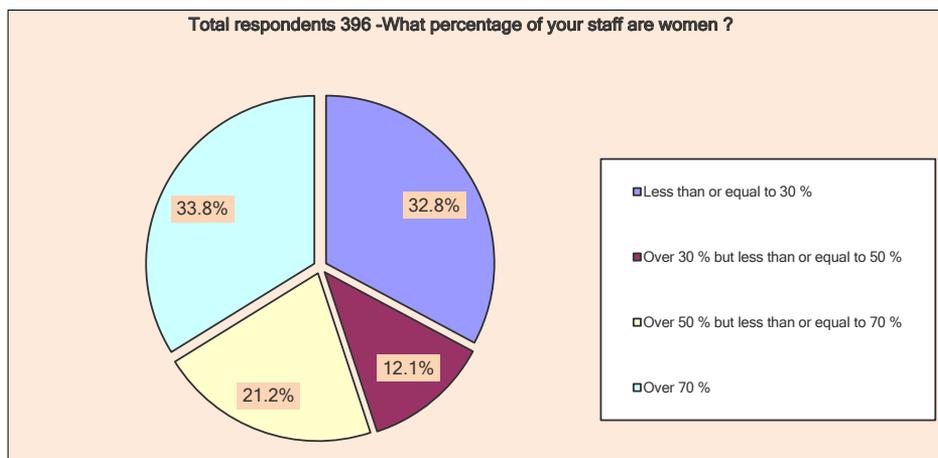


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contributing to uplift other women. According to the World Bank's enterprise survey 2013 data, the global average proportion of firms with permanent staff that are female is 33% while 19% of firms have a female top manager. In East Africa the average proportion of firms with permanent female staff is 36% while 16% have a top female manager. Tanzania leads the regional comparison with 44% of firms having permanent female staff, whereas Rwanda leads in top regional comparison of female managers at 20%.

Our respondents, who comprised female entrepreneurs, were asked what proportion of their staff were women and the results are outlined below:

The results demonstrate that out of 398 female entrepreneurs, 55% have more than half of their staff as females. Therefore empowering women-owned or -led businesses can drive more diversity in the workforce. This can ultimately lead to more balanced human resource practices that cater towards removing the obstacles towards female participation in the economy, as more women employ and inspire other women. The benefits and the unique needs that apply to women can be studied more easily. It must be noted that in the Credit Suisse Gender 3000: The Reward For Change report of September 2016, researchers were unable to find a correlation in listed companies among those that increased their female participation at the non-executive level and increased roles of females



**Figure 39: Percentage of women staff**



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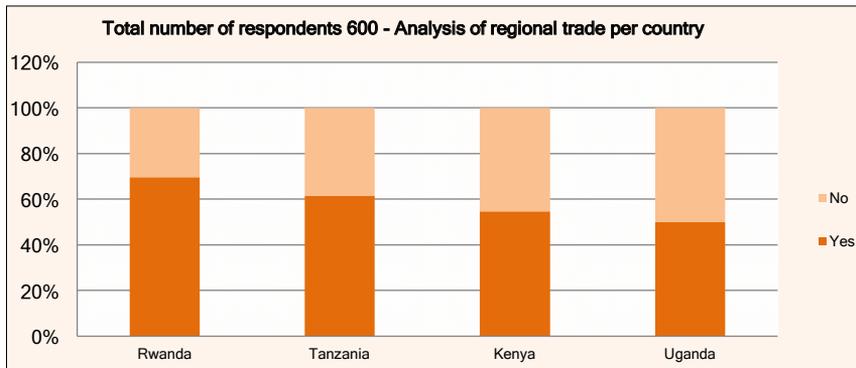
in senior management. The oil and gas, banking and insurance sectors showed diversity improvements at both the non-executive and senior management levels. However sectors such as health, pharmaceuticals and telecoms showed a reversal trend of women in senior management despite more females in non-executive director roles.<sup>40</sup>This trend however does exist when women are CEOs of companies and have greater influence, thus more women hold senior executive roles. These roles tend to be broader than supportive roles but include senior executive roles in finance as well as business unit heads. Since the comparison was done over a two-year period, more time is required to assess the impact of female presence, not only at non-ex-

ecutive directorship levels but in influential investor, ownership and chief executive roles, to see if this not only improves gender composition of women at senior executive levels but also increases the type of roles women in senior executive positions play.

**Regional growth:**

We can expect to see regional trade increase and widen. So far a majority of female entrepreneurs sampled engage in regional trade. Although the actual proportion of sales was not determined, we can expect intra-regional trade, linkages and networks to increase amongst female entrepreneurs. We also expect to see more export-oriented businesses serving a wide and

40 Julia Dawson, Richard Kersley, Stefano Natella, The CS Gender 3000: The Reward for Change, September 2016, Credit Suisse Research Institute, page 21



**Figure 40: Analysis of regional trade per country**



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diverse client base and competing on an international level. This is subject to custom and trade regulations being made more accessible and favourable towards regional countries. Currently data from the World Bank reveals that an average of 25% of firms in the East Africa region identify customs and trade regulations as a major constraint.<sup>41</sup>

#### **Larger and growing businesses:**

We expect financial service providers to change their attitude towards this segment and pursue it more deliberately due to the opportunities offered. It will also allow for more focused research to assess how the businesses grew, capture any gender-specific challenges and biases overcome or being faced, and act as a motivator to trigger further entrepreneurship.

We can therefore expect businesses to be larger and to move to higher annual turnovers. So far only 13% of 427 respondents have businesses with annual turnovers of US \$50,000 and above. Larger, profitable businesses founded, owned and managed by female entrepreneurs will contribute to changing the perception that women businesses are small and only for subsistence purposes. Overall, according to the World Bank's enterprise 2013 survey, an average of 14% of firms globally has majority female ownership. In sub-Saharan Africa, it is 12.5%. In East Africa (Rwanda, Kenya, Uganda and Tanzania) the average figure is 10%.<sup>42</sup> We can therefore validate and benchmark turnover progress to see how female-owned businesses are growing and faring over time.

#### **Higher financial literacy:**

With the increase of tailored capacity-building programmes that target female entrepreneurs, we can expect higher financial literacy which will then reduce the perception gap and fear of female entrepreneurs to use forms of capital available. Female entrepreneurs will also better understand their businesses' financial needs, their absorption capacity, get their businesses reviewed annually by external auditors, and appreciate which form of finance is better suited to their business profile. This should increase both the application and the acceptance rate for businesswomen applying for growth capital from various financial services providers. The increased awareness through various courses on business and financial management will also improve entrepreneurs' confidence levels and make them more comfortable when approaching financiers to grow their businesses.

#### **Financial innovation:**

More research on improving financial inclusion as well as a better understanding of the intricate needs facing female entrepreneurs should stimulate financial innovation and cater to this underserved, underestimated and undervalued market. It is expected that financial service providers will continue to appreciate the growth opportunity offered by these businesses and customize and develop products and marketing strategies to appeal to this segment.

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41 World Bank Enterprise Survey, 2013

42 Ibid



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## CONCLUSIONS

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### Gender lens investing

“As soon as we think gender-based investing, people think soft, pink and small,” says Jackie VanderBrug. “This is not soft. It is adding rigorous analysis to your investment process. It is not pink. It is not only for women. It is definitely not small. You are seeing massive institutional investors dedicating parts of their portfolio in this direction.”<sup>43</sup>

To create and transition more small businesses into medium and large well-capitalized enterprises, there is a need for a deliberate effort to initiate gender lens investing amongst financial service providers. This involves a targeted approach at sourcing more businesses that are women-led and -run, employing marketing and sourcing approaches that relate to the female segment, and ensuring that diversity takes place not just at the director governance level but at an ownership, senior management, client and supplier level. It is also important that financial service providers commit to enlightening their potential client base on the benefits and terms of their products and services. Employing more women in financial institutions to assist with product customization and relationship building can lead to more tailored and financial innovation to capture this underserved segment.

Gender lens investing is the use of finance as a tool for social change. It gives an opportunity to deploy capital meaningfully in the search for better outcomes (‘smart investing’). It incorporates gender analysis within the financial analysis process. It is not about simply identifying and counting women but more about how gender informs how and what we value, how we balance power dynamics and therefore how we invest<sup>44</sup>. It is thus not only about women entrepreneurs but the business ecosystem as a whole.

“If you see real value that others don’t, you will have a competitive advantage.” Suzanne Biegel<sup>45</sup>

When we break down the aspects of an enterprise we see many ways we can create more gendered outcomes. By reviewing the product and service offering, customers, marketing approaches, sales and distribution strategies, the management team composition, suppliers, service contractors and partner equity, operational and human resource policies, financial and key performance indicators, as well as governance and ownership, we can better understand investment opportunities and constraints.

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43 Kerry Hannon, The Double Payoff of Gender Lens Investing, Nov 2016, Market Place

44 Joy Anderson, Suzanne Biegel, How to upgrade your due diligence with a gender lens (3.0), September 2015, Criterion Institute, page 2

45 Ibid



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Looking through a gender lens can reveal opportunities in a business such as how to capitalize on women's status as key influencers in consumer purchasing or agribusiness that can demonstrate untapped growth potential. It can also reveal risks in a business like how a lack of diversity can lead to long-term blind spots in a company. Investing in managing diversity is also crucial to ensuring tenure of diverse teams, successful implementation of solutions and improved corporate culture. Gendered fair pay and compensation across the value chain are all factors that can be addressed. Investors should look to data about how women versus men make their decisions and determine if there are any gendered assumptions that are driving outcomes.

### Women investing in women

If we are to achieve success in getting more women businesses to grow into larger businesses we need to encourage more financial service providers to recognise the opportunity. Women-owned businesses are inherently small and at least half of them focus on providing goods and services that are targeted towards a female client base. These businesses will be responsible for future job and wealth creation. Female entrepreneurs often complain of bias and not being viewed as running solid, long lasting business that are capable of growing into regional or global powerhouses.

One way to tackle the bias that prevails throughout the capital provision sphere is to encourage more female financial service and venture capital executives,

who will spot the real opportunities that are available amongst this large and versatile base of budding female entrepreneurs. These are businesses that are embracing technology, engaging in regional trade, and spreading amongst a variety of sectors. Therefore we encourage female capital providers to build relationships with female entrepreneurs, understand the opportunity and mobilize capital towards this underserved and undervalued market. The aim is not to invest in women because they are women or to lower standards to fulfil a diversity agenda, but to address the unconscious bias and misconceptions on either side concerning the capability of females to run successful businesses and believing their growth ambition to scale.

In a 2013 study of 837 ventures by Emory University it was found that firms with women team members were less likely to get funding, compared to firms with all male team members. On the financing side, venture capital firms with women partners are more than twice as likely to invest in companies with a woman on the executive team, and are more than three times as likely to invest in companies with women CEOs.<sup>46</sup> Harvard Business Review conducted research on two groups of technology startups: those with initial financing from venture capital firms with all male general partners, and those with funding from venture capital firms with female partners. It found a huge difference in success rates of female-led and male-led startups financed by these two groups.

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46 Rena Zuabi, The bottom line: Why Gender Inclusion is Good For Business, Value for Women, Page 4



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With startups financed by all-male venture capital firms, there is a whopping 25 percentage-point difference in the exits of female-led and male-led startups. Success is defined as an exit from venture capital financing via acquisition or an IPO. Yet when startups are financed by venture capital firms with female partners, that difference disappears.<sup>47</sup>Evidence suggests that gender matching between female general partners and entrepreneurs is responsible for the improved performance. Those venture capital firms are either better at selecting women-led projects, or better at advising them, or both.

“A crucial step to helping more female entrepreneurs succeed may be to encourage more women to join venture capital firms.” Sahil Raina<sup>48</sup>

Appreciating the different leadership styles of female leaders provides an opportunity for venture capital provision to occur without an emphasis on factors such as collateral and immediate regular repayments that exclude several capable enterprises. Several of the businesses are still in the early stage and can benefit from this form of capital to better support their growth. It is important that these businesses not only receive the capital to help them grow but also have the benefit of mentors and advice as they navigate the competitive environment. A major concern is that women-owned businesses are resorting to self-reliance to support both their current and future growth.

It is our belief that entrepreneurs will find it challenging to continue to support these businesses from their own savings and network of informal investors, and this may not translate into a full-time focused opportunity. It therefore creates a vicious cycle and a self-fulfilled prophecy as a number of these businesses will be operating below their potential.

### Overall

It is critical for existing financial institutions, whether debt or equity providers, wealth managers or insurance providers, to try to disaggregate their existing client base, establish gendered norms and patterns of behavior amongst this entrepreneur base, and nurture it further by working closely with both their male and female staff to penetrate existing female networks and create customized solutions. Once this has been done, further research can be applied to encourage more financial innovation by sharing the findings as well as obtaining deeper understanding on the benefits to the aggregate society once gender lens investing is employed. The overall aim of gender lens investing is to make the contribution and processes of gender ‘more visible’ and ‘less niche.’

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<sup>47</sup> Sahil Raina, Research: the Gender Gap in Start Up Success Disappears When Women Fund Women, July 2016, Harvard Business Review

<sup>48</sup> Ibid



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## APPENDIX 1: CROSS- TABULATION AND CORRELATION

### APPENDIX 1: CROSS-TABULATION AND CORRELATION

#### How many active business and still employed

The results above show that majority (58%) of the entrepreneurs working full time do not have another active businesses. The same is also true for the entrepreneurs not working full time (53%). Therefore this demonstrates that the ones not working full time are mostly dedicated to their business. There is however no statistical significance on this as the p-value is greater than 0.05 hence no relationship between working full time and the number of active businesses. What is interesting is that both female entrepreneurs working full time and not working full time seem to exhibit similar results concerning the number of active businesses they operate.

#### Preference of financing

##### Age and highest preference of financing

From the chi square test above we deduce that 100% of women entrepreneurs over 60 years of age prefer the

microfinance, loan and angel investor options of financing their business whereas entrepreneurs between the age of 20-30 years 88% prefer angel investors. The preference of the angel investor is also observed for the 31-40 years(83%)and the 41-50 years (91%) and over 60 years (100%) categories. There is however no statistical significance on this as the p-value is greater than 0.05 hence no relationship between the age of the entrepreneur and the financing preference.

#### Sectors and preferred financing

Table 16 shows that 100% of female entrepreneurs in the financial sector's highest financial preference is angel investors, whereas those in health sector (100%) prefer grants and in wholesale 100 % prefer bank loans. The results also show that those women entrepreneurs in technology (100%) prefer venture capital, private equity or angel investors. There is however no statistical significance as all p-values are greater than 0.05 and hence no relationship between sector and financing preference.

OTHER ACTIVE BUSINESSES					
Working full time	One	Two	Three	More than three	None
Yes	24.30%	14.60%	2.30%	0.70%	58.10%
No	26.60%	15.20%	4.60%	0.40%	53.20%

Table 14: Number of active businesses and still employed



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FINANCING OPTION	20-30 YEARS	31-40 YEARS	41-50 YEARS	51-60 YEARS	OVER 60 YEARS
Microfinance	69.1%	57.8%	78%	87.5%	100%
Loan	72.2%	71.3%	77.6%	68.4%	100%
Venture Capital	65.7%	71.2%	55.5%	81.2%	-
Angel Investor	87.9%	82.8%	91.4%	66.7%	100%
Grant	75.4%	80%	89.2%	80%	-
Private Equity	46.9%	51.2%	70.8%	41.7%	-
Sacco	62.5%	64.6%	79.5%	54.6%	-

**Table 15: Cross tabulation between age and highest preference of financing**

SECTOR	FINANCING OPTIONS						
	Microfinance	Bank Loan	Venture Capital	Angel Investor	Grant	Private Equity	Sacco
Financial	75%	80%	50%	100%	66.60%	50%	60%
Agriculture	64.30%	71.50%	61.60%	82.30%	87.40%	63.70%	68.50%
Real estate	71.40%	90.90%	66.70%	60%	99.90%	60%	71.50%
Health	62.50%	55.50%	40%	85.80%	100%	50%	83.30%
Consulting	66.60%	73.40%	57.10%	86.60%	95.30%	53.90%	58.70%
Education	71.40%	72.80%	75%	66.60%	88.80%	75%	66.70%
Retail	80.80%	72.90%	70.60%	80%	75.80%	38.50%	81.80%
Technology	75%	60%	100%	100%	87.50%	100%	50%
Manufacturing	66.60%	77%	75%	100%	84.60%	42.90%	40%
Wholesale	37.50%	100%	28.60%	33.40%	50%	42.90%	54.60%
Media	83.30%	33.30%	66.60%	100%	83.40%	75%	40%
Other	69.30%	70.30%	79.60%	90.70%	76.80%	51.30%	69.80%
p-value	0.622	0.59	0.75	0.071	0.474	0.628	0.512

**Table 16: Cross-tabulation between selected sectors and highest preference of financing**



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## Business age and preference of financing

Table 17 shows a cross-tabulation between the age of a business and financing preference. From the results we can observe that the highest percentage (88%) of female entrepreneurs whose businesses were less or equal than two years and the highest percentage (88%) of female entrepreneurs whose businesses were more than five years but less than or equal to 10 years preferred angel investors whereas the highest percent

age (86%) of female entrepreneurs whose businesses were more than two years old but less or equal to five years preferred grants. The highest percentage (82%) whose businesses were over 10 years preferred venture capital. There is however no statistical significance identified as evidenced by the value of p being greater than 0.05 and therefore we can conclude there is no relationship between age of the business and financing preference.

FINANCING OPTION	YEARS OF BUSINESS EXISTENCE				
	Less or equal than 2 years	More than 2 years but less or equal to 5 years	More than 5 years but less or equal to 10 years	Over 10 years	P-value
Microfinance		P-value	77.6%	68.4%	0.656
Loan	67.9%	68.5%	75%	63.7%	0.078
Venture Capital	72%	74.4%	76.4%	62.6%	0.653
Angel Investor	60.3%	75%	65%	81.8%	0.637
Grant	87.5%	80.4%	88.4%	75%	0.290
Private Equity	77.6%	86.2%	84.6%	71.4%	0.952
Sacco	54.6%	58.6%	43.7%	77%	0.784
	71.3%	60%	69.9%	54.6%	0.784

**Table 17: Cross tabulation between years of business existence and highest preference of financing**



## APPENDIX 2: ABOUT THE AUTHORS

### APPENDIX 2: ABOUT THE AUTHORS

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#### Lead Consultant

**Andia Laura Chakava** is currently an independent investment professional with over 14 years' experience in fund management. She is passionate about facilitating both foreign and intra-African investment in the continent, increasing financial literacy through investor education and promoting gender lens investing. She has been instrumental in the setup of two fund management companies in Kenya (Old Mutual Investment Services and Alpha Africa Asset Managers). Ms. Chakava is currently a non-executive director of East African Educational Publishers (EAEP) - which has the widest range of African titles in Sub Saharan Africa. EAEP has a presence in six African countries - Kenya; Uganda; Tanzania; Rwanda; Malawi and Zambia. She is also a non-executive director of Kenya Women Holding (KWH) which has over 360,000 women members across Kenya and provides non-financial services to women entrepreneurs to enable them improve their economic status, their livelihoods and hence the wellness of their families. She is the current chair of New Faces New Voices Kenya - a Pan African Advocacy group that seeks to deepen the participation and influence of women in the financial sector founded by Graça Machel with a presence in 17 African countries. She is a graduate of York University in Toronto where she obtained an honours degree in Economics and she has a Master of Business Administration degree with merit from Cass Business School London.

#### Supporting Consultants

**Mametja Moshe** has over thirteen years' finance experience in the corporate finance, equities capital markets, debt capital markets, black economic empowerment, accounting, auditing and corporate tax fields. She is the founder and CEO of Moshe Capital and an executive director of Identity Mineral Resources (Pty) Ltd. She joined the Identity group in August 2010 as the senior associate and finance executive at Identity Capital Partners (Pty) Ltd. Prior to joining Identity Capital Partners, Mametja worked in the Morgan Stanley investment banking team from September 2007 to March 2010 covering the South African, Zambian and Nigerian Mergers & Acquisitions and equity capital markets. Mametja also worked at UBS South Africa (2006 to 2007) covering the South African Mergers and Acquisitions. Before her investment banking career, Mametja spent five years at KPMG Inc. Mametja sits on the board of Identity Mineral Resources (Pty) Ltd and Altech Netstar (Pty) Ltd (alternate). Mametja obtained a B. Com Hons (Accounting); and B. Com Hons (Management Accounting) degrees from the University of KwaZuluNatal. Mametja is a qualified chartered accountant and an MBA graduate in the Global Executive Program at Columbia Business School and London Business School.



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**Makena Mworia** has over 10 years' experience in the financial services and development sector. She is the current head of programmes of Kenya Women Holding. Throughout her career she has held management roles in multinational financial institutions such as Barclays and Standard Chartered banks in Kenya. She has worked as a consultant in South Africa for Reciprocity and the United Kingdom with global development organisations such as the Cherie Blair Foundation. She is a Trustee of New Face New Voices Kenya, which is a pan-African advocacy group that focuses on expanding the role and influence of women in the financial sector. She is also the chair of Standard and Mutual, a boutique corporate advisory firm. She holds a MBA from Middlesex University, an MSc in International Securities, Investment and Banking from University of Reading and a Bachelor's degree in Financial Economics from Coventry University, all in the United Kingdom.

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