



Access to finance for women entrepreneurs in South Africa: challenges and opportunities

Access to finance in South Africa is not equal across all groups. Race and gender remain important variables in the lack of access, and black African women are at the bottom of the pile. This fact sheet evaluates the challenges and opportunities to government and financial institutions in addressing this key issue.

South Africa's constitutional and legislative framework is progressive and highlights the importance of gender equality. The Broad-Based Black Economic Empowerment Act promotes "increasing the extent to which black women own and manage existing and new enterprises, and increasing their access to economic activities, infrastructure and skills training". The Act further notes that "to comply with the equality provision of the constitution, a code of good practice and targets therein specified may distinguish between black men and black women".

Despite this, the Financial Sector Charter only specifies gender targets for staffing – and these are controversially low – and is silent on gender equality in terms of financial services outreach, enterprise development and in procurement finance. Most financial institutions work on an assumption that BEE strategy will automatically benefit women. This isn't happening and black women in particular could remain marginalised if adequate measures are not taken to redress this.

An abundance of resources in both the private and public sectors is not matched by an understanding of women's enterprises, and attempts to accommodate this growing and potentially rewarding market are insufficient. Women in business face a number of barriers and prejudice remains an issue, as illustrated by the fact that women have better credit repayment records than men, yet still find it harder to raise finance than their male counterparts.

Obstacles to access

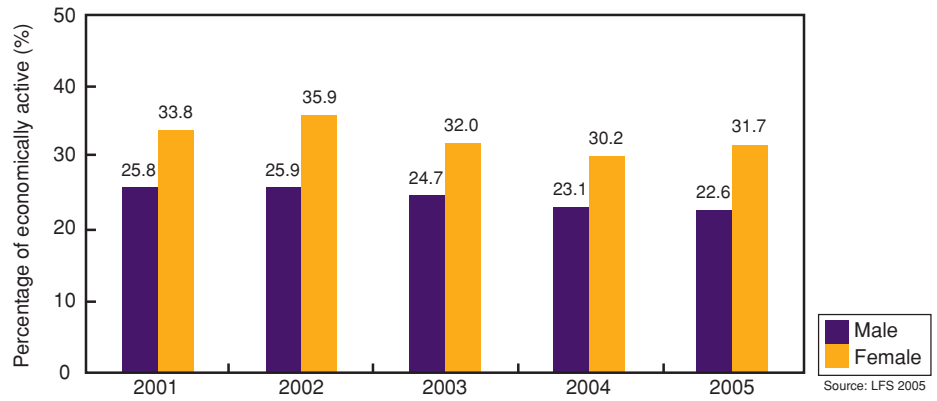
- **Financial literacy:** poor understanding of financial terminology and lack of awareness of bank and microfinance services are an obstacle. A lack of understanding of credit processes and the role of credit bureaus also places women at a disadvantage.
- **Attitudes of banks:** only one out of South Africa's four major banks is contemplating a specific programme to increase its share of women-owned enterprises.
- **BEE code targets:** codes and industry charters do not have sufficient targets for women's financial services outreach or business activity.
- **Lack of awareness of development finance:** despite the resources available from private and public development finance institutions, few women in business know about the different institutions, their products or how to access them.
- **Lack of financial confidence:** overall women have less financial confidence than men.
- **Lack of appropriate products:** bank services and products, including savings products are often unaffordable, and the emphasis on collateralised and asset based lending disqualifies most women from accessing business loans.

Black women are the largest self-employed group of the population, and institutions that act now to service this market will reap the benefit in the future

The information in this brochure is taken from a study commissioned by the International Finance Corporation's Gender Entrepreneurship Markets (GEM) programme on behalf of the Gender and Women's Economic Empowerment Unit of the Department of Trade and Industry (dti), and undertaken in collaboration with FinMark Trust. Data for the study was drawn from the FinScope™ 2005 Survey, the 2004 General Household Survey, the Labour Force Survey 2005, focus group discussions with business women, and interviews with financial and other institutions. The research was conducted by Sharda Naidoo, Anne Hilton and Illana Melzer of Eighty20. The study will inform dti's strategy on women's economic empowerment.



Graph 1 – Unemployment (official definition) by gender – adults 16 – 64



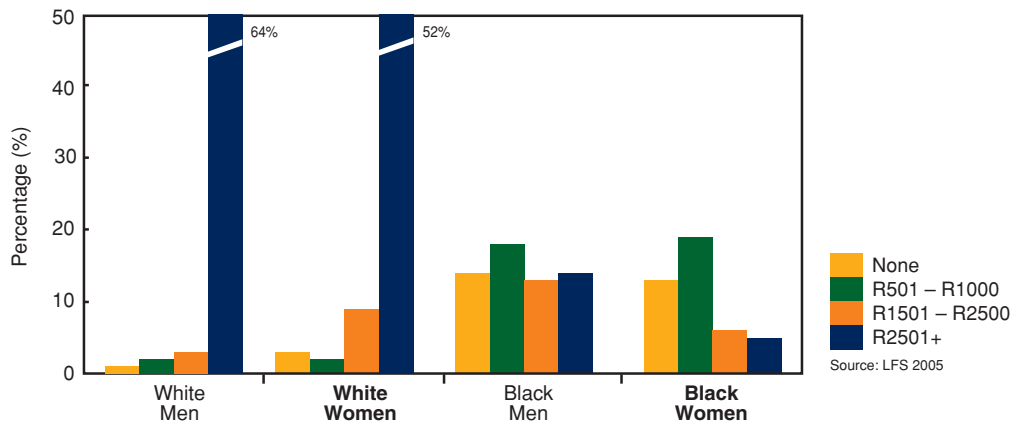
Who is the customer?

Women make up 52% of the population in South Africa. Despite having a higher rate of participation in the labour force than white women – 73% against 59% – black women have the lowest level of formal employment rates. They also have the lowest level of earnings.

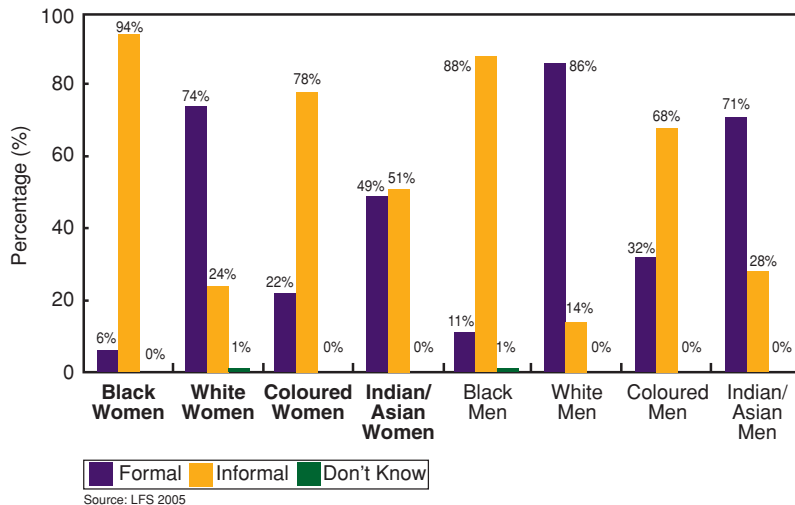
- Women are less likely to be employed and they earn less than men (see graph 1): 70% of male workers earn more than R1 000 a month compared to 53% of female workers (see graph 2).
- Black women are the largest self employed group of the population, with the vast majority however still running informal businesses (see graph 3). There are approximately 1 009 114 black women working for themselves, compared to 833 704 black men and 119,671 white women.
- While women running businesses mostly run micro enterprises, employing four or less people, women are also moving up the business ladder, away from the traditional hawking of goods and services to other business opportunities such as franchising, furniture manufacturing, printing, travel agencies and property development.

Women are moving up the business ladder to occupations such as franchising, manufacturing and property development

Graph 2 – Monthly income of all self-employment – adults 15+



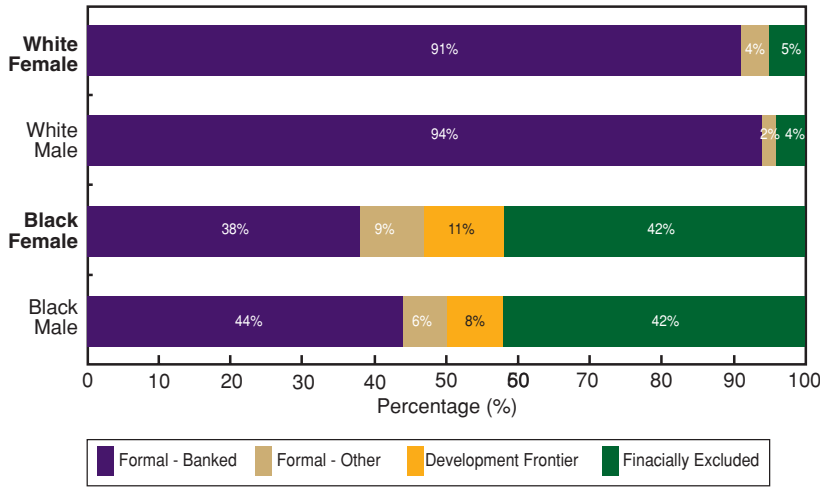
Graph 3 – Self-employment percentage of each race/gender segment – adults 20+



Financial landscape – black women remain on the edge

Black women are a huge potential market for financial institutions. Only 38% of black women are formally banked against 44% of black men and 94% and 91% respectively of white men and women (see graph 4).

Graph 4 – Financial strands by race and gender – adults 18+

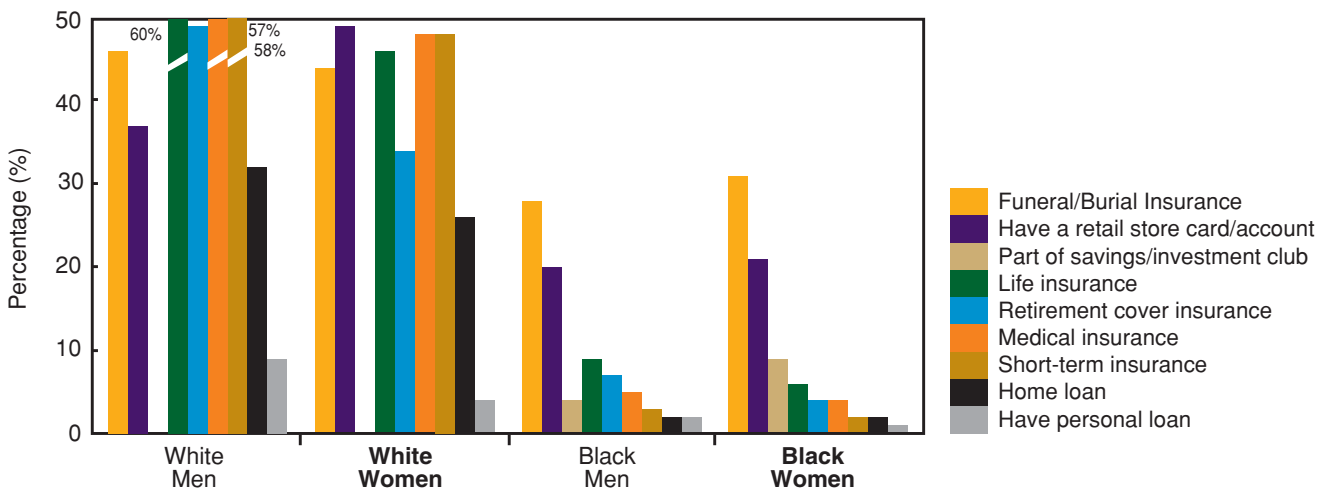


Source: FinScopeTM 2005

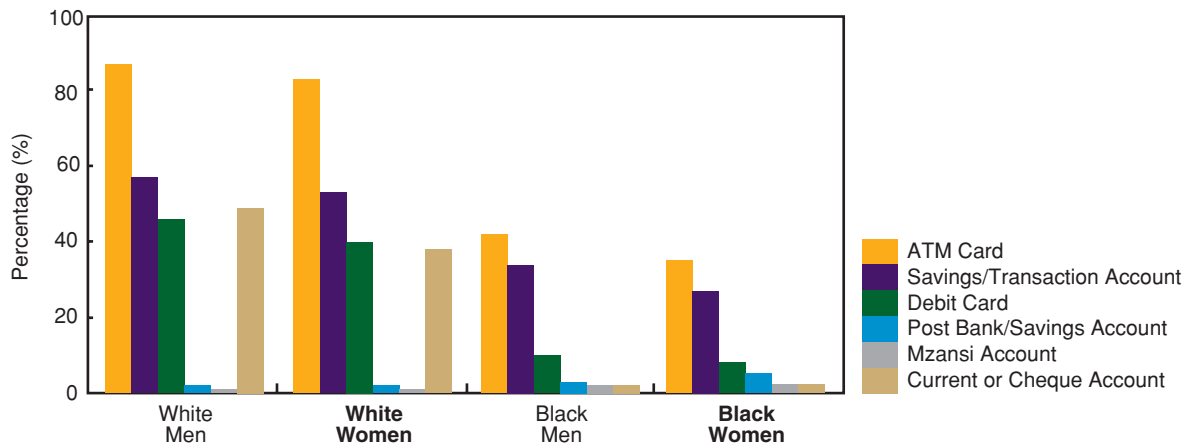
Only 38% of black women are banked compared with 91% of white women

- While 88% of banked white women are able to reach their bank within 10 minutes, the corresponding percentage for banked black women is only 22%.
- 42% of black women are financially excluded – they have no financial products at all (see graphs 5 & graph 6 overleaf). This compares to only 5% of white women who have no financial products at all.
- The remaining 20% of black women use informal products such as stokvels, savings clubs, burial societies and informal sources of credit or have other formal products such as insurance and retail credit.

Graph 5 – Financial products usage – adults 18+



Graph 6 – Transaction banking products/channels usage by race and gender – adults 18+

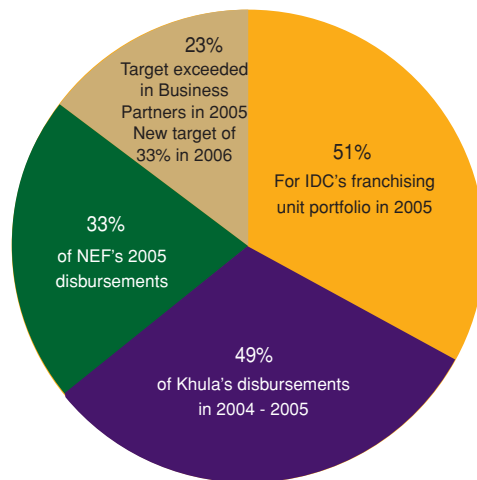


Financial institutions – are they reaching women?

Out of 170 women surveyed in four provinces, only 7 were familiar with the offerings for SME finance from development finance institutions in their provinces. This reflects inadequate marketing to this target market, and limited use of networks such as business women’s organisations and trade organisations for outreach.

Some of the development finance institutions report reaching their targets on financing women’s business (see graph 7). Their strategies are, however, mainly based on an assumption of gender neutrality, and even more could be achieved by a concerted effort to analyse and exploit the strengths of this particular market.

Graph 7 – Women’s portfolios in some development financial institutions



Footnote
Note that there is no uniform definition for a women-owned business and institutions define these as ranging from 25% female shareholding to 51%+, which could substantively skew their results.

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Of the main commercial banks, only two have clear strategies to target the women’s market, and of these only one is targeting women in the small and medium enterprise (SME) sector. Banks’ management information systems (MIS) do not yet seem equipped to break down the market segments and gender disaggregated data is not yet readily available.

Microfinance is often cited as a resource for women’s economic empowerment. However, despite the growing number of self-employed women in South Africa, only two sustainable microenterprise lenders exist, Marang Financial Services and the Small Enterprise Foundation, which together serve about 56,000 micro entrepreneurs. Rural areas remain underserved, further disadvantaging those already neglected by the first-tier banks. Urgent investment and expansion in this sector is required, and financing should be accompanied by impact assessments, particularly about the type of skills development that could encourage sustainable growth beyond micro-enterprise.



Business development support – how much real support?

Entrepreneurs who lack collateral – most black entrepreneurs and women – could boost their chances of accessing and paying back finance if they had the right business development support, in the form of training, focused advice and mentoring as this could also be a risk-mitigation mechanism for the financier.

Yet few institutions recognise that women can benefit from enterprise support, and as a result the needs of emerging small businesses at different stages of development are largely not met.

Business development services at SME level that were interviewed for this study reflect a male-female ratio of 70/30 – a reflection that women are far from being sufficiently supported in their entrepreneurial ventures despite being the majority of entrepreneurs in the country.

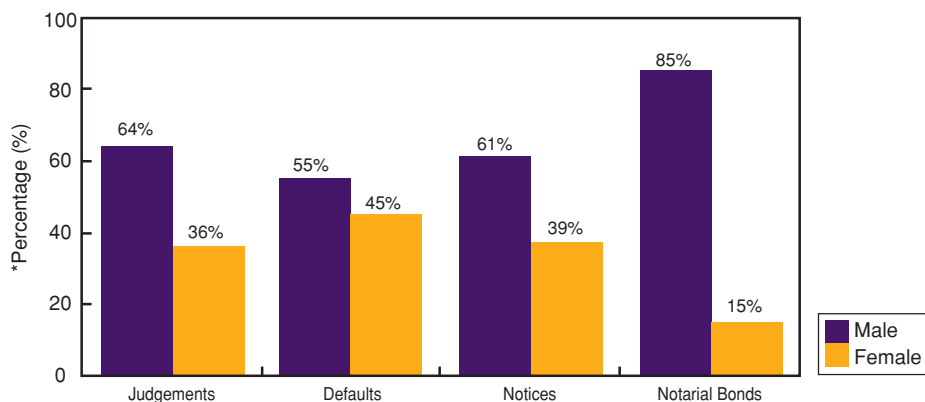
Micro entrepreneurs, of which most are women, need support for business registration and to develop technical, financial and business management skills so they can grow their businesses and enhance employment opportunities.

Credit referencing; women are better payers yet have less access to credit

Credit bureaus have been criticised in South Africa and are seen to have further disempowered black South Africans who have been listed for minor failures due to their economic precariousness.

Women interviewed showed high levels of awareness of managing credit responsibly, as borne out in graph 8.

Graph 8 – Bureau activity – men vs. women



* The percentages do not take into account the proportion of men accessing finance as compared to women

So why aren't these trends working in favour of women's access to credit? Cultural attitudes and negative stereotyping are the most likely culprit. In the microfinance sector women are renowned for being better payers than men – yet the credit histories from this sector are not available to the wider banking sector. This emphasises the need for co-ordinated credit vetting mechanisms that can pool histories from all tiers and types of institutions.

Lack of a co-ordinated credit vetting system works against women's ability to access credit



The prevailing opinion among women is that BEE is mainly a men's game, with women treated as minor partners, or add-ons

Black Economic Empowerment (BEE) and preferential procurement

Despite the BEE Act being clear on the need for women to be equal beneficiaries of black economic empowerment, the prevailing opinion among women surveyed, including some of the large women's investment groups that have done well, is that BEE is mainly a men's game, with women treated as minor partners, or add-ons. This is beginning to change, with women being increasingly recognised as smart partners who add value for those smart enough to choose to work with them.

Corruption, old boys' networks, patronising procurement officials, difficult-to-come-by performance guarantees, a lack of working capital and, especially, the lack of measurable targets, are cited as reasons women lag in accessing preferential procurement opportunities. Out of 10 institutions surveyed, only 2 included a gender breakdown on BEE procurement spending, and statistics that were reported for women only ranged between 2% and 5%.

The study highlights the need for a more deliberate and integrated strategy focusing on women in business. Since women are the largest group of entrepreneurs in the country, gender-focused business strategies must inform all BEE and financial access measures. Institutions which act now to better understand and service this large, growing segment of South Africa's business population will reap the benefit in the future.

RECOMMENDATIONS

POLICY FRAMEWORKS

- The Financial Sector Charter, other industry charters and BEE codes should be reviewed to include gender-specific financing outreach and procurement targets as well as definitions of women-owned business. This will help to ensure and monitor equal access for women to business opportunities.

FINANCIAL INSTITUTIONS

- A national directory of business financiers should be regularly updated, published and widely disseminated in order to better inform entrepreneurs of services available in the market.
- Financing institutions should disaggregate their portfolios and targets and put in place strategies that help them to better understand and serve the women's market.
- Financial institutions need to pay more attention to understanding the opportunities in the emerging markets and to having loan staff who understand the challenges of women in business.
- A comprehensive capacity-building strategy and service for the microfinance sector is needed to meet the needs of the many self-employed women in South Africa, and to enable them to grow their skills and businesses beyond micro-enterprise.



BUSINESS DEVELOPMENT SERVICES

- The 70/30 male/female ratio of BDS providers interviewed indicates that women need more access to business development services; such services should include more women mentors and advisors.
- Non-financial support should be structured so that it facilitates access to finance for entrepreneurs and enables business growth at the same time.
- BDS should be designed to meet the different requirements of micro and SME businesses at various levels of growth.

CREDIT REFERENCING

- Women's better repayment records should translate into improved access to credit.
- Co-ordinated credit vetting should be promoted between different levels of financial institutions, including microfinance institutions. Alternate mechanisms of determining creditworthiness should also be explored to reduce dependence on traditional forums of assessment.
- The impact of Community of Property marriage on women's own credit records should be studied. Credit bureaus should begin to better disaggregate credit information in order to differentiate between personal, business and contractual causes.
- Credit referencing should be demystified to make the public more aware of how to positively manage their records.

BEE FINANCING

- Women need to be recognised as an asset in themselves and not as a token or afterthought in BEE deals. The benefits of women BEE companies as shareholders and managers of companies should be better documented and highlighted.
- Industry and financial institutions should put in place gender-specific procurement and enterprise development targets, with aligned and realistic financing mechanisms. Implementation of these should be properly monitored.

Black men and women reflect a home loan usage of only 2%, compared to a rate of 26% for white women and 32% for white men; this has a clear differential impact on the ability of men and women in different groups to access security-backed finance

The Department of Trade and Industry (the dti) is committed to addressing the issues of gender equity and economic growth as part of its business mandate. The department believes that gender equity is an economic issue that is critical in fast-tracking South Africa's economic growth. Since 1998, the dti has been running a gender programme targeting women, with both an internal and external focus. Informed by national and international instruments aimed at advancing gender equity, the Gender and Women's Empowerment Unit (GWE) is housed within the Enterprise and Industry Development Division of the dti.

The available products are often unaffordable and so many women continue to favour informal networks

The International Finance Corporation's (IFC) mission is to promote sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. Since its founding in 1956, through to 2005, IFC has committed more than \$49 billion of its own funds and arranged \$24 billion in syndications for 3 319 companies in 140 developing countries.

Recognising that gender inequality inhibits business women from fully participating in private sector development, IFC launched the Gender Entrepreneurship Markets (GEM) programme in December 2004. The programme aims to mainstream gender into the IFC's work in key areas, while helping to better leverage the untapped potential of women as well as men in emerging markets.

FinMark Trust is an independent trust, established in March 2002 with initial funding from the UK's Department for International Development. Its mission is summarised in its slogan "Making financial markets work for the poor". In practice this means promoting and supporting institutional and organisational development which will increase access to financial services by the unbanked and underbanked of Africa.

FinScope is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight into how consumers source their income and manage their financial lives.

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